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False Advertising – An Antitrust Problem?

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False Advertising and Antitrust Law: Sometimes the Twain Should Meet

Bruce Colbath & Nadezhda Nikonova
Sheppard Mullin Richter and Hampton LLP

www.competitionpolicyinternational.com

False Advertising and Antitrust Law: Sometimes the Twain Should Meet

Bruce Colbath & Nadezhda Nikonova[1]

I. INTRODUCTION

Imagine that a drug manufacturer figured out how to compete with a blockbuster drug by making a cheaper and more effective alternative. The pharmaceutical company that makes the blockbuster drug starts flooding the market with false advertisements about the safety of the alternative drug before it is even available to consumers, effectively taking away the new drug's ability to compete. In this hypothetical, there are two potential victims: the new manufacturer that could have competed on the merits and the consumers (and possibly third-party payors) that lost the ability to choose a potentially better product or benefit from the price decrease of the blockbuster drug. Should antitrust law remedy this situation?

Typically, consumer protection laws safeguard consumer victims of false advertising and the Federal Lanham Act is a remedy to protect parties with reasonable commercial interests affected by the conduct. But in some instances, when the conduct is significantly exclusionary, false advertising may come under the purview of the antitrust laws, specifically Section 2 of the Sherman Act.[2]

In the United States, the circumstances under which a false advertising claim can form the basis of a Section 2 violation are unclear. As detailed below, there are three competing theories: the Seventh Circuit prohibits such claims unless the false advertising is accompanied by a "coercive enforcement mechanism," while the Second, Sixth, and Ninth Circuits allow material false advertising to constitute a monopolization claim if it is significantly exclusionary. This stands in contrast to how false advertising is treated in Canada, where the Competition Act allows for civil as well as criminal punishment of false and misleading advertising without a showing of anticompetitive effect.

The disparity in the law can be thought of as a continuum, with American law at one side and Canadian law at the other. The significant debate in U.S. law, highlighted by the Canadian approach, is deeply rooted in policy. Questions of whether competition and consumer protection law should overlap tend to drive the diverging opinions. At least one academic proposal attempts to balance the diverging approaches and suggests an intermediate position.

II. UNITED STATES LAW

No Court of Appeal has explicitly barred basing an antitrust claim on false or misleading advertising, but some Circuits have imposed an almost insurmountable showing. The underlying

[1] Bruce Colbath is a partner and Nadezhda Nikonova is an associate in the Antitrust and Trade Regulation practice group of Sheppard Mullin Richter and Hampton LLP. Amar Naik, a summer associate with the Firm, assisted in the preparation of this article.

[2] Sherman Antitrust Act, 15 U.S.C § 2 (2000).

policy concern is whether the conduct results in harm to competition and not just to a competitor—a hallmark purpose of the Sherman Act. To answer this question, courts ask who was harmed and the extent of the injury. But the interpretation of this policy, specifically whether it is possible for a false advertising claim to ever harm competition, drives the differences in the rulings.

A. The Seventh Circuit

The Seventh Circuit sets the highest bar. No monopolization claim has succeeded there on appeal based solely on false advertising. This Circuit reasons that deceptive advertising should not constitute an antitrust claim because (1) advertising can be pro-competitive even if it is false and (2) false advertising cannot preclude competition absent a coercive enforcement mechanism. According to Judge Easterbrook, "[f]alse statements about a rival's goods do not curtail output in either the short or long run. They just set the stage for competition in a different venue: the advertising market."[3] Judge Hamilton agrees, noting that the "genuine anticompetitive effects of false and misleading statements about a competitor are minimal, at best."[4] Accordingly, "the remedy is not antitrust litigation but more speech—the marketplace of ideas."[5] Most recently, Judge Hamilton held that deception did not constitute an antitrust violation because "absent an accompanying coercive enforcement mechanism of some kind, even demonstrably false commercial speech is not actionable under antitrust laws."[6] Other Circuits also follow this almost categorical approach.[7]

The Seventh Circuit's view is based on an early Areeda & Turner treatise that argues claims based on one competitor's disparagement of another "should presumptively be ignored" because it is difficult to identify those "false statements on which buyers do, or ought reasonably to, rely."[8] Areeda & Turner contended that consumers will "recognize disparagement as nonobjective and highly biased" and warn courts to exercise "caution ... against attaching much weight to isolated examples of disparagement."[9]

To sum up, the Seventh Circuit's view is that false advertising is incongruent with the basic principle that antitrust protects competition and not competitors. Warfare among suppliers and their different products **is** competition. Antitrust law does not compel your competitor to praise your product or sponsor your work. To require cooperation or friendliness among rivals is to undercut the intellectual foundations of antitrust law. Unless one group of suppliers diminishes another's ability to peddle its wares (technically, reduces rivals' elasticity of supply),

[3] *Sanderson v. Culligan Int'l Co.*, 415 F.3d 620, 623 (7th Cir. 2005) (Easterbrook, J.) (citing *Schachar v. Am. Acad. of Ophthalmology, Inc.*, 870 F.2d 397, 399 (7th Cir. 1989)).

[4] *Mercatus Grp., LLC v. Lake Forest Hosp.*, 641 F.3d 834, 852 (7th Cir. 2011) (Hamilton, J).

[5] *Mercatus Grp.*, 641 F.3d at 852; *Schachar v. Am. Acad. of Ophthalmology, Inc.*, 870 F.2d 397, 400 (7th Cir. 1989) (Easterbrook, J.).

[6] *Mercatus Grp.*, 641 F.3d 834, 852.

[7] *Santana Prods., Inc. v. Bobrick Washroom Equip., Inc.*, 401 F.3d 123, 132 (3d Cir. 2005) ("deception, reprehensible as it is, can be of no consequence so far as the Sherman Act is concerned."); *Covad Commc'ns Co. v. Bell Atl. Corp.*, 398 F.3d 666, 674-75 (D.C. Cir. 2005) (bait-and-switch pre-announcement of DSL service enhanced competition by encouraging plaintiff to increase own advertising).

[8] 3 PHILLIP AREEDA & DONALD TURNER, ANTITRUST LAW, ¶ 737b at 280–81 (1978).

[9] *Id.*

there is not even the beginning of an antitrust case and no reason to investigate further to determine whether the restraint is "reasonable."[10]

B. The Second, Ninth, and Sixth Circuits

On the other end of the spectrum in the United States, the Second and Ninth Circuits presume that antitrust harm from false advertising is *de minimus*. A plaintiff must overcome this presumption in order to bring a Section 2 claim based on false or deceptive advertising. These Courts have announced a six-part test that requires showing the advertising or representations were:

1. clearly false,
2. clearly material,
3. clearly likely to induce reasonable reliance,
4. made to buyers without knowledge of the subject matter,
5. continued for prolonged periods of time, and
6. not readily susceptible to neutralization or other offset by rivals.[11]

For example, in *National Association of Pharmaceutical Manufacturers*, the Second Circuit permitted a monopolization claim to proceed because the defendant's false advertising about safety concerns was "likely to induce reasonable reliance" and was "not readily susceptible of neutralization or other offset."[12]

A somewhat more lenient standard is enunciated by the Sixth Circuit, which does not require all six of the above elements to be satisfied. A Sixth Circuit plaintiff must show that the clearly false advertising would be difficult or costly to counter.[13] The court reasoned that false advertising "would not damage competition and hence be a violation of the Sherman Act unless it was so difficult for the plaintiff to counter that it could potentially exclude competition."[14] The Fifth Circuit also employed a variation of the Second, Sixth, and Ninth Circuit tests.[15]

To sum these opinions up, the judicial approach outside the Seventh Circuit is that "[f]alse advertising cannot help consumers, and hence cannot be defended as beneficial to competition."[16] Thus, if a plaintiff can show that the alleged false advertising decreased competition, it can form the basis of an antitrust claim.

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[10] *Schachar*, 870 F.2d at 399.

[11] *Nat'l Ass'n of Pharm. Mfrs. v. Ayerst Labs.*, 850 F.2d 904, 916 (2d Cir. 1988); *Am. Prof'l Testing Serv. v. Harcourt Brace Jovanovich Legal & Prof'l Publs.*, 108 F.3d 1147, 1152 (9th Cir. 1997) (citing *Nat'l Ass'n of Pharm. Mfrs.* 850 F.2d at 916).

[12] *Nat'l Ass'n of Pharm. Mfrs.*, 850 F.2d at 916-17.

[13] *Am. Council of Certified Podiatric Physicians & Surgeons v. Am. Bd. of Podiatric Surgery, Inc.*, 323 F.3d 366, 371 (6th Cir. 2003); *Innovation Ventures, LLC v. N.V.E., Inc.*, 694 F.3d 723, 741 (6th Cir. 2012); *Conwood Co. v. U.S. Tobacco Co.*, 290 F.3d 768, 786-88 (6th Cir. 2002) (deceptive statements made in role of "category manager" were anticompetitive).

[14] *Id.* at 371-72.

[15] *Phototron Corp. v. Eastman Kodak Co.*, 842 F.2d 95, 100 (5th Cir. 1988) ("A monopolist is not forbidden to publicize its product unless the extent of this activity is so unwarranted by competitive exigencies as to constitute an entry barrier.").

[16] *Am. Council of Certified Podiatric Physicians & Surgeons*, 323 F.3d at 371.

C. District Court Decisions

District Court decisions have also run the gamut, from allowing plaintiffs to bring monopolization claims based on false advertising[17] to uniformly rejecting them based on the Seventh Circuit's reasoning.[18] Notably, one district court in the Seventh Circuit allowed an antitrust claim to survive, though it was based partially on denigrating commercial speech, because the plaintiff presented evidence that the alleged false advertising was part of a greater "course of conduct" showing the defendant possessed the intent to monopolize a certain market.[19]

In a Texas district court, a jury recently awarded $113.5 million in "deception damages" where a defendant made false claims about its competitor's safety syringe products. The jury found that the statements regarding the syringe product violated both the Lanham Act and the Sherman Act, but awarded no antitrust damages.[20] The case is ongoing and will likely be appealed. It will be interesting to see where on the spectrum the Fifth Circuit will ultimately land in a case that squarely confronts the issue—whether the more recent Seventh Circuit reasoning will be persuasive, or if it will revert to the Second and Ninth Circuit approaches as it did in *Phototron Corp*.[21]

What all of the courts have in common is that they ask whether the false advertising is so significant that it either precludes entry, or so severely harms the perception of the product in the market that the competitive place of the product is significantly diminished, *i.e.*, exclusionary.

D. Lanham Act

If false advertising violates the Lanham Act, is a remedy under the antitrust laws even necessary?

