

United States of America

Q151

The impact of advertising restrictions on trademarks

Introduction

Although there are advertising restrictions for specific lawful goods and services in the United States, the overall regulatory scheme has been conducted through a self-regulation model as opposed to a government regulation model. The main reason for this approach is the long-standing U.S. tradition of free enterprise and free speech as embodied in the U.S. Constitution, which in its First Amendment protects freedom of speech. This protection has not been limited to public discourse on political issues and extends to advertising as well.

The strong judicial support for the First Amendment is best stated by the late U.S. Supreme Court Justice Oliver Wendell Holmes, who said in 1919, "I think that we should be eternally vigilant against attempts to check the expression of opinions that we loathe..." **Abrams v. United States**, 250 U.S. 616, 630 (1919). In the landmark case of **Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council**, 425 U.S. 748 (1976), the U.S. Supreme Court clearly established advertising as a form of "commercial speech" to be protected under the U.S. Constitution. As the court stated, "Advertising, however tasteless and excessive it sometimes may seem, is nonetheless dissemination of information as to who is producing and selling what product, for what reason, and at what price." 425 U.S. at 765. The U. S. Supreme Court set forth a four-part "commercial speech" test in **Central Hudson Gas & Electric Corp. v. Public Service Com.**, 447 U.S. 557 (1980) to determine whether the appropriate balance was created between the individual's right to free speech and the government's right to regulate commerce. The **Central Hudson** test is: (1) the speech must be non-misleading and concern lawful activity, (2) the government must assert a substantial interest, (3) the government interest must be directly enhanced by the regulation, and (4) the regulation must not be more extensive than is necessary. This four-part test is still applied, including in recent commercial speech cases such as **44 Liquormart v. Rhode Island**, 517 U.S. 484 (1996). Accordingly, in the U.S., the presumption is clearly in favor of the advertiser (trademark owner), not the regulator (government).

The self-regulation model followed in the U.S. permits advertisers to police their own conduct, and is conducted in many organizations, at many levels. One of the best known examples of self-regulation is the Better Business Bureau (BBB), which operates a National Advertising Division (NAD) and a National Advertising Review Board (NARB). These quasi-administrative bodies operated by a neutral, non-profit entity have been quite successful in the area of self-regulatory dispute resolution. Moreover, television networks have their own advertising review procedures which must be completed before an advertisement is aired.

In response to the specific questions on this issue concerning the U.S., the U.S. Group answers as follows.

1. Restrictive advertising measures for certain products or services

1.1 The Groups are firstly invited to indicate whether, in their respective country, there are specific legislations restricting the exercise of advertising in relation to certain products or services.

The Groups will put forward in summary fashion the content of such rules and will specify the particular products or services to which such provisions relate.

The principal U.S. agency which regulates all advertising is the Federal Trade Commission (FTC) pursuant to its authority in the FTC Act, and in particular, Section 5 of such Act (15 U.S.C. § 45). The FTC reviews advertising for issues of (1) unfairness, (2) deception, and (3) substantiation to ensure that commercial advertising is not deceptive or misleading. Many states also have consumer protection agencies, sometimes called "Little FTCs", which protect consumers at the state level. Section 43(a) of the Trademark Act (15 U.S.C. §1125(a)) allows private action by prohibiting commercial advertising or promotion which "misrepresents the nature, characteristics, qualities, or geographic origin" of the goods, services, or commercial activities. Section 43(a) has become a powerful tool for competitors to fight false and misleading advertising generally.

In addition, the U.S. has advertising guidelines concerning specific goods and services, both at the federal level as

well as the state level. These advertising guidelines are separate from labeling regulations, and focus on key highly regulated products and services, including alcohol, tobacco and pharmaceuticals, as well as services in the legal and medical fields. There are thousands of such regulations at the federal and state level, focusing on many diverse goods and services. The specifics of regulations concerning principal areas are as follows:

Pharmaceuticals: The general authority to regulate professional or direct to consumer (DTC) pharmaceutical advertising is delegated to the Federal Food and Drug Administration (FDA), pursuant to 21 U.S.C. §352(n). Over the years, the FDA has worked with the FTC pursuant to the FTC's authority in Section 5. Both agencies take primary responsibility for different forms of professional or DTC advertising for pharmaceuticals, namely, the FDA for prescription (ethical) medications and the FTC for over-the-counter (OTC) medications. The FDA advertising regulations require that the advertising include a summary of the package insert information, and "fair balance" between claims on safety and/or effectiveness and relevant side effects, but cannot include promotion of unapproved uses or pre-approved products (21 U.S.C. §§331, 335). For OTC medications, the FTC requires its general analysis of (1) unfairness, (2) deception, and (3) substantiation in the advertising.

