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Misrepresentation and Misappropriation

Two Common Principles or Common ‘Basic Moral Feelings’ of Intellectual Property and Unfair Competition Law

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In this article it is submitted that *misrepresentation* and *misappropriation* are the two most important common principles, or common ‘basic moral feelings’ of intellectual property and unfair competition law in Europe and elsewhere.

It is also fully acknowledged that free trade, free speech, anti-trust law, legal certainty and the general need to be able to use and take advantage of existing work and ingenuity of others, are vital countervailing principles which determine the very important limitations and exceptions in intellectual property and unfair competition law to a large extent. These vital countervailing principles, however, are not discussed here.

“The prophecies of what the courts will do in fact, and nothing more pretentious, are what I mean by the law.”¹

The difference between legal academics on the one hand and judges and legal advisors on the other, is that the latter actually have to *decide* cases or *predict* what these decisions are likely to be or going to be. In order to make decisions all people (including judges) ultimately need some kind of emotional conviction that they should make a particular choice. A feeling that in a certain case a certain decision is preferable. Without such a feeling a person cannot decide anything. In fact, it has been proven that people with a particular kind of brain damage which blocks their emotional mental capacities cannot decide anything: they keep on weighing different possibilities against one another, without being able to decide.²

Thus, anyone who has to decide anything, including judges, ultimately needs some kind of feeling of emotional conviction that makes them decide. Therefore, in this essay, the phrase ‘common principles’ is sometimes used interchangeably with common ‘basic moral feelings’ of intellectual property, because the author is convinced that there is an important moral-emotional side to rules and decisions in intellectual property law.

¹ *Holmes*, Path of the Law, 10 Harv. L.R. 457, 460–61 (1897).

² *Damasio*, Descartes’ Error: Emotion, Reason and the Human Brain (1994).

I. Misrepresentation

Misrepresentation is without doubt the less controversial of the two principles which will be discussed here.

Misrepresentation is the basis for the English tort of *passing off* and is based on the principle against *deceit* and the rules against *cheating*. Deceit and cheating destabilize human interaction and society. If there is no trust and if you can not rely on others, there can be no cooperation and no exchange of goods, services and ideas will take place.

“A man is not to sell his own goods under the pretence that they are the goods of another man. He cannot therefore be allowed to use names, marks, letters or other indicia, by which he may induce purchasers to believe, that the goods which he is selling are the manufacture of another person”³

Misrepresentation is the basis of the prohibition on *creating confusion* in all *trade mark* laws, regulations, directives and treaties.⁴ Misrepresentation is the basis of the prohibition on creating *confusion* in rules (including directives⁵ and treaties⁶) against *unfair competition*.

Misrepresentation is also an important basis of the rules against *plagiarism*. There can be little doubt that the prohibition of misrepresentation is a common (European or even universal) principle of IP and unfair competition law.

II. Misappropriation

Misappropriation is a concept which often occurs together with misrepresentation, but which is clearly distinct from it, because it typically does not require any misleading of, or confusion on the part of the public. In fact, for

³ Lord Langdale MR in *Perry v. Truefitt*, (1842) 6 Beav. 66; 49 ER 749.

⁴ Article 16 TRIPs.

⁵ Article 6 (2)(a) of the Unfair Commercial Practices Directive reads as follows:

2. A commercial practice shall also be regarded as misleading if, in its factual context, taking account of all its features and circumstances, it causes or is likely to cause the average consumer to take a transactional decision that he would not have taken otherwise, and it involves: (a) any marketing of a product, including comparative advertising, which creates *confusion with any products, trade marks, trade names or other distinguishing marks of a competitor*.

⁶ Article 10bis of the Paris Convention for the Protection of Industrial Property (Unfair Competition):

(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.

(2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.

(3) The following in particular shall be prohibited:

1. all acts of such a nature as to create *confusion by any means whatever with the establishment*, the goods, or the industrial or commercial activities, of a competitor.

misappropriation to occur, the state of mind of the public as such is not relevant at all.