Section 43(a) of the Lanham Act prohibits false or misleading statements that are likely to deceive consumers and cause injury to the plaintiff.[22] Standard civil remedies are available under

[17] *In re Apple iPod iTunes Antitrust Litig.*, 796 F. Supp. 2d 1137, 1145-46 (N.D. Cal. 2011) (dismissing a claim because there was insufficient evidence to overcome the *de minimus* presumption); *Avery Dennison Corp. v. Acco Brands, Inc.*, 2000 WL 986995, at *21 (C.D. Cal. Feb. 22, 2000) (triable issues exist with whether plaintiff overcame the *de minimus* presumption to establish that sales campaign was anticompetitive).

[18] *Int'l Equip. Trading, Ltd. v. AB SCIEX LLC*, 2013 WL 4599903, at *7-8 (N.D. Ill. Aug. 29, 2013); *Briggs & Stratton Corp. v. Kohler Co.*, 405 F. Supp. 2d 986, 990 (W.D. Wis. 2005) ("In the absence of facts connecting plaintiff's allegedly deceptive practices to bona fide violations of antitrust law, *Sanderson* remains on point.").

[19] *Nexstar Bd., Inc. v. Granite Bd. Corp.*, 2012 WL 2838547, at *7-8 (N.D. Ind. July 9, 2012).

[20] *Retractable Technologies, Inc., et al., v. Becton, Dickson & Company*, No. 2:08-cv-16, Dkt. 577, at 4 (E.D. Tex., Sept. 19, 2013).

[21] *Supra note* 15; *cf. Stearns Airport Equip. Co., Inc. v. FMC Corp.*, 170 F.3d 518, 527 (5th Cir. 1999) ("Ultimately, Stearns does not and cannot claim that it has been excluded from competing on the merits. Every sales pitch and every suggestion that FMC made was evaluated by independent municipal actors who were concerned solely with the merits of the product they were charged with evaluating … this Court is ill-suited to attempt to judge the relative merits of electromechanical bridges versus hydraulic bridges. That decision is left in the hands of the consumer.").

[22] Lanham (Trademark) Act, 15 USC § 1125(a) (1946) (established a federal cause of action for false advertising).

the Lanham Act, including damages, injunctive relief, and attorneys' fees.[23] Treble damages are only available if the conduct was willful.

Although it is easier to bring a false advertising claim under the Lanham Act than under the Sherman Act, the Lanham Act's available remedies are not as robust. The Sherman Act allows for the injunction of anticompetitive conduct (to everyone injured) and automatic treble damages. In contrast, Lanham Act standing is limited to "any person who believes that he or she is or is likely to be damaged by [the unfair competition]."[24] Consumers lack standing to sue under the Lanham Act for false advertising.[25] Thus, the Lanham Act's focus is on protecting the "competitor," not competition. It is consequently more limited with respect to remedy and standing because it does not purport to remedy the potential anticompetitive effects of the false advertising.

Though the Lanham Act provides less in the way of remedies than the Sherman Act, the availability of alternative redress is one reason underlying the Seventh Circuit's rule disfavoring monopolization cases based solely on false advertising. The Court noted, "[t]o the extent that a falsehood results in some harm a competitor, that matter is better suited for the laws against unfair competition or false advertising, not the antitrust laws, which are concerned with the protection of competition, not competitors."[26] The Second and Ninth Circuits, on the other hand, do not rely on the availability of other remedies in determining what claims should proceed.

III. CANADIAN LAW

Canadian law contrasts sharply with the U.S. tests detailed above. In Canada, false advertising is codified within the Competition Act and there are criminal as well as civil penalties for false and misleading advertising.[27] Private parties can bring actions under Section 36,[28] but those claims are not entitled to treble damages.[29] Moreover, the Canadian Competition Bureau has the ability to pursue criminal remedies for deceptive marketing practices if willful conduct is involved and it would be in the public interest.[30]

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[23] *Id.* at §§ (a), (c), (bb)(3).

[24] *Id.* at § (a).

[25] *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1390 (2014) ("A consumer who is hoodwinked . . . may well have an injury-in-fact cognizable under Article III, but he cannot invoke the protection of the Lanham Act — a conclusion reached by every Circuit to consider the question."); *Seven-Up Co. v. Coca-Cola Co.*, 86 F.3d 1379, 1383, n.5 (5th Cir. 1996); *Colligan v. Activities Club of New York, Ltd.*, 442 F.2d 686, 692 (2d Cir. 1971).

[26] *See, e.g.*, *Mercatus Grp.*, 641 F.3d at 852 (internal quotations omitted).

[27] *See* Jennifer Hefler, Denes Rothschild, & Robert S. Russell, *Canada: Private Antitrust Litigation*, *in* THE ANTITRUST REVIEW OF THE AMERICAS, at § 3.2 (2014); *see also* Yves Bériault & Oliver Borgers, *Overview of Canadian Antitrust Law*, in THE ANTITRUST REVIEW OF THE AMERICAS, 76 (2004).

[28] Competition Act, R.S.C. 1985, cC-34, §§ 36, 52 (Can.).

[29] *Id.* at § 36.

[30] *Misleading Representations and Deceptive Marketing Practices: Choice of Criminal or Civil Track under the Competition Act*, COMPETITION BUREAU 1 (Sept. 22, 1999), http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/vwapj/ct01181e.pdf/$file/ct01181e.pdf. But the Competition Bureau typically resorts to pursuing civil remedies. Competition Act, R.S.C. 1985, cC-34, § 74.

The Canadian Competition Act covers false advertising that injures a competitor regardless of whether the advertising had an adverse effect on competition. This demonstrates Canada's broader view of competition, as reflected in the purpose of the Competition Act:

The purpose of this Act is to maintain and encourage competition in Canada in order to: (i) promote the efficiency and adaptability of the Canadian economy, (ii) expand opportunities for Canadian participation in world markets while at the same time recognizing the role of foreign competition in Canada, (iii) ensure that small- and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy, and (iv) provide consumers with competitive prices and product choices.[31]

Any activity that decreases a consumer's product choice or removes the opportunity for a firm to participate in the economy (*i.e.*, compete), is subject to the Act. This includes antitrust and consumer protection violations since Canadian law sees both as necessary to promote competition.

IV. A MODEST PROPOSAL FROM ACADEMIA

The academic suggestions of where the law should stand also run the gamut. As stated above, Areeda & Turner contended that false advertising should almost never be a basis of a Section 2 offense.[32] In due course, Areeda and Hovenkamp included the Second and Ninth Circuits' six-factor test in their seminal treatise.[33] On the other side, academics like Maurice Stucke argue that false advertising should almost always be actionable under Section 2 after a "quick look."[34]

A recent a Harvard Law Note proposed a middle ground between the Areeda/U.S. Courts approach on one side and the Stucke/Canadian approach on the other. The Harvard test would allow a plaintiff to bring a false advertising monopolization claim when "the deception was reasonably capable of contributing significantly to the defendant's monopoly power … [and] a defendant would be able to rebut this prima facie case by demonstrating that the deception did not contribute to its monopoly power."[35]

According to the Note, this test would deter plaintiffs from bringing meritless claims, while targeting the type of deception that antitrust laws ought to be concerned with.[36] The test would require more work from the parties and the court at the beginning of a case to analyze the competitive effects of the false advertisement, but would balance the issue of false negatives with over-deterrence. This approach is premised on the claim that "deception sometimes has anticompetitive effects and never has pro-competitive effects"[37] It therefore dismisses the Seventh Circuit's presumption (that false advertising can never harm competition) as having no empirical foundation. Assuming that false advertising may be detrimental to competition and analyzing

[31] *Id.* at § 1.1 (Can.).

[32] AREEDA & TURNER, *supra note* 8, at ¶ 737b at 280-81.

[33] PHILLIP AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶ 787b at 327 (3d ed. 2008).

[34] Maurice E. Stucke, *When a Monopolist Deceives*, 76 ANTITRUST L. J. 823, 841 (2010) ("if a monopolist's deceit reasonably appears capable of making a significant contribution to its attaining or maintaining monopoly power, then a prima facie violation of Section 2 of the Sherman Act has been established.").

[35] *Note: Deception as an Antitrust Violation*, 125 HARVARD L. REV. 1235, 1237 (2012).

[36] *Id.* at 1237, 1247-1251.

[37] *Id.* at 1247.

actual competitive effects seek to harmonize the antitrust and consumer protection bodies of law, rather than pit them against each other.

V. CONCLUSION

We have now seen the restrictive Seventh Circuit test, the less restrictive Second and Ninth Circuit tests, the pared-down Sixth Circuit approach, and decisions by the district courts. We have also seen diverse academic proposals, focusing on actual anticompetitive effects. Each approach incorporates a filter—not all false advertising is anticompetitive and subject to Section 2 scrutiny and remedies. At the same time, enough courts and academics (and, certainly, the Canadians) agree that not every false advertising claim should be rejected outright because there is a potential for anticompetitive harm. The question of where to stop along the continuum remains.

It is also undisputed that false advertising can be part of a larger scheme to monopolize a relevant market. Indeed, the only district court in the Seventh Circuit to allow an antitrust claim partially based on false advertising did so because the disparagement was part of a greater "course of conduct" to show that defendant possessed the intent to monopolize a certain market.[38] It is thus not surprising that it is difficult to bring an antitrust claim based solely on false advertising.

The resolution of this issue should be deeply rooted in policy. In a 2002 speech, Timothy Muris, then Chairman of the Federal Trade Commission and former Director of both the Bureaus of Competition and Consumer Protection, addressed the divide between competition and consumer protection law and policy. He argued, "[w]e need to work together to make sure that these natural allies [competition and fairness] are complementing, not undercutting, each other."[39] If false advertisement is in fact exclusionary, then fairness may dictate that competition be protected by the antitrust laws; the Lanham Act will not suffice to remedy the anticompetitive effects of the false advertising. Failing to afford consumers relief by not providing an antitrust remedy seems to confound antitrust policy that these laws were designed to protect consumers.

[38] *Nexstar Bd., Inc.*, 2012 WL 2838547, at *7-8.

[39] Timothy J. Muris, Chairman of the Fed. Trade Comm'n, Prepared Remarks at the Fordham Corporate Law Institute's Twenty Ninth Annual Conference on International Antitrust Law and Policy 2002: The Interface of Competition and Consumer Protection (Oct. 31, 2002), *available at* http://www.ftc.gov/public-statements/2002/10/interface-competition-and-consumer-protection.

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Can False Advertising Give Rise to Antitrust Liability?

Christopher A. Cole
Crowell & Moring, LLP

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Christopher A. Cole[1]

I. INTRODUCTION

In late 2013, a jury in the Eastern District of Texas, Marshall Division, which had been considering whether Becton-Dickinson should be held liable for attempted monopolization of the market for retractable safety syringes, concluded that Becton had engaged in exclusionary conduct against Retractable Technologies by means of deceptive advertising and awarded the plaintiff over $113 million in "Deception Damages."[2] It was a remarkable milestone in a long-running battle between the two competitors, which had been litigating patent infringement and antitrust allegations for several years as they battled for contracts in a rapidly consolidating medical provider market.