Tobacco: A voluntary ban on television advertising is in effect, with the new tobacco settlement cases addressing additional advertising bans and corrective advertising to redress some of the more aggressive print advertisements directed at younger tobacco users. Moreover, in 1996, the FDA asserted jurisdiction over sale and promotion of cigarettes and smokeless tobacco to children under new regulations in which nicotine, an ingredient in these products, was regulated as a drug, and cigarettes and smokeless tobacco were considered drug delivery devices (21 CFR 897, 61 Fed. Reg. 44396, 44615). These regulations are now being legally challenged (on April 26, 1999 the U.S. Supreme Court granted certiorari to review the regulations).

Alcohol: A voluntary ban of television advertising for liquors and spirits has been in effect. The national television networks still do not accept liquor advertising but independent stations and cable systems are now showing advertising for one liquor producer.

Gambling: In many states, restrictions or even bans on advertising of casino gambling are in effect since this activity is unlawful in those states. In the U.S. Supreme Court opinion in **Posadas de Puerto Rico Association v. Tourism Company of Puerto Rico**, 478 U.S. 328 (1986), the Court held that Puerto Rico could ban gambling advertising since it had the power to regulate the underlying activity. This approach was also adopted in **United States v. Edge Broadcasting Company**, 509 U.S. 418 (1993) concerning lottery advertising.

Legal and Medical Services: Many states have promulgated advertising restrictions for legal and medical professionals. An example are New York State regulations as follows: Lawyer Advertising: Disciplinary Rule 2-101; Physician Advertising: NY CLS Educ §6530(27). The effectiveness of these regulations on individual professions has been the subject of recent litigation. Clearly, outright bans on professionals advertising no longer exist.

1.2 Are these rules that are penal in character? What are the sanctions, if any?

These rules do have penal aspects, but such sanctions are rarely invoked. The most common sanctions are statutory fines.

1.3 Do they contain provisions that are specific to trade marks or does their application to trade mark law result from the general character of such provisions?

The application of these rules to trademark law results from the general character of the provisions, since such rules do not specifically target trademarks for regulation. However, the level of likelihood of confusion in a trademark infringement case may be higher in a "speech" case as opposed to a "product" case.

2. The influence of restrictive rules in respect of advertising on validity and proceedings for the registration of marks

In many countries, trade mark law has rules which prohibit registration as a trade mark of signs which are contrary to public order or morality or the use of which is prohibited by law.

2.1 The Groups are invited to reply to the question whether the legislation in their respective country relating to restrictive advertising measures prohibits or in contrast allows registration of a mark in respect of products or services in relation to which advertising is prohibited or strictly regulated.

It is appropriate to recall that the TRIPS Agreement lays down the rule whereby grounds relating to public order are not to prohibit the registration of a right; even if the exercise thereof is subject to prohibitions.

In the U.S., the Trademark Act (Lanham Act 15 U.S.C. §1051, et seq.) does not restrict the types of trademarks to be registered depending upon the specific goods or services which are the subject of an application to register the a trademark. There is a provision in the Trademark Act, namely §2(a) (15 U.S.C. §1052(a)), which states that a trademark shall be refused registration if it "consists of or comprises immoral, deceptive or scandalous matter". However, this section has not been viewed to apply to the underlying goods or services which may be subject to advertising restrictions but rather to the trademark itself.

2.2 Can third parties, for example consumer associations or official services such as the fraud prevention service, intervene in the course of registration proceedings to resist a mark being registered in respect of products or services in relation to which advertising is regulated or prohibited?