The concept of misappropriation can be illustrated very well with the example of the *L'Oréal/Bellure*-decision of the European Court of Justice. In that case, the ECJ ruled on the meaning of taking *unfair advantage of the reputation of a trademark* in article 5 (2) of the European Trademark Directive 89/104⁷ in a case on smell-a-likes.

The ECJ ruled “that the taking of unfair advantage of the distinctive character or the repute of a mark, within the meaning of that provision, does *not* require that there be a likelihood of *confusion* or a likelihood of detriment to the distinctive character or the repute of the mark or, more generally, to its proprietor” (emphasis added). In other words, no (proof of) misrepresentation is required.⁸

Moreover, the Court decided (in § 49) that:

- where a third party attempts,
- through the use of a sign similar to a mark with a reputation,
- to ride on the coat-tails of that mark 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 his 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,
- the advantage resulting from such use must be considered to be an advantage that has been unfairly taken of the distinctive character or the repute of that mark.

The *L'Oréal/Bellure*-decision has been criticised, among other things, for not taking into account (the importance of) countervailing principles such as freedom of information, and more specifically the need to inform consumers as to the nature of the product and freedom of comparative advertising.⁹ This criticism might well be legitimate; if one takes the position that it is not forbidden to make and sell a copy of a perfume, why would it then be forbidden to communicate to the public the fact that you are selling copies of a particular perfume?¹⁰

⁷ First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, OJ 1989 L 40, p. 1.

⁸ ECJ, case C-487/07, *L'Oréal v. Bellure*, [2009, not yet published in ECR].

⁹ See for instance: *Kur/Bentley/Obly*, Sweet Smells and a Sour Taste – The ECJ's *L'Oréal* decision (August 17, 2009). Max Planck Institute for Intellectual Property, Competition & Tax Law Research Paper No. 09–12. Available at SSRN: <http://ssrn.com/abstract=1492032>.

¹⁰ In this respect, it should be noted that the much criticised *Lancôme v. Kecofa*-decision of the Dutch Supreme Court of 16 June 2006 (NJ 2006, 585) that perfumes can be protected by copyright, does make more sense from a systematic point of view. That it is not permitted to make or sell a copy of a (new and original) perfume sounds more straightforward than the

But that is not the point here, as the importance of taking countervailing principles into account, is not denied here.¹¹ The point is that the *L'Oréal/Bellure*-decision demonstrates that the European Court of Justice is clearly lead by a basic moral conviction or feeling against parasitism.

It can be maintained that, in general, the concept of misappropriation in intellectual property amounts to the basic moral feeling that:

- where a third party attempts,
- through the use of an *object C* similar to an *object B*
- to ride on the coat-tails of that *object B* in order to benefit from its *goodwill*, and to exploit,
- without paying any financial compensation and
- without being required to make efforts of his own in that regard,
- the [...] effort expended by the proprietor of *object B* in order to create and maintain *goodwill of object B*,
- the advantage resulting from such use must be considered to be an advantage that has been unfairly taken of *object B*.

Usually there will be *harm or detriment* to the proprietor, often there will be a likelihood of *confusion* on the part of the public, but that is not required for misappropriation to exist.

Another example of what is meant by misappropriation is the *International News Service v. Associated Press* decision¹² of the US Supreme Court.

Associated Press used on the West Coast of the US all the news about the First World War which International News Service had collected at great expense through its correspondents in Europe and had published on the East Coast. Associated Press did not literally copy the news articles, but they copied all of the facts in those articles.

There is no copyright in news or news facts as such. "But one who gathers news at pains and expense, for the purpose of lucrative publication, may be said to have a *quasi*-property in the results of his enterprise as against a rival in the same business, and the appropriation of those results at the expense and to the damage of the one and for the profit of the other is unfair competition against which equity will afford relief".

position that it is permitted to make and sell a copy of a (new and original) perfume, but that it is parasitic and amounts to unfair competition or trademark infringement to let it be known that you are selling such a copy.

¹¹ A reference to such a countervailing principle might for instance be found in Recital 14, Sentence 6, of the Unfair Commercial Practices Directive (2005/29/EC): "It is not the intention of this Directive to reduce consumer choice by prohibiting the promotion of products which look similar to other products unless this similarity confuses consumers as to the commercial origin of the product and is therefore misleading".