The case raises important questions regarding the relationship between false advertising and antitrust law, some of which will be litigated in post-trial motions and inevitable appeals. Most importantly, when can false advertising give rise to violations of the Sherman Act? Is the theory, while rarely invoked, gaining traction? Will *Rectractable Technologies* be a harbinger of more such litigation?

II. *RETRACTABLE TECHNOLOGIES V. BECTON-DICKINSON*

Retractable syringes are used in hospital settings to deliver injections while reducing the incidence of needle sticks to medical workers. Becton and Retractable compete in the market for such syringes and related injection devices, dealing with both medical providers and with a small number of large Group Purchasing Organizations ("GPOs"), which act as a sort of broker between providers and suppliers of medical products.

The main theme of Retractable's complaint against Becton was that Becton had either monopolized or attempted to monopolize the market for safety syringes, conventional syringes, and safety VI catheters. Tacked on to its lengthy complaint detailing the alleged anticompetitive conduct was a count for false advertising in violation of Section 43(A) of the Lanham Act. The advertising falsehoods, it was alleged, contributed to and were part of the defendant's alleged scheme to monopolize those markets. Specifically, Retractable claimed that Becton had made false claims that its needles were the thinnest and sharpest, and that they had the least "waste space," which is the dead space containing left over medication after the injection has been given.

Becton's exclusionary conduct manifested itself in several ways, according to the evidence presented by Retractable at trial. First, Becton allegedly entered into standard form contracts with providers that penalized providers with higher prices if they purchased competing products.

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[1] Christopher Cole is the co-chair of Crowell & Moring's Advertising & Product Risk Management Group in the Washington, D.C. office.

[2] *Rectractable Techn., Inc. v. Becton Dickinson and Company, Inc.*, No. 2-08-CV-16 (E.D. Tx. 2013) (Davis, J.).

Second, Becton allegedly had obtained high market shares, ranging from 50-69 percent in markets with high barriers to entry, which were two to three times the sizes of their next largest rivals in those markets. Third, Becton allegedly charged prices ranging from 20-40 percent higher for certain syringe products than its rivals.

At trial, Retractable presented extensive evidence attempted to tie the alleged false claims to exclusionary conduct and anticompetitive effects. For example, it elicited testimony from Harvard Professor Einer Elhauge, who opined that the false advertising claims contributed to Becton's illegal attempted monopolization of the retractable syringe market in a few ways. First, said Professor Elhauge, false claims can directly harm competitors by reducing their market share relative to that of the false advertiser. Second, reducing market share tends to drive up costs for the smaller rival, because the smaller rival cannot achieve the same economies of scale as its monopolistic competitor. Third, false ad claims harm purchasers, because if they act on incorrect information, they make less efficient choices and pay higher prices due to weakened competition.

Retractable's trial strategy worked, because the jury form reveals the jury's finding that although Retractable had not proven its monopolization claims, contractual restraint of trade claims, or exclusive dealing claims, it had proven its case on attempted monopolization of the safety syringe market due to "deception" and should therefore be awarded damages. The verdict is peculiar, because the jury was not asked to assess damages for the Lanham Act violation, but solely for the attempted monopolization. Thus, a reasonable interpretation of the jury's actions is that the jury concluded that Becton had attempted to monopolize the market for these syringes by means of false advertising, and in so doing had injured its rival.

Becton's motion for judgment as a matter of law, or new trial poses a straightforward question: Can false advertising ever be so severe as to give rise to a violation of antitrust law? Its motion argues as follows:

> The claim that false advertising and product disparagement "would be sufficient to turn a nonmonopolist [like BD] into a monopolist" cannot succeed, except perhaps "in rare and gross cases."[3] Misleading ads and product comparisons are prevalent—indeed, they most often are found—in highly competitive markets. Exaggerating the virtues of one's own product or misrepresenting the features of a rival's may be unfair, but they do not indicate a lack of competition and do not threaten to "destroy competition itself."[4] That is why the Fifth Circuit has held that "the purposes of antitrust law and unfair competition law generally conflict."[5] An act of "unfair competition" like false advertising "is still competition" and, therefore, raises no antitrust issue unless used in an extreme case to gain monopoly power "by eliminating a rival concern from the market.[6]" [7]

[3] 3B AREEDA & HOVENKAMP, ANTITRUST LAW, ¶ 782a at 321-22 (3d ed. 2008).

[4] *Id.*

[5] *Nw. Power Prods, Inc. v. Omark Indus., Inc.*, 576 F.2d 83, 88 (5th Cir. 1978).

[6] *Id.* at 88-89 (emphasis added).

[7] Defendant Becton Dickinson and Company's Renewed Motion for Judgment as a Matter of Law, or Alternatively For New Trial or Remittitur, *Rectractable Techn., Inc. v. Becton Dickinson and Company, Inc.*, No. 02:08-cv-16, p. __

Stated differently, in a market lacking competition, Becton would have no incentive to advertise at all—much less to make false claims. Becton goes on to argue that even if it had engaged in false advertising, its conduct did not fall within the exceedingly narrow category of cases in which false advertising can be said to "destroy competition itself."

III. IMPLICATIONS

Becton's motion is certainly correct that false advertising very rarely gives rise to liability for antitrust violations under Sections 1 or 2 of the Sherman Act. However, this does not mean that the theory is altogether untenable. Although some Circuits are more hostile to these kinds of claims than others, there are a few cases stating that false advertising can cause antitrust injury—over and above the typical advertising injury that is remediable under the Lanham Act. These courts have recognized that, under certain conditions, false advertising campaigns can contribute to a defendant's anticompetitive conduct.

One published case provides a vivid illustration of the kind of false advertising allegation that might plausibly support a Sherman Act claim. In *Caribbean Broadcasting System,*[8] the D.C. Circuit partially reversed and remanded a decision of the District Court that had dismissed the plaintiff's antitrust claims, which were partly based on allegations that the defendant had engaged in pernicious false advertising. Although the decision primarily deals with the extraterritorial application of U.S. antitrust law and jurisdiction over foreign defendants, the Court did suggest that the underlying false advertising allegations could plausibly support a claim of antitrust injury.

The plaintiff and defendant owned competing FM radio stations in the eastern Caribbean, which includes Puerto Rico and the Virgin Islands. The defendant was the incumbent broadcaster. The plaintiff was a new entrant to the market, and having based its station in the British Virgin Islands, quickly realized that it was having great difficulty selling advertising. Plaintiff alleged that the defendant had prevented it from fairly competing for advertising dollars by falsely claiming that only the defendant's signal could reach the entire Eastern Caribbean, which would lead advertisers to believe that they could fulfill their advertising needs by contracting only with the defendant. The Court concluded that these allegations (along with other evidence of anticompetitive conduct) could contribute to an attempt to monopolize the market for English-language radio broadcast in the eastern Caribbean region.

A 1997 decision from the Ninth Circuit also injects a glimmer of hope for the false advertising-as-antitrust theory, but emphasizes its limited application. In *American Prof. Testing Serv.,*[9] the Court considered whether the defendant, sponsor of the market-dominant BAR/BRI bar review course, violated the Sherman Act through conduct that included distributing disparaging fliers about the plaintiff's competing course offering. The plaintiff alleged that Harcourt distributed anonymous fliers on campuses across the country alleging that the plaintiff's company was being investigated by the SEC and might not be able to sustain its review

[8] *Caribbean Broadcasting System, Ltd. V. Cable & Wireless PLC*, 148 F.3d 1080 (D.C. Cir. 1998).

[9] *American Prof. Testing Serv., Inc. v. Harcourt Brace Jovanovich Legal and Prof. Pubs., Inc.*, 108 F.3d 1147 (9th Cir. 1997).

courses through the summer as a result of the bankruptcy filing of its previous parent company. The allegations were clearly false, but allegedly had a devastating impact on enrollment in the plaintiff's programs.

At trial, a jury rendered a verdict for American on its §2 Sherman Act claims, the Lanham Act, tortious interference, and unfair competition, and assessed nearly $1 million in damages, before trebling. After trial, however, the district court granted Harcourt's motion for Judgment as a Matter of Law on the Sherman Act claim, concluding that there was insufficient evidence that Harcourt engaged in exclusionary conduct or possessed monopoly power in any market. American then appealed.

On appeal, the Ninth Circuit considered whether the district court erred by overturning the jury's finding that Harcourt's disparagement of American constituted exclusionary conduct under the Sherman Act. The Court began by noting that "[w]hile the disparagement of a rival or compromising a rival's employee may be unethical and even impair the opportunities of a rival, its harmful effects on competitors are *ordinarily* not significant enough to warrant recognition under §2 of the Sherman Act."[10] It reasoned that the competitor's actions must be so severe as to "destroy competition itself." After citing a passage from *Areeda & Hovenkamp* for the proposition that false advertising should "presumptively be ignored" under the Sherman Act, the Court went on to adopt a Second Circuit test for overcoming a presumption that false advertising has a *de minimis* effect on competition:

> [A] plaintiff may overcome the de minimis presumption 'by cumulative proof that the representations were [1] clearly false; [2] clearly material, [3] clearly likely to induce reasonable reliance, [4] made to buyers without knowledge of the subject matter, [5] continued for prolonged periods, and [6] not readily susceptible of neutralization or other offset by rivals.'"[11]

The Court concluded that the record did not demonstrate students were clearly likely to rely on the false fliers or that the false claims were not readily susceptible to neutralization through counter advertising. It thus affirmed the court's judgment.

The Seventh Circuit, by contrast, appears to have completely shut the door to these kinds of false advertising/antitrust claims. For example, the Court stated in *Sanderson*[12] "[s]ome other law may require judicial intervention in order to increase the portion of truth in advertising; the Sherman Act does not." This is because "antitrust law condemns practices that drive up prices by curtailing output . . . . False statements about a rival's goods do not curtail output in either the short or the long run. They just set the stage for competition in a different venue: the advertising market."[13]

[10] *Id.* at 1151 (emphasis added).
[11] *Id.* (citing *National Assn. of Pharmaceutical Mfrs. v. Ayerst Labs.,* 850 F.2d 904, 904, 916 (2d Cir. 1988)).
[12] *Sanderson v., Culligan Int'l Co.*, 415 F.3d 620, 624 (7th Cir. 2005).
[13] *Id.* at 623.

Similarly, *Schachar,*[14] another antitrust case based on a supposed commercial falsehood, observed:

> Warfare among suppliers and their different products is competition. Antitrust law does not compel your competitor to praise your product or sponsor your work. To require cooperation or friendliness among rivals is to undercut the intellectual foundations of antitrust law. Unless one group of suppliers diminishes another's ability to peddle its wares (technically, reduces rivals' elasticity of supply), there is not even the beginning of an antitrust case, no reason to investigate further to determine whether the restraint is "reasonable."