2.3 Can the proprietor of an application for registration of a mark in respect of which advertising is prohibited request at least a provisional registration for the purposes of seeking protection in other countries?

2.4 If a mark which is lodged in respect of products or services in relation to which advertising is prohibited is the subject of a registration, can third parties contest the validity of such a registration and, if so, within what period?

Does a particular procure exist for contesting validity of trade marks in that way and, if so, what is it?

As stated in the answer to 2.1, registration of a trademark in the U.S. is not subject to any advertising restrictions concerning the underlying goods or services which are the subject of the trademark application.

3. The influence of restrictive advertising measures on the exercise of a trade mark right

A trade mark affords the proprietor thereof an exclusive right to exploit the sign, in particular to designate the products and services referred to in the registration.

Restrictive advertising measures have the effect of preventing the proprietor of trade marks from exploiting them in certain forms and indeed even preventing him from using advertising for the products and services in respect of which the mark is deposited.

However, the prohibition on advertising does not generally signify a prohibition on the commercialization of products, the sale or use of which are either free or regulated.

3.1 To what extent do advertising restrictions affect the need for exploitation of a mark in order to escape the sanction of cancellation for which provision is made in many legal systems?

In the U.S., mere advertising of a trademark is not considered trademark use sufficient to satisfy user requirements in connection with a possible cancellation of a trademark registration on the ground of abandonment of trademark rights due to non-use with an intention not to resume use since the U.S. requires "affixation" of the mark to the goods (Trademark Act §45 (15 U.S.C. §1127). Accordingly, any advertising restrictions in the U.S. do not directly affect trademark registration cancellation. However, advertising is sufficient service mark use, and thus advertising restrictions may affect the maintenance of service mark rights. Of course, infringing advertising may still be actionable under Section 43(a), but this does not directly address the cancellation issue. Moreover, Section 39(b) prohibits the U.S. or state governments from requiring alteration of registered trademarks, thus providing additional protection for trademark owners.

3.2 The rules relating to restrictions in regard to indirect advertising can affect in particular the right of the proprietor of a trade mark which is deposited and exploited in relation to products or services which are not subject to measures prohibiting advertising and which is constituted by a sign that is identical or virtually identical to what

which is exploited by a third party in relation to the products or services which are the subject of an advertising prohibition or regulation. This more particularly involves the application of provisions which prohibit indirect advertising promoting products or services that are subject to advertising restrictions or prohibitions, as in situations in which in particular the same sign constitutes a trade mark used in relation to mass-consumption products such as cosmetic products or clothing and in relation to products which are dangerous to health, such as cigarettes.

On that assumption, notwithstanding the rule of specialty, can the proprietor of the mark relating to products or services which are the subject of free advertising ask that the mark which is registered in respect of products or services being the subject of the advertising regulations be cancelled or removed from the register?

Conversely, can the proprietor of a trade mark which is deposited in respect of products or services for which advertising is regulated or prohibited ask for cancellation or revocation of the mark which is constituted by the same sign and deposited in respect of the products or services which are not subject to the regulations relating to advertising?

3.3 The rules providing for a prohibition on indirect advertising can also apply when a mark belonging to a single proprietor covers both the products or services which are subject to the prohibition on advertising and the products or services in respect of which advertising is free. That is the case in particular when the proprietor of a mark used in relation to mass-consumption products also lodges it to designate the products or services which are subject to restrictive advertising measures, either seeking to benefit from the reputation of his mark or seeking to prevent third parties from using the same mark for such products or services.

Can the proprietor of a mark which is registered both in respect of the products or services which are not the subject of an advertising restriction and in respect of the products or services which are subject to such a restriction not use the mark in relation to the products or services being the subject of the measures prohibiting advertising and nonetheless keep it for the same products or services?

Conversely, can the proprietor of a mark which is registered both in respect of the products or services which are not the subject of an advertising restriction and in respect of the products or services which are subject to such a restriction not use the mark in relation to the products or services in respect of which advertising is free and nonetheless keep it for the same products or services?

As stated previously, registration of a trademark in the U.S. is not subject to any advertising restrictions concerning the underlying goods or services which are the subject of the trademark application.