¹² 248 U.S.215 (1918).

It is all about misappropriation, unjust enrichment or: “You shall not reap where you have not sown”.¹³ This is the core and ‘gut feeling’ of IP protection and unfair competition law.¹⁴

This is the emotional basis of patent law, copyright, trademark, design and database protection. This is the basis of the tort of passing off, the misappropriation doctrine and civil law protection against ‘concurrence parasitaire’, ‘unlauteres wettbewerb’ and ‘slaafse nabootsing’ (slavish imitation). It is the basic moral feeling against free riding and parasitism.

Amongst legal scholars, especially in the United Kingdom, there will probably be a lot of opposition to the very idea that there might be something like a basic moral feeling or principle against misappropriation because for them “imitation is the life blood of competition”¹⁵ seems to be a much stronger moral feeling or principle.¹⁶ But even in the decision where this “imitation is the life blood of competition” quote comes from, it is recognised that a basic moral feeling against misappropriation exists:

“Hence at first glance it might seem intolerable that one manufacturer should be allowed to sponge on another by pirating the product of years of invention and development without license or recompense and reap the fruits sown by another. Morally and ethically such practices strike a discordant note. It cuts across the grain of justice to permit an intruder to profit not only by the efforts of another but at his expense as well”.¹⁷

¹³ Although this sentence sounds biblical it is not, at least not in the meaning with which the sentence is used today. In the ‘Parable of the Pounds’ (Luke 19:11–27), the master gives some money to three servants and goes away. When he comes back two of the servants give back the money with profit and they are both generously rewarded. The third servant returns only the original sum, because has done nothing with the money and says: “I have kept it laid away in a piece of cloth. I was afraid of you, because you are a hard man. You take out what you did not put in and reap what you did not sow. The master answers: ‘I will judge you by your own words, you wicked servant! You knew, did you, that I am a hard man, taking out what I did not put in, and reaping what I did not sow? Why then didn’t you put my money on deposit, so that when I came back, I could have collected it with interest?’. He takes away all the money from the third servant and gives it to the servant which had made the most profit and makes the following curious capitalistic remark: ‘I tell you that to everyone who has, more will be given, but as for the one who has nothing, even what he has will be taken away’. The same story can be found in Matthew 25:14–30. The lesson to be learned is that have to use our talents well, not that we should not harvest where we have not sown.

¹⁴ *Callmann*, He who reaps where he has not sown: unjust enrichment in unfair competition, 55 Harv. L.R. 595–614 (1942) and: *Kamperman Sanders*, Unfair Competition Law (1997).

¹⁵ *American Safety Table Company v. Schreiber* 269 F.2d 255 (19 June 1959), <http://openjurist.org/269/f2d/fn7>.

¹⁶ See for instance *Spence*, (1996) 112 LQR 472–498.

¹⁷ *American Safety Table Company v. Schreiber* 269 F.2d 255 (19 June 1959), <http://openjurist.org/269/f2d/fn7>, paras. 75 et seq.

Then the Court continues:

“But this initial response to the problem has been curbed in deference to the greater public good. [...] For imitation is the life blood of competition. It is the unimpeded availability of substantially equivalent units that permits the normal operation of supply and demand to yield the fair price society must pay for a given commodity. [...] Unless such duplication is permitted, competition may be unduly curtailed with the possible resultant development of undesirable monopolistic conditions. The Congress, realizing such possibilities, has therefore confined and limited the rewards of originality to those situations and circumstances comprehended by our patent, copyright, and trade-mark laws. When these statutory frameworks are inapplicable, originality per se remains unprotected and often unrewarded. For these reasons and with these limitations the bare imitation of another’s product, without more, is permissible. And this is true regardless of the fact that the courts have little sympathy for a wilful imitator”.

And thus, at the end the same sentiment again: “the courts have little sympathy for a wilful imitator”.