IV. IS THE FALSE ADVERTISING = ANTITRUST THEORY VIABLE?

It is well-established that the free flow of truthful advertising is important to the proper functioning of markets. For example, courts have intervened repeatedly to enjoin advertising restrictions that are deemed to unduly chill or prevent dissemination of non-deceptive pricing information.[15] The FTC has also acted under Section 5 to enjoin competitors that have attempted to settle litigation disputes by covenanting to refrain from comparative advertising about each other's products and services.[16]

The cases teach that allegations of false advertising are highly unlikely, in isolation, to carry the day on a claim of monopolization or attempted monopolization. However, such allegations can provide compelling ammunition in an otherwise well-grounded complaint alleging that they were part of a broader pattern of monopolistic, exclusionary conduct.

The circumstances giving rise to these possibilities generally involve markets with very few competitors (as is the case generally in almost all antitrust cases), high barriers to entry, allegations of attempts by an incumbent to exclude newer market entrants through an ongoing campaign of falsehoods, little ability for the smaller rival to fight back on equal terms in order to provide corrective advertising (perhaps due to superior access by the incumbent to purchasers), and false statements that go right to the heart of the suitability or performance of the newly introduced product. The verdict in *Retractable Technologies*, if it stands, may breathe new life into such claims—at least in the Fifth Circuit.

[14] *Schachar v. American Academy of Ophthalmology, Inc.*, 870 F.2d 397 (7th Cir.1989).

[15] *See, e.g., National Society of Professional Engr's.*, 435 U.S. 679 (1978) (concluding that engineering group's prohibition on advertising of fee schedules to prospective customers could constitute unreasonable restraint of competition under the Sherman Act under Rule of Reason analysis because the ban on competitive bidding prevents all customers from making price comparisons in the selection of engineers); *California Dental Association v. FTC*, 526 U.S. 756 (1999) (remanding decision enjoining a dental association's ban on advertising of discounts for a fuller analysis of whether the ban had pro-competitive or anticompetitive effects).

[16] *See, e.g., In the Matter of Sensormatic Electronics Corp.*, File No. 951-0083 (FTC 1983).

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"Oh, You Did *Not* Say That!" Liability for False or Misleading Statements under the Sherman and Lanham Acts

Edward B. Schwartz
Steptoe & Johnson LLP

www.competitionpolicyinternational.com

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Edward B. Schwartz[1]

I. INTRODUCTION

The cola wars. The Apple "I'm a PC" ads. "Miller Lite Has More Taste Than Bud Light." For as long as there have been advertisements and marketing, companies have been favorably comparing their products and services to those of their competitors and sometimes engaging in outright disparagement in doing so. Not infrequently, the aggrieved company shifts the field of battle from the marketplace to the courthouse, as when DirectTV sued Dish, and when AT&T sued Verizon, alleging that the defendant crossed the line by relying on falsities to damage the plaintiff's reputation.

Plaintiffs sometimes bring such cases under the Sherman Act, alleging that the defendant's conduct harmed not only the plaintiff's reputation but competition as well. However, the courts' reluctance to bless antitrust claims predicated upon tortious conduct has frustrated the efforts of most plaintiffs bringing such claims. As a result, plaintiffs have more often turned to another statute that was intended to "protect persons engaged in . . . [interstate] commerce against unfair competition": Lanham Act Section 43(a), which in relevant part prohibits unfair competition in the form of "false or misleading description of fact, or false and misleading representation of fact" that "misrepresents the nature, characteristics, qualities, or geographic origin of [a company's] or another person's goods, services, or commercial activities."

In two cases decided this term, the Court both adopted an expansive view of Lanham Act standing and removed a potential defense to Lanham Act liability that had previously been available to companies in some regulated industries. These two cases will undoubtedly cause more companies to seek judicial protection from the marketing slings and arrows of their competitors and others.

II. BRINGING CLAIMS UNDER THE SHERMAN ACT

Because claims predicated upon allegedly false or misleading statements to the market typically involve unilateral conduct, most plaintiffs have brought their antitrust claims based upon such conduct under Sherman Act Section 2. Some of those claims have foundered for lack of evidence of market power or the dangerous probability of the defendant gaining monopoly

[1] Edward B. Schwartz is a partner in Steptoe LLP's Washington and New York offices, where he is a member of the Antitrust & Competition and Litigation Groups. The author wishes to thank Andrew Golodny, associate, Steptoe LLP, for his assistance in the preparation of this article.

power.[2] Most such claims, however, sped head-first into the high hurdle that plaintiffs face in predicating antitrust claims upon what is fairly characterized as tortious conduct.

As the Supreme Court observed in *Brooke Group,*[3] "[e]ven an act of pure malice by one business competitor against another does not, without more, state a claim under the federal antitrust laws." Thus, the courts have consistently observed that "while the disparagement of a rival . . . may be unethical and even impair the opportunities of a rival, its harmful effects on competitors are ordinarily not significant enough to warrant recognition under § 2 of the Sherman Act."[4] Judge Easterbrook has expressed even more skepticism about such claims: "Antitrust law condemns practices that drive up prices by curtailing output. False statements about a rival's goods do not curtail output in either the short or the long run. They just set the stage for competition in a different venue: the advertising market."[5]

Nevertheless, most courts have not barred the door altogether to antitrust claims predicated upon false statements or advertising. Rather, most courts to consider the issue have held that such claims are viable and should be permitted to go forward if the plaintiff can satisfy a six-part test endorsed by Areeda & Turner.[6] Under that test, false or misleading statements made in marketing can support antitrust claims if the plaintiff can prove that those statements were: (1) clearly false; (2) clearly material; (3) clearly likely to induce reasonable reliance; (4) made to buyers without knowledge of the subject matter; (5) continued for prolonged periods; and (6) not readily susceptible of neutralization or other offset by rivals.[7] These courts have held that only by satisfying this test can plaintiffs "'overcome a presumption that the effect on competition of such a practice was *de minimis.*'"[8]

In a limited number of cases, courts have found the plaintiff's allegations were sufficient at least for purposes of defeating a motion to dismiss; and in some cases that the evidence was sufficient to defeat summary judgment. For example, in *National Ass'n of Pharmaceutical Mfrs,*[9] the Second Circuit reversed the district court's order dismissing a Section 2 claim by a generic drug supplier and its trade association against the supplier of a branded drug, Inderal, alleging that a letter sent by the defendant to pharmacists regarding the pros and cons of its branded version of Inderal versus plaintiff's generic version was false and misleading.

In doing so, the Court rejected the conclusion of the District Court that "'one letter sent in the context of an ongoing debate between the generic pharmaceutical manufacturers and brand name manufacturers . . . is insufficient to violate the antitrust laws.'" The Second Circuit went on to hold that the allegations were sufficient under the Areeda & Turner six-part test, and

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[2] *See, e.g., Am. Prof'l Testing Serv., Inc. v. Harcourt Brace Jovanovich Legal & Prof'l Publications, Inc.*, 108 F.3d 1147, 1154 (9th Cir. 1997) (insufficient evidence of a dangerous probability of monopoly power).

[3] *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 225 (1993).

[4] *Am. Prof'l Testing Serv.,* 108 F.3d at 1152.

[5] *Sanderson v. Culligan Intern. Co.*, 415 F.3d 620, 623 (7th Cir. 2005).

[6] P. AREEDA & D. TURNER, ANTITRUST LAW ¶ 738a, at 278-79 (1978).

[7] *Am. Prof'l Testing Serv., Inc.,* 108 F.3d at 1152; *National Ass'n of Pharmaceutical Mfrs. v. Ayerst Labs.*, 850 F.2d 904, 916 (2d Cir.1988).

[8] *Ayerst Labs.*, 850 F.2d at 916 (citation omitted).

[9] *Id.*

that the case should proceed through discovery. Other courts have reached similar conclusions in a limited number of cases.[10]

III. BRINGING CLAIMS UNDER THE LANHAM ACT

Because of the challenge they face in bringing such claims under the Sherman Act, most plaintiffs alleging harm from false advertising or other misleading statements to the market have resisted the siren song of antitrust treble damages and instead sought relief under Lanham Act Section 43(a). One significant issue that has challenged the courts and potential plaintiffs, and gave rise to a split among the circuits, is the test for Section 43(a) standing. A second issue that arose recently is whether compliance with statutes regulating labeling and marketing in particular industries, such as the Food, Drug and Cosmetic Act ("FDCA"), can insulate the company from Lanham Act liability.

A. "Collateral Damage" is Sufficient for Lanham Act Standing: The Lexmark Decision

The Supreme Court recently resolved the circuit split over Lanham Act standing in a way that will undoubtedly result in more filings under the Act.[11] *Lexmark* arose from a Lanham Act counterclaim filed by Static Control in response to Lexmark's copyright infringement claims. Static Control manufactured replacement microchips needed in certain Lexmark toner cartridges for a refurbished cartridge to function. Static Control alleged that Lexmark violated the Lanham Act by misleading Lexmark printer owners and cartridge remanufacturers who were purchasing microchips from Static Control into believing that only Lexmark could legally replace the microchips in their cartridges.

The issue before the Court was whether, in reversing dismissal of Static Control's Lanham Act claim, the Sixth Circuit used "the appropriate analytical framework for determining a party's standing to maintain an action for false advertising under the Lanham Act." In deciding this issue, the Court first held that Static Control fell within the Lanham Act's "zone of interests." Noting that the test is not "especially demanding," and that "the benefit of any doubt goes to the plaintiff," the Court held that the language of the Act itself made clear that "to come within the zone of interests in a suit for false advertising under Section 1125(a), a plaintiff must allege an injury to a commercial interest in reputation or sales." The only limitation on this broad standard

[10] *See, e.g., Multiflex, Inc. v. Samuel Moore & Co.*, 709 F.2d 980, 992 (5th Cir.1983), *abrogated on other grounds by Deauville Corp. v. Federated Dept. Stores, Inc.*, 756 F.2d 1183, (5th Cir.1985) (affirming Section 2 violation when defendant told plaintiff's bankers and competitors that plaintiff's "products were inferior, that the company was closing down, and that the plant had been shut in anticipation of bankruptcy with Pinkerton security guards posted at the door"); *Caldon, Inc. v. Advanced Measurement & Analysis Grp., Inc.,* 515 F. Supp. 2d 565, 577 (W.D. Pa. 2007) (denying motion to dismiss attempted monopolization claim based on false and misleading statements by a competitor); *Addamax Corp. v. Open Software Found., Inc.*, 888 F. Supp. 274, 285 (D. Mass. 1995) (summary judgment denied where plaintiff accused defendant of sowing "fear, uncertainty and doubt" in order "to paralyze the industry and deter users from committing to other systems. . . in order to obtain collusive monoposony); *Davis v. S. Bell Tel. & Tel. Co.*, No. 89-2839-CIV-NESBIT, 1994 WL 912242, at *2, *7, *15 (S.D. Fla. 1994) (denying summary judgment on allegations of deception and misleading statements to maintain monopoly).