3.4 It cannot be disputed that advertising constitutes an important if not essential way of making a mark known and thus contributing to its repute. If the proprietor of a mark finds himself prevented from using advertising, should there be applied to his mark the same criteria in regard to repute as in relation to marks designating products or services which are not subject to advertising restrictions?

Advertising restrictions will affect the ability of the trademark owner to expand the reputation and fame of its trademark and thus circumscribe possible famous mark protection under §43(c) of the Trademark Act (15 U.S.C. §1125(c)) in which the famous trademark owner is entitled to protection against trademark dilution. In particular, §43(c)(1)(C) specifically states that a fame factor is "the duration and extent of advertising and publicity of the mark". Accordingly, by their very nature advertising restrictions tend to undermine the ability of a trademark owner to create a famous trademark entitled to dilution protection under the U.S. or certain state trademark statutes. Apart from the trademark statute, the lack of the ability to advertise certain products undermines the ability of the trademark owner to create an expanding reputation for its trademark and could undermine the strength of the trademark which is a factor in determining likelihood of confusion. As to whether there should be different criteria depending upon what the underlying goods or services are, the U.S. Group would need to have more experience with the current dilution statute to determine any adverse reactions, since lack of advertising is not a total ban for protection as a famous trademark but merely one of many factors to be considered. The mere existence of advertising restrictions per se should not specifically undermine famous trademark protection.

3.5 Does the existence of regional marks such as the Community Trade Mark have an effect on the questions raised above? More precisely, the Community Trade Mark system is characterized by its unitary character. A cancellation

action in one country in the European Union means cancellation of the mark in all of the countries of the Union; is there not a risk of restrictive advertising measures which are different from one country to another having consequences on a Community trade mark?

This question is not applicable to the U.S.

4. Possible harmonization of the existing national systems

4.1 set out possible difficulties in terms of application of their national regulations;

As stated in the Introduction, the U.S. follows a self-regulation model, not a government regulation, for advertising restrictions. Advertising restrictions in the U.S. are promulgated with caution in view of the questionable constitutionality of such restrictions due to a possible conflict with the First Amendment of the U.S. Constitution, which protects freedom of speech. Accordingly, the U.S. Group is satisfied that the current self-regulation compliance model is acceptable to trademark owners who wish to preserve and expand their trademark rights.

4.2 state the provisions which would mainly have to be amended and improved as regards the influence of restrictive advertising measures on:

- *validity of trade marks; and*
- *exercise of a trade mark right and in particular the obligation to exploit same;*

As stated in 3.1, the U.S. trademark law does not recognize advertising as a form of trademark use (but does for service marks) and thus such advertising will not specifically relate to trademark registration cancellation proceedings (but may for service marks).

4.3 propose rules for harmonization at an international level, in particular as regards the provisions referred to in 4.2.

The U.S. Group proposes that rules for harmonization at the international level favorably examine the U.S. voluntary compliance model, which encourages the protection of freedom of commercial speech. Although the WTO TRIPS Agreement does recognize that certain restrictions on intellectual property rights can be justified for health and public interest concerns (TRIPS Article 8(1)), it is the view of the U.S. Group that overregulation of advertising and, more importantly, outright bans on trademark use and registration of a trademark for other goods are excessive and unnecessary. Moreover, as more jurisdictions adopt new constitutions and legal instruments similar to the U.S. Constitution and its Bill of Rights (which includes the First Amendment), these jurisdictions may need to reexamine their approach to advertising restrictions and may review the U.S. approach more carefully.

Conclusion

At the moment, the U.S. law on the issue of advertising restrictions clearly supports the free dissemination of information, whether in print, on television, on radio, or on the internet which is at the heart of the advertising message. This U.S. freedom of speech concept as applied to commercial speech, together with the self-regulation model for advertising restrictions, should be favorably examined by others.

Summary

Although there are advertising restrictions for specific lawful goods and services in the United States, the overall regulatory scheme has been conducted through a self-regulation model as opposed to a government regulation model. The main reason for this approach is the long-standing U.S. tradition of free enterprise and free speech as embodied in the U.S. Constitution, which in its First Amendment protects freedom of speech. This protection has not been limited to public discourse on political issues and extends to advertising as well.

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