There is also a strong belief among IP academics in general that the only justification for IP rights is the cool and rational concept that IP rights are a ‘necessary evil’ to “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”.¹⁸

But in order to establish what is *progress* in the field of science, what is *useful* and what is *art*, in other words: what *deserves* protection and what *scope of protection* does it deserve, there will always be subjective criteria with a broad margin of appreciation which will have to be applied by the courts by balancing some kind of moral feelings against other important principles.

In this respect also there is no clear dividing line between IP protection and unfair competition law. The only difference is that with individual IP rights, such patent law, copyright, trademark, design and database protection, we pretend to have been able to come up with a balanced system of clearly defined criteria for: object, proprietor, requirements and threshold of protection, scope of protection, infringement, limitations and exceptions.

But as soon as we do not like the results, we either start messing up the system from the inside (*Opel/Autec*)¹⁹ or mess up the system from the outside (*Magill*)²⁰, invent new IP or quasi-IP rights (EU Database-directive, US Misappropriation doctrine) or invoke or expand some tort or civil law protection against unlawful competition.

¹⁸ Art. 1, Sec. 8, United States Constitution.

¹⁹ In ECJ, case C-48/05, *Opel v. Autec*, [2007] ECR I-1017, the ECJ introduced an extra requirement for trademark infringement under article 5.1(A) of the European trademark-directive 89/104/EEC, namely that use in question “is liable to affect the functions of the trade mark”.

²⁰ In *Magill* (ECJ, cases C-241/91 P and C-242/91 P [1995] ECR I-743) the ECJ ruled that under particular circumstances the exercise of copyright (in the weekly listings of television programmes) amounts to abuse of a dominant position.

With unfair competition law we often admit that we are not able to come up with a balanced system and leave the whole matter to the judge to determine.

At the same time, we as academics are slightly embarrassed by the fact that we are not able to come up with and maintain a balanced system of object, criteria and limitations which provides the legal certainty the public and the economy quite reasonably expect.

Therefore, we usually vigorously *pretend* that there is a clear and balanced system of individual IP rights which can cope with everything and that only in very exceptional circumstances unfair competition is needed to fill or correct the few and tiny remaining gaps. Unfair competition law should always be treated and applied with extreme caution, we usually say.

Within individual IP rights we also force the judge to apply his gut-feeling of misappropriation (and misrepresentation), and cover it up with the wording required by the most recent decision by the ECJ or national supreme court. And if a judge cannot solve an issue satisfactorily within the system of individual IP rights, he goes outside this system, to invoke or expand some tort, specific legislation against unfair competition or civil law protection against unlawful behaviour.

Inventive step, original creation, distinctive, significant difference, well known, individual character, substantial investment. *Something worth protecting?*²¹

“a fair protection for the patent proprietor” (EPC), “a substantial part” (Database), “not a different overall impression” (Design), “substantial similarity” (US), “striking similarity” (US), “improper appropriation” (US). All very subjective qualifications.

One experienced judge in The Netherlands identified the three P’s of IP-infringement: Pretension, Parasite and Public.

Pretension: the claimant pretends to have done something that deserves protection. Is this pretense justified? Has he invented, created or invested enough to protect him against free-riding?

Parasite: Is the defendant a parasite? Can what the defendant does be considered free-riding? Has he made any contribution in terms of his own investment? Is there any objective need or justification for his copying, or is he just lazy and greedy?

²¹ Patent lawyers might claim that the degree of subjectivity involved when assessing patentability or patent scope is much more restricted than in unfair competition law. But in defining the knowledge of “the average person skilled in the art” and in giving meaning to the term “inventive step” and by interpreting patent claims in accordance with “fair protection for the patent proprietor” they do also make many subjective normative choices culminating in what they deem to be worthy of protection in a particular case.

Public: Is there the clearly undesirable side-effect of a risk of confusion on the part of the public? Or may the public be misled in some other way?

“The prophecies of what the courts will do in fact” is probably the most important aspect of the law for most non-academics. The fact that “the courts have little sympathy for a wilful imitator” is also a reality. Basic moral feelings about misrepresentation and misappropriation shape sympathies and decisions, together with rational and abstract notions such as “the greater public good”. And basic moral feelings often prevail.