[11] *Lexmark International, Inc. v. Static Control Components, Inc.,* No. 12-873, *slip op.* (March 25, 2014).

noted by the Court was the well-established principle that Congress did not intend to provide consumers a cause of action under the statute.

Turning to appropriate proximate causation standard, the Court held that "a plaintiff suing under § 1125(a) ordinarily must show economic or reputational injury flowing directly from the deception wrought by the defendant's advertising; and that occurs when the deception of consumers causes them to withhold trade from the plaintiff." In applying this test, the Court found that Static Control had standing to bring its Lanham Act claim, notwithstanding that the record did not present "the classic" false advertising case in which the plaintiff alleges lost sales due to a competitor making false statements about the plaintiff's products or services or its own.

In doing so, the Court made clear that "when a party claims reputational injury from disparagement, competition is not required for proximate cause; and that is true even if the defendant's aim was to harm its immediate competitors, and the plaintiff suffered collateral damage." Elaborating on its holding, the Court held that "collateral" harm could be "direct," noting that if a carmaker makes false statements about the airbags used by a competing carmaker, both the airbag supplier and the carmaker could have Lanham Act standing.

B. FDCA Regulated Industries Lose "Preclusion" Safe-Harbor: The Pom Wonderful Decision

In *Pom Wonderful*,[12] the Supreme Court weighed in on the hard-fought and closely-watched legal battle between pomegranate juice supplier Pom Wonderful and Coca-Cola over Coke's prominent labeling of its juice-blend drink as "pomegranate blueberry," although the beverage in fact contained miniscule amounts of each. In doing so, the Court reversed an order of the Ninth Circuit holding that Coca-Cola's compliance with the FDCA in labeling its product insulated the company from Lanham Act liability.

Just as it did in *Lexmark,* the Court began its analysis by holding that the case presented a simple issue of statutory construction. The question addressed by the Court in *Pom Wonderful* was whether, in enacting the FDCA or the Lanham Act, Congress expressed an intent that the FDCA would occupy the entire regulatory field of food product labeling, to the exclusion of the Lanham Act, or whether it intended to permit Lanham Act claims against companies that complied fully with the FDCA.

In concluding that the FDCA did not preclude application of the Lanham Act, the Court relied on the fact that neither statute expressly reflected Congress's intent to allow companies to use FDCA compliance as a shield to Lanham Act liability, and that the statutes have co-existed for seventy years. The Court also relied on the fact that the focus of the statutes and the agencies tasked with enforcing them is different, observing that the purpose of the FDCA is to protect health and safety, while the Lanham Act was enacted to protect competition. Notably, in reaching this conclusion, the Court not only rejected Coca-Cola's arguments, but those of the U.S. government as well, which filed an *amicus* brief arguing that the Lanham Act is precluded "to the

[12] *Pom Wonderful LLC v. Coca-Cola Co.,* No. 12-760, slip op. (June 12, 2014).

extent the FDCA or FDA regulations specifically require or authorize the challenged aspects of [the] label."

IV. THE IMPLICATIONS OF *LEXMARK AND POM WONDERFUL:* MORE SECTION 43(A) CLAIMS—AND MORE QUESTIONS

By holding that Lanham Act standing is not limited to direct competitors, and extends to commercial actors who suffered "collateral damage," the Supreme Court made the Lanham Act available to all companies that can allege proximate harm resulting from a company's false or misleading labeling, advertising, or promotion. A company vulnerable to such a claim could potentially be sued by any direct competitor or—as with Static Control in *Lexmark*—a supplier to the competitor, provided that the potential plaintiff could satisfy *Lexmark's* proximate cause test.

Could a wholesaler or even retailer of the products that are the subject of false or misleading statements bring a claim? The language of the Court's decision suggests not, because the burden of proving "economic or reputational injury flowing directly from the deception" is "generally not made when the deception produces injuries to a fellow commercial actor that in turn affect the plaintiff." This issue, however, could be addressed definitively another day.

The implications of the *Pom Wonderful* decision for the food, beverage, pharmaceutical, and cosmetic industries could also be significant. For example, a pharmaceutical company that adheres to the letter of the regulations in the way it packages a product, drafts its inserts, and advertises, could *still* be sued under the Lanham Act for false or misleading statements. But the decision may extend well beyond those industries. Airlines, for example, are subject to regulations in the manner in which they advertise their fares. Yet, compliance with those regulations may not insulate them from Lanham Act liability. The same could be said for other regulated transportation companies (railroads, passenger buses, trucking), as well as companies in a wide range of industries, including financial services, telecom, tobacco, and healthcare. Enterprising plaintiffs may well invite the courts to determine whether Congress intended that those industry regulatory schemes displace regulation under the Lanham Act.

One final point regarding the breadth of Section 43(a) bears mention. The Lanham Act applies to any "commercial advertising or promotion" that is disseminated broadly enough to constitute "advertising" or "promotion" within a particular industry.[13] Accordingly, the Act does not just apply to the labeling and promotion of consumer products. Rather, it can also apply to B2B marketing and promotion, such as marketing to retailers, marketing by suppliers of raw ingredients to manufacturers, and even to bid proposals to government agencies. Accordingly, companies in a wide range of industries such as academic publishing, soft drink distribution, business and government software, and nutritional supplement ingredients, have been named in Lanham Act cases.

Furthermore, liability is not limited to conduct involving product labeling or advertising. Rather, promotional conduct as narrowly focused as a videotape sent to seven potential customers and even a single letter have been held to trigger Lanham Act liability. As a result, the

[13] *Gordon & Breach Sci. Publishers v. Am. Inst. Of Physics,* 859 F. Supp. 1521, 1535-36 (S.D.N.Y. 1994).

range of companies and industries that could feel the effects of the Court's Lanham Act decisions this term could be broad. And, in an age in which consumers are bombarded with advertising and promotions in the form of pop-up ads, paid search result placement, e-mail ads, social media site ads, spam, and other digital marketing messages, the impact of the Court's decisions on the number of Lanham Act filings could be that much greater.

V. CONCLUSION

In short, the courts have erected high hurdles for parties aggrieved by the false or misleading statements of their rivals (and others) to successfully seek relief under the Sherman Act. Instead, Lanham Act Section 43(a) has long provided a more navigable litigation path for most of those companies: and with the Court's decisions this term in *Lexmark* and *Pom Wonderful,* we should expect more companies to be taking that route in an effort to obtain relief from the harm they believe they suffered as a result of false or misleading statements to the marketplace by others.

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The Competitive Significance of Brands

Deven R. Desai
Georgia Institute of Technology
&
Spencer W. Waller
Loyola Univ. Chicago School of Law

www.competitionpolicyinternational.com

The Competitive Significance of Brands

Deven R. Desai & Spencer W. Waller[1]

I. INTRODUCTION

Brands and brand management have become a central feature of the modern economy and a staple of business theory and business practice. Brands also have important effects on competition and the marketplace; yet the two key areas of law concerned with competition—trademark and antitrust—have missed the importance of branding.

Contrary to the law's conception of trademarks, brands are used to indicate far more than source and/or quality. Indeed those functions are far down on the list of what most businesses want for their brands. Brands allow businesses to reach consumers directly with messages regarding emotion, identity, and self-worth such that consumers are no longer buying a product but buying a brand.

As a competition matter, businesses pursue that strategy to move beyond price, product, place, and position and create the idea that a consumer should buy a branded good or service at a higher price than the consumer might otherwise pay. Branding explicitly contemplates reducing or eliminating price competition as the brand personality cannot be duplicated. This practice can be understood as a product differentiation tactic, which allows a branded good to turn a commodity into a special category that sees higher margins compared to the others in that market space. Despite these clear strategies and effects, trademark and antitrust law are somewhat blind to brands.

To some extent, both trademark and antitrust law's myopia stem from the same cause. Over the past thirty years both bodies of law have relied heavily on neo-classical price theory to define legal rules that promote efficiency as the key driver in understanding competition. This approach can be a useful and powerful way to understand and manage competition as it relates to price. But such a focus misses (and often assumes away) the role that brands play as businesses seek to maximize profits in ways that may be inefficient.

In contrast, businesses and business literature explicitly acknowledge that brands are used to compete on dimensions other than price. Brands are levers that permit companies to differentiate their products and services, price discriminate, and increase customer loyalty to the point where price theory no longer explains well (i) what brands (if any) consumers view as substitutes, (ii) when confusion does or does not arise in the marketplace, and (iii) how consumers choose between brands and between dealers for the same brands.

[1] Deven Desai is Associate Professor of law and ethics, Georgia Institute of Technology, Scheller College of Business; he just completed serving as the first Academic Research Counsel at Google, Inc. Spencer Weber Waller is Professor and Director, Institute for Consumer Antitrust Studies, Loyola University Chicago School of Law.

The critical question is how to integrate brand management into existing legal doctrine. Our project is to answer this question.[2] We start by describing the way brands work. Then we set out the core mistakes trademark and antitrust law make. We conclude by explaining some of the differences a brand perspective would have for antitrust and trademark law.

II. HOW BRANDS WORK

Brands are far more than trademarks. Since the birth of mass market, mass communication, and mass transportation systems, companies have understood that trademarks are but a small part of the brand. Business practices beginning around 1900 reveal that companies were well-aware of the way they could use brands to further a range of strategic objectives all of which zeroed in one objective: competitive dominance obtained by shaping preferences and extracting rent. Early manufacturers used marks as a way to "get around the retailer" and be able to extract higher prices from consumers for otherwise interchangeable goods.[3] The same situation is found today.

Brands are complex strategic tools that perform a variety of functions, including:

- creating demand;
- circumventing middlemen so that a company can reach consumers directly;
- managing quality;
- providing a platform for trademark enforcement, defining national identities; and
- satisfying consumers' emotional and psychological needs.

These functions, separately and in combination, allow a company to differentiate products, avoid commoditization of its products or services, distinguish the company and its goods or services from its competition, and build loyal customer bases for whom no other brand or item will suffice, such that consumers will pay a premium for that brand.

Regardless of what dimension or dimensions of a brand a company pursues to build its brand, commentators recognize the power of a strong brand. A strong brand creates the ability to attain "real and sustainable competitive advantage … [because] the resulting effectiveness and efficiency of the program can represent significant barriers to competitors."[4] Put simply, branding undercuts the way in which consumers might otherwise shop and obtain the lowest price for goods.

The law, however, has ignored the full role of brands and failed to capture the way companies use brands for competitive advantage, and has also ignored the possible harm brands can pose for markets and consumers. In short, brands affect both price and competition in ways that the law may not wish to foster, but currently promotes, through a permissive trademark system that effectively grants brand protection but fails to acknowledge that it does so.

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[2] *See* Deven R. Desai & Spencer Weber Waller, *Brands Competition and the Law*, 2010 B.Y.U. L. REV. 1425. This essay is adapted from our article.

[3] CELIA LURY, BRANDS: THE LOGOS OF THE GLOBAL ECONOMY 19 (2004).

[4] Erich Joachimsthaler & David A. Aaker, *Building Brands Without Mass Media*, 75 HARVARD BUS. REV. 39, 50 (January-February 1997).

III. TRADEMARK MISTAKES

Trademark law fails to recognize that trademarks are only a subset of businesses' broader brand strategy in the real world.[5] The dominant theoretical approach is the search cost theory of trademarks, which holds that a trademark ought to function as a sign of "consistent source and quality."[6] Once that occurs, "Rather than having to inquire into the provenance and qualities of every potential purchase, consumers can look to trademarks as shorthand indicators. Because information is less expensive, consumers will demand more of it and will arguably become better informed, resulting in a more competitive market."[7] As Barton Beebe has observed, this view has been "totalizing and, for many, [the] quite definitive theory of American trademark law."[8]

A successful brand, however, encompasses far more than source and quality functions. As such, trademark law is incomplete and regulates only a fraction of the real business behavior that matters. In addition, trademark law over time has expanded the subject matter of trademarks and what constitutes infringement. The combined effect is to provide increased protection for trademarks from products and services that do not compete, or where there is no consumer confusion as to source and quality.[9] As trademark law has provided protection for such situations, the claimed protection for a **mark** first subtly, and then more aggressively, has transformed into protection for a **brand**.

This dramatic transformation took place with little recognition of the significance of brands and branding. The overall effect was an important legal change without debate or recognition of the elevation of the brand to one of the most protected forms of legal property and one of the most valuable assets in the marketplace. Neither advocates nor opponents of these changes appreciated the subtle shift from marks to brands. This blindness led to unintended (or at least misunderstood) change and one-sided expansion of the legal regime. In addition, trademark doctrine looked to antitrust laws to regulate anticompetitive behavior involving trademarks and related rights. Antitrust law, however, fared no better.

IV. ANTITRUST MYOPIA

Antitrust law as a discipline was also unable to understand the shift to a brand-based economy and make a conscious decision as to the appropriate legal regime. Older cases identified where trademarks were used as a cover for collusion, but those were easy cases both before and after the rise of the brand. Ironically, antitrust doctrine explicitly engages with many of the same issues as brand literature: market definition, market power, and customer lock-in. Antitrust doctrine's emphasis on neo-classical price theory, however, interfered with the law's ability to understand and respond to the rise of the brand as a tool for possibly anticompetitive behaviors

[5] *See* Deven R. Desai, *From Trademarks to Brands*, 64 FLORIDA L. REV. 981 (2012).

[6] Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. PITT. L. REV. 789, 789 (1997).

[7] Stacey Dogan & Mark Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 786-787 (2004).

[8] Barton Beebe, *The Semiotic Analysis of Trademark Law*, 51 UCLA L. REV. 621, 623 (2004).

[9] *See generally* Mark McKenna, *Testing Modern Trademark Law's Theory of Harm*, 95 IOWA L. REV. 63 (2009) (examining how trademark law has grown to protect non-competing, non-confusion uses).

such as (i) diminishing the role of price competition, (ii) segmenting market demand, (iii) facilitating price discrimination, and (iv) locking in consumers to a favored brand.

The antitrust world heavily discounts what is obvious to the business world—that brands matter and can be the source of both durable competitive advantage and the ability to sell at a premium without significant constraint from potentially competing substitutes. The rise of the Chicago School as the prevailing economic discourse for antitrust reinforced the focus on price theory to the exclusion of most other factors.[10] It relegated business discourse to the fringes of the profession of antitrust, whether practiced by the liberal or conservative wings of the discipline. Consider this quote by Judge Easterbrook in a predatory pricing as an example of the prevailing ethos in antitrust law:

> Rivalry is harsh, and consumers gain the most when firms slash costs to the bone and pare price down to cost, all in pursuit of more business. … Entrepreneurs who work hardest to cut their prices will do the most damage to their rivals, and they will see good in it. … If courts use the vigorous, nasty pursuit of sales as evidence of forbidden "intent," they run the risk of penalizing the motive forces of competition.[11]

Now compare Judge Easterbrook's rhetoric to that used by Michael Porter, an economist by training who established a preeminent reputation as a business strategist. In his classic treatise, *Competitive Strategy*, Porter emphasizes product differentiation, and downplays price competition, as the most effective strategy for obtaining a sustainable competitive advantage.[12] He tellingly states: "Any fool can cut the price, goes the old maxim, and a firm often hurts itself more than the challenger in defending in this way."[13]

As a result of this cognitive dissonance, there has been a limited incorporation of brand management in antitrust.[14] As in trademark law, this incoherence has allowed the continued and virtually unchecked growth of brand power. Strategic brand management has grown with little or no antitrust consequences even where branding is a basis for meaningful market power as traditionally defined in antitrust law. In other cases, a brand perspective may show that there is less, not more, cause for antitrust concern.

Although there are numerous antitrust cases that involve trademarks in some way, most of these contain no discussion, let alone analysis, of the role of brands more generally. Several reasons account for this peculiarity. First, most courts do not distinguish the general issue of brands and the specific, but lesser, role of trademarks in supporting the larger branding effort. Second, most of the leading trademark antitrust cases have been relatively easy cases where the

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[10] Spencer Weber Waller, *The Language of Law and the Language of Business*, 52 CAS. WES. L. REV. 283, 283-84 (2001); Spencer Weber Waller, *The Use of Business Theory in Antitrust Litigation*, 47 N.Y.L.S. L. Rev. 119, 120 (2003).

[11] A.A. Poultry Farms, Inc. v. Rose Acre Farms, Inc., 881 F.2d 1396, 1401-02 (7th Cir. 1989). *See also* Frank Easterbrook, *The Limits of Antitrust*, 63 TEX. L. REV. 1, 6 (1984).

[12] MICHAEL E. PORTER, COMPETITIVE STRATEGY: TECHNIQUES FOR ANALYZING INDUSTRIES AND COMPETITORS, 21-22 and 170-171 (1980).

[13] MICHAEL E. PORTER, COMPETITIVE ADVANTAGE xv, 501 (1985).

[14] *Roundtable Discussion, Business Strategy and Antitrust*, 21 ANTITRUST 6 (Fall 2006); Joseph P. Guiltinan, *Choice and Variety in Antitrust Law: A Marketing Perspective*, 21 J. PUB. POL'Y & MARKETING 260 (2002).

use or licensing of a trademark has been a sham designed to implement a typical *per se* unlawful price-fixing or market division conspiracy.[15] Thus, trademarks (and sometimes brands) were important factually, but not analytically, in deciding these cases.

More troubling, antitrust law does not take its own methods seriously when applied to brands. As a result antitrust law has tilted toward a laissez-faire, hands-off approach in a number of areas where the questions are much more difficult and complex than normally acknowledged. Put differently, given that antitrust does not understand branding, antitrust cannot coherently navigate when brands have, or do not have, negative effects.

V. THE BRAND DIFFERENCE

Our claim is simple: scholars, practitioners, policy makers, legislators, and judges need to be as familiar with the literature and language of marketing and brand management as they are with different strands of economic thought.[16] Such a familiarity would likely result in a different language and vocabulary for both antitrust and trademark law—one that addresses the realities of how business operates.

Applying knowledge of brands to antitrust law provides at least two benefits. First, understanding brands is necessary if antitrust law is to make coherent decisions about the businesses it regulates. Second, brands offer a powerful way to understand and improve specific aspects of antitrust doctrine and analysis. For example, talk of cross-elasticity of demand and own elasticity is replaced by analysis of "shoppers" or "switchers" versus "loyals."[17] Survey data may be considered instead of, or along with, regression and simulation models. The focus will be on how companies compete to create loyal consumers who will return over and over again to the same brand or family of brands over their lifetime and trade up to the higher price, higher profit segments of the brand.[18]

The competitive strategic techniques to be analyzed will vary from case to case but would include brand extensions, increasing switching costs in different ways, resale price maintenance and other restrictions on distribution to maintain and enhance brand image, bundled discounts, loyalty rebates, increasing shelf space, and denying these same advantages to competitors in order to segment the market to the utmost degree possible. Few if any of these techniques emphasize price competition, which is the starting point for most economic analysis.

In trademark law the change may be more radical. In some cases, producer concerns regarding brand equity, the ability to enter new markets, and free-riding would be considered alongside trademark's traditional focus on consumers and the likelihood of confusion.[19] Not all changes would favor producers. Whereas trademark doctrine does a poor job of accommodating

[15] Palmer v. BRG of Georgia, Inc., 498 U.S. 46 (1990); U.S. v. Sealy, Inc., 388 U.S. 350 (1967); Timken Roller Bearing Co. v. U.S., 341 U.S. 593 (1951).

[16] *See* Waller, *Language of Law*, *supra* note 10, at 337-38.

[17] *See* JILL GRIFFIN, TAMING THE SEARCH AND SWITCH CONSUMER: EARNING CUSTOMER LOYALTY IN A COMPULSION-TO-COMPARE WORLD (2009), *passim*.

[18] Note that some of these ideas should not be foreign to economics as some game literature investigates how one shifts from a one-off interaction to a series of interactions that changes cost structures.

[19] *See* Desai, *supra* note 5.

consumers' desires to use marks for expression, recent brand theory recognizes both the dynamic nature of a brand and that consumers play an important role in shaping the brand, such that complete control of the brand message and meaning may be unwise and untenable.[20] At its most fundamental level, the very definition of a trademark could expand so that trademark law would be able to discuss the multi-dimensional nature of brands, and issues beyond source and quality would be properly addressed. [21]

VI. CONCLUSION

We are in a world where the law fosters cradle-to-grave protection for branded goods and services. The law must expand its horizons to appreciate what it is doing, better articulate what it is doing, and determine what it seeks to achieve. A deeper understanding of brands and brand discourse can yield a more accurate picture of what the law is doing and a metric by which to see whether those results match the law's stated foundations. Insofar as the law champions a brand result, it should do so explicitly and be better equipped to say so, which would in turn permit for clear, critical discussion regarding the normative desirability of such outcomes.

In the five years since we started this work, many have heeded our call. There have been two conferences about the ideas raised in our paper, and Cambridge University Press is publishing an edited volume of prominent U.S. and E.U. scholars' views on questions we have raised.[22] Professor Desai's follow-up works on brands has set forth (i) how brand logic animates trademark law, (ii) where information and network theory shows better how brands operate, and (iii) the way in which brands apply behavioral economic strategies to ensconce competitive advantages.[23] U.C. Davis's School of Law also held a conference digging deeper into the many issues branding raises.[24]

Most encouragingly, antitrust regulators have begun to ask explicit questions in both guidelines and cases about the role branding plays in the competition space. In short, we plan on continuing this work, are excited that others are joining in, and hope to see more on brands, competition, and the law.

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[20] *See e.g.*, TILDE HEDING, CHARLOTTE F. KNUDTZEN, MOGENS BJERRE, BRAND MANAGEMENT RESEARCH, THEORY AND PRACTICE 21, 154-155 (2009); Desai, *supra* note 5.

[21] *See* Desai, *supra* note 5.

[22] BRANDS, COMPETITION, AND THE LAW (Deven Desai, Ioannis Lianos, & Spencer Weber Waller, eds. forthcoming 2015).

[23] Desai, *supra* note 5.

[24] *Symposium—Brand New World: Distinguishing Oneself in the Global Flow*, 47 U.C. DAVIS L. REV. 455-733 (2013).

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Legitimate Businesses Should Be At Least As Concerned As Fraudsters About the *Competition Act*-Related Amendments Under Canada's New Anti-Spam Legislation

Davit Akman, Brenda Pritchard, Brian Fraser, & Christopher Oates

Gowling Lafleur Henderson LLP

Legitimate Businesses Should Be At Least As Concerned As Fraudsters About the *Competition Act*-Related Amendments Under Canada's New Anti-Spam Legislation

Davit Akman, Brenda Pritchard, Brian Fraser, & Christopher Oates[1]

I. INTRODUCTION

On July 1, 2014, Canada's Anti-Spam Legislation ("CASL")—the Canadian version of U.S. CAN-SPAM—came into force. While much has been written about the consent and disclosure/form requirements for commercial electronic messages imposed by the new legislation, and the draconian penalties for non-compliance,[2] comparatively little has been said about the amendments to the Canadian *Competition Act* under CASL related to false or misleading representations in commercial electronic messages (the "Spam Amendments").

The Spam Amendments significantly expand the potential antitrust risk associated with sending commercial emails and other electronic messages in (and to) Canada through the creation of new enforcer/plaintiff-friendly criminal and civil offenses, backed by (among other things) the threat of jail and multi-million dollar "administrative monetary penalties" as well as an expansive private right of action for compensatory and statutory damages. Given the difficulty and expense of locating—much less enforcing fines or damages awards against—the perpetrators of email and internet frauds like the Nigerian 419 scam, the burden of the Spam Amendments will fall most heavily on legitimate businesses in Canada, the United States, and elsewhere using electronic channels (*i.e.*, email, SMS, social media or instant messaging) to promote products or services in Canada. These legitimate businesses will make easier targets for the Canadian Competition Bureau and class action plaintiffs' lawyers alike.

II. THE "SPAM AMENDMENTS" TO THE COMPETITION ACT

A. New Criminal and Civil Provisions

The *Competition Act* (the "Act") is Canada's principal antitrust statute. The Act has long included both a general criminal prohibition against false or misleading representations (section

[1] Of the Toronto Office of Gowling Lafleur Henderson LLP. Davit Akman is a Partner in the firm's Competition Law/Antitrust National Practice Group. Brenda Pritchard and Brian Fraser are Partners in the firm's Advertising, Marketing and Regulatory Affairs National Practice Group. Christopher Oates is a Senior Associate in that group.

[2] *See*, *e.g.*, Peter R Murphy, "Preparing Your Organization for CASL's Commercial Electronic Message Requirements" (April 2014), *Gowlings* (blog), online: <http://www.gowlings.com/KnowledgeCentre/article.asp?pubID=3252>; Gowlings, "Webinar – Canada's New Anti-Spam Legislation: What you need to know to comply" (May 28 2014), online: Gowlings <https://event.on24.com/eventRegistration/EventLobbyServlet?target=registration.jsp&eventid=795050&sessionid=1&key=B461410813834B2A2A264819DD88DC3C&sourcepage=register>; and Christopher Oates, "Canada's Anti-Spam Legislation comes into force July 1, 2014" (December 2013) *Gowlings* (AdBytes), online: <http://www.gowlings.com/KnowledgeCentre/article.asp?pubID=3108>.

52) and a general civil prohibition against deceptive marketing practices (section 74.01). These prohibitions are substantially similar, except that liability under the criminal prohibition also requires proof that the representation was made "knowingly or recklessly." Both require a representation—made to the public—to promote a product, service, or business interest that is false or misleading in a material respect. The Act provides that in determining whether a representation is false and misleading in a material respect, both the literal meaning and the general impression conveyed by the representation are to be considered; therefore, a representation that is literally true may still be found to be false or misleading if the "general impression" it conveys is false or misleading. A representation will be "material" if it could affect a consumer's decision with respect to a product or service.

In addition to these general prohibitions, the Act also contains a number of criminal and civil provisions targeting specific advertising and marketing practices, including deceptive telemarketing, false or misleading ordinary price claims, representations not based on adequate and proper testing, and bait and switch selling.

CASL amends the Act to add new criminal and civil prohibitions aimed specifically at emails and other electronic messages sent for the purpose of promoting any business interest or the supply or use of a product or service (see sections 52.01 and 74.011, respectively). In particular, the Spam Amendments make it a criminal offense (if knowledge or recklessness can be proved) or a civil reviewable matter (if intent cannot be proved) to:

1. send, or cause to be sent, an electronic message that is false or misleading in a material respect;
2. send, or cause to be sent, a false or misleading representation in the sender information or subject matter information of an electronic message; or
3. make a false or misleading representation in a URL or other locator.

The first of these new prohibitions is no more than the specific articulation and application to electronic messages of the current general criminal and civil prohibitions against false or misleading representations—indeed, it is arguably utterly redundant. However, the latter two prohibitions create new offenses that apply a more stringent standard to email and other electronic messages than to print, broadcast, or in-store advertising, thereby expanding the antitrust risk for businesses using email and other electronic messages to promote their goods and services.

Under those provisions, the literal meaning and general impression conveyed by a representation in the sender information, the subject matter information, or the locator information in an electronic message are to be assessed on a stand-alone basis; that is, without regard to any other part of the message, including any conditions or qualifications in the body of the message. This is unlike other forms of advertising, where appropriate clarifications or qualifiers can be included (when done properly) to inform the general impression of the advertising message as a whole. Further, where the sender information, subject line information, or locator information of an electronic message is found to contain a false or misleading representation, the advertiser faces liability under the Act regardless of the materiality of that representation (viewed in the overall context of the electronic message in question).

The discrete assessment mandated by the new provisions, in combination with the absence of a materiality threshold, mean that representations in subject lines, sender information, and URLs (and other locators) will have to stand on their own in order to minimize antitrust risk. Thus, the new provisions will likely restrict the extent and manner in which innovative and/or aggressive advertisers can (safely) use electronic messages to promote their goods and services to customers and prospects in Canada.

For example, a subject matter line offering free or discounted products or services (*e.g.*, "Free Weekend Rental") could be condemned as false or misleading despite conspicuous qualifying terms and conditions in the body of the message which render the representation in the subject line truthful and non-misleading.[3] It remains to be seen whether including disclaimer or qualifying language in email subject lines (*e.g.*, "terms and conditions apply" or "blackout dates may apply") or incorporating terms and conditions in the body of an electronic message into email subject lines by reference (*e.g.*, "see below/attached for terms and conditions") will be effective in shielding advertisers from liability.

B. Serious Consequences for Non-Compliance

The potential chilling effect on businesses wishing to engage in legitimate (but aggressive or innovative) marketing activities through email and other electronic messages is likely to be aggravated by the severe consequences of non-compliance.

Like the Act's existing criminal misleading advertising provisions, the new spam-inspired criminal misleading advertising prohibitions are backed by serious penalties, including up to 14 years imprisonment, a fine in the discretion of the court, or both. The consequences for contravening the new civil provisions can also be severe. As with the current civil deceptive marketing provisions, violations of the new civil provisions will expose businesses to, among other things, administrative monetary penalties ("AMPs") of up to CAN $10 million for a first offense, and of up to $15 million for each subsequent contravention of the Act.

Further, contraventions of the new criminal provisions may expose an advertiser to potential civil liability under the statutory right of action for damages in section 36 of the Act through class actions by, or on behalf of, consumers who claim to have suffered loss or damage as a result of those contraventions. Under section 36, a person who has suffered loss or damage as a result of conduct that is contrary to any criminal provision of the Act (or the failure to comply with an order issued under the Act), may sue for and recover single damages from the person who engaged in that conduct equal to "the loss or damage proved to have been suffered."

The Act does not currently provide a right of action for reviewable civil conduct. (The right to sue for misleading advertising under section 36 requires a violation of section 52 of the Act—the criminal prohibition against false or misleading representations.) However, as of July 1, 2017, CASL will expose companies using email and other electronic messages to advertise their products and services (and, in prescribed circumstances, the officers, directors, and agents of those companies) to civil liability in respect of contraventions of the new civil provisions.

[3] Sender information like freeweekendrental@A1rentacar.com or a URL like www.A1rentacar.com/freeweekendrental/special raise similar questions.

Under the new statutory cause of action created by CASL, anyone "affected" (*e.g.*, consumers, businesses, and ISPs) by an alleged contravention of section 74.011 will be able to sue for compensatory damages equal to their actual losses or damages suffered or expenses incurred, and for statutory damages (without proof of loss) of $200 per contravention, to a maximum of $1 million for each day on which the conduct occurred.[4]

C. Aggressive Regulatory and Private Enforcement Should Be Anticipated

Businesses expecting the Canadian Competition Bureau to look the other way on "technical" or "trivial" breaches of the new sender/subject/locator provisions will almost certainly face a rude awakening. In recent years, advertising and marketing practices have been the subject of unprecedented scrutiny by the Bureau, and while Canada's antitrust enforcer has reserved criminal prosecution for the most egregious and fraudulent conduct, the Bureau has consistently sought the maximum available fine in civil matters, including in cases involving competitively benign conduct.

For example, in its recent case against Chatr Wireless Inc.,[5] the Competition Bureau alleged that Chatr had made false and misleading representations in "fewer dropped calls" performance claims and that the company had failed to comply with the provision of the Act that requires proper and adequate testing prior to making a performance claim. Initially, the Bureau requested, among other relief, the maximum AMP of $10 million, an order prohibiting Chatr from making claims about dropped call performance for 10 years, and an order compelling Chatr to pay restitution to Chatr customers for the period in which the impugned representations were made.

At the liability phase of the proceeding, the court concluded that Chatr had not engaged in false or misleading advertising but that proper and adequate testing had not been undertaken in all relevant markets prior to the making of the impugned performance representations, contrary to the Act. Despite the fact that proper tests conducted after the launch of the ad campaign supported the "fewer dropper calls" claims, the Commissioner still sought an AMP of $5 to 7 million, together with a prohibition order, on the basis that making the claims prior to completion of all valid testing was contrary to the Act. Ultimately, Chatr was ordered by the court to pay a fine of $500,000.

For its part, the new statutory right of action, which will permit recovery for technical or trivial misstatements without proof of either intent or loss, raises the specter of the abuses associated with U.S. private antitrust litigation; namely, a flood of frivolous and unmeritorious class action claims and strategic litigation by business rivals. Coupled with several recent plaintiff-friendly decisions establishing lax standards for class certification in Canada,[6] and the fact that the court in the *Chatr* case accepted that the level of sophistication to be expected of

[4] CASL provides that the court shall deduct any amounts ordered paid by way of statutory damages from any AMPs imposed in respect of the same conduct.

[5] *See, Canada (Commissioner of Competition) v. Chatr Wireless Inc.*, 2013 ONSC 5315 and *Canada (Commissioner of Competition) v. Chatr Wireless Inc.*, 2014 ONSC 1146.

[6] *See, e.g., Pro-Sys Consultants Ltd. v. Microsoft Corporation*, 2013 SCC 57 and *Infineon Technologies AG v. Option consommateurs*, 2013 SCC 59.

consumers is low (they should be considered "credulous and technically inexperienced"), the new right of action promises to be a boon to class action plaintiffs' lawyers, and a source of serious concern for legitimate businesses operating in Canada.

III. CONCLUSION

It remains to be seen whether, as the Canadian government claims, CASL "will help protect Canadians, while ensuring that businesses can continue to compete in the global marketplace," or whether it will instead impose significant and unwarranted costs on companies advertising through email and other electronic channels, thereby discouraging reliance by legitimate businesses on electronic messages for commercial communications. Regrettably, the *Competition Act*-related amendments introduced by CASL are likely to substantially increase the antitrust risk for legitimate businesses with respect to commercial electronic messages, and ultimately threaten to undermine and impede e-commerce and legitimate advertising and marketing activities in Canada.

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The Intersection of Advertising and Antitrust in New Zealand

Andrew Matthews & Gus Stewart
Matthews Law

www.competitionpolicyinternational.com

The Intersection of Advertising and Antitrust in New Zealand

Andrew Matthews & Gus Stewart[1]

I. INTRODUCTION

Advertising and antitrust have been inextricably linked in New Zealand since at least 1986. That year both the Fair Trading Act (which prohibits misleading and deceptive conduct) and the Commerce Act (the antitrust legislation) were enacted. Significantly, both pieces of legislation are enforced by the Commerce Commission (New Zealand's antitrust regulator), fusing the enforcement of advertising and antitrust law. (Both pieces of legislation can also be enforced by third parties, which can be competitors or consumers.) Consistent with international developments, it appears that the Commission has increasingly seen its powers under the Fair Trading Act not to be just an independent responsibility, but as a vital tool to develop more competitive markets.

There is a range of other law relevant to advertising, which is perhaps less immediately obviously linked to antitrust, including the Trade Marks Act, Copyright Act, and the common law prohibition on "passing off." Similarly, there is a raft of other consumer protection law, most notably the Consumer Guarantees Act, which can come into play in this area. For example, the Commission will frequently take enforcement action when consumers have been misled as to their statutory rights under the Consumer Guarantees Act, even though the Commission has no direct power to enforce that Act. (The Commission essentially has class action rights under the Fair Trading Act, which New Zealand does not have more generally.)

And there is one area where advertising law, in the sense of protecting IP rights, may have been sacrificed in order to foster competition. As a small, open economy the ability to allow parallel imports has been seen as enabling more competitive markets. IP rights holders and local distributors naturally do not favor this as it diminishes any market power they gain from those rights.

Any discussion of the regime would be incomplete without discussing the role of self-regulation. The Advertising Standards Authority ("ASA") is the self-regulatory industry body that hears advertising disputes, including competitor complaints. The ASA publishes codes of practice by which it expects all advertisements to comply. Some of these codes directly overlap with the Fair Trading Act. This avenue tends to be preferred for "lower level" issues (including complaints by consumers), as the sanctions are low and action is cheap and quick. Parties are not usually represented by counsel. Advertisements that are deemed to breach the codes are generally asked to be withdrawn; however, the "teeth" tends to be the "naming and shaming" of

[1] Respectively, Principal and Associate at Matthews Law; Auckland, New Zealand

the advertiser in breach, as all decisions are published on the ASA's website and distributed to media.

As the discussion above highlights, given that many of the statutory rights are directly enforceable by competitors (notably the Fair Trading Act), advertising law can be (and is) used as a "sword" as well as a "shield."

In the next two sections of this article we discuss (1) the Commerce Commission's dual responsibility for enforcing advertising and antitrust laws, and (2) the intersection of advertising and antitrust in practice.

II. THE COMMERCE COMMISSION'S DUAL RESPONSIBILITY FOR ENFORCING ADVERTISING AND ANTITRUST LAWS

The Commerce Commission's general functions cover four main practice areas: (i) fair trading (including advertising), (ii) business competition, (iii) regulated industries, and (iv) consumer credit. While separate teams at the Commerce Commission deal with fair trading and antitrust issues, these issues both fall within the ambit of a broader "competition division;" legal and economic staff in particular are a shared resource, and the senior management team are the same. (As with all responsibilities, decisions are ultimately made by the same Commissioners.) Likewise, antitrust practitioners in New Zealand often advise on fair trading and consumer laws as a complementary skillset.

The interrelationship between antitrust and advertising law is also evident through the Commerce Commission's active advocacy program. This includes recent efforts to educate businesses, consumers, and the legal profession by developing publications, new websites, and targeted advertising following substantive reforms to the Fair Trading Act (of which a number of the key amendments came into force in June).

The Commerce Commission has a suite of legislative controls it can use during investigations into any of the areas under its authority, including information disclosure requirements and compulsory interview powers, introduced under the Fair Trading Act. And the Commerce Commission has also issued various guidelines for specific industries which may, by their nature, be susceptible to breaches of the relevant laws, such as in the health sector. These guidelines focus on the relevance of both competition and consumer laws (including the Fair Trading Act) to those industries.

It is clear from these guidelines, and the Commerce Commission's wider advocacy program, that antitrust and advertising issues tend to go hand in hand—this was summed up well in a Commerce Commission media release in relation to earthquake-stricken Christchurch, which noted that "[t]he Commission's role is two-fold: educating Christchurch businesses to help them avoid breaching competition and consumer laws, and looking for illegal activity that might be taking place."

The Commerce Commission is also very actively involved in the international competition network and is outward looking, always seeking to develop best practice and learn from the international community.

III. THE INTERSECTION OF ADVERTISING AND ANTITRUST IN PRACTICE

A. The Telecommunications Sector

While advertising and antitrust laws are not selective in their application, the telecommunications sector has had more than its fair share of exposure to these issues, with a high number of prosecutions and other forms of enforcement actions being handed down to telecommunications companies. It is perhaps telling that the main antitrust cases (particularly around misuse of market power) have also been in the telecommunications sector.

The intersection between advertising and antitrust is clearly evident in conduct between telecommunications competitors. Telecommunications companies often engage in direct dialogue regarding each other's advertisements, and a number of these issues have inevitably escalated to complaints to the ASA or the competition division of the Commerce Commission.

B. Tasman Insulation v. Knauf Insulation

Another example of this intersection, outside the umbrella of the Commerce Commission, is the High Court action taken by PINK® BATTS® maker Tasman Insulation (a business unit of vertically integrated Fletcher Building) against Knauf Insulation (Australia). Knauf entered the New Zealand market in late 2010 with its competing glass insulation product, EARTHWOOL®. Tasman, which was the only New Zealand manufacturer of insulation products made from recycled glass, had sold its insulation under the PINK® BATTS® brand since at least 1973. The company challenged Knauf's use of the word "batts" to describe its product ("BATTS" is a registered trade mark of Tasman in New Zealand; however, outside of New Zealand it is a generic term for pieces of insulation material).

In addition to the IP challenges, Tasman claimed the EARTHWOOL® name and brand gave the misleading impression to consumers, in breach of the Fair Trading Act, that Knauf's products were substantially made of natural wool, when they were in fact made from recycled glass. Justice Brown agreed, finding that Knauf's use of the EARTHWOOL® name was misleading and deceptive, and prohibited the defendants from using that name or brand "except where the word is used in the manner of an adjective in association with a word or words identifying that composition of the product as glass or glasswool." Knauf also successfully counterclaimed that Tasman's comparative "compressibility" tests breached the Fair Trading Act. Both parties have appealed parts of the Court's decision.

C. IP Conflicts and the Fair Trading Act

The ability of an IP owner to exploit IP-related rights has been balanced, to a degree, with a desire for increased competition and consumer awareness. A specific example of provisions encouraging this competition and consumer awareness is the carve out in section 94 of the Trade Marks Act 2002, which provides that a registered trade mark is not infringed by the user of that mark for the purposes of comparative advertising (in accordance with honest practices in industrial or commercial matters). This gives a permissible basis for smaller or more aggressive competitors to pit their products against actual well-known and established products, rather than having to allude to "a competitor's nameless product," although those comparative advertisements are still subject to the Fair Trading Act. The Commerce Act also provides a

limited carve out whereby a person does not misuse their market power by reason only that they seek to enforce a statutory IP right.

As evidenced by the above example, the Fair Trading Act can be used as a sword as well as a shield. The form of the sword may vary, but it is not uncommon for a complaint (or the threat of a complaint) to be made as a means of delaying or tainting the introduction of a competitor's new product. In some instances, this could be seen to amount to anticompetitive "bullying" tactics, especially when there is a disparity in the size and maturity of the competitors (for example, where an incumbent targets a lesser-resourced competitor which may not have in-house legal counsel.)

The relatively weak monopolization provision in New Zealand's antitrust law cannot be used to address such alleged bullying. Section 36 of the Commerce Act prohibits a party with substantial market power, from "taking advantage" (using) that market power, for prohibited anticompetitive purposes (essentially restricting, preventing or deterring a competitor). But all three aspects of this section must be met for the section to apply (namely there must be market power, a use of that market power, and the prohibited purpose). Under the counterfactual, or comparative, test applied in New Zealand, the causal nexus with market power would not be met if this was conduct that could be engaged in by a party without market power but was otherwise in the same circumstances. Clearly non-dominant entities often use legislation to challenge competitors (although perhaps less so than those with substantial market power, "deep pockets," or both).

IV. CONCLUSION

To sum up, the enforcement fusion of (some) advertising and antitrust law, coupled with other advertising law, provide a powerful toolkit for New Zealand's regulator and competitors alike; additionally, in some areas, IP rights (which may limit advertising) are tempered to encourage competition.

As a small, outward-looking nation, New Zealand will try to follow international best practice on the intersection of advertising and antitrust law. That does not mean that it will not take account of local circumstances, as the encouragement of parallel imports shows. More broadly, in the fine balancing between IP rights and antitrust law, New Zealand also shows that IP rights will not be allowed to be used anticompetitively, as shown by the encouragement of comparative advertising.

Given recent reforms to the Fair Trading Act we can expect even greater use of the Fair Trading Act (which among other things, prohibits misleading advertising) to facilitate more competitive markets. Given that perfect competition assumes perfect information, this can only be encouraged.