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# Balkan Yearbook of European and International Law 2021

 Springer

# **Balkan Yearbook of European and International Law**

Volume 2021

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Zlatan Meškić • Enis Omerović  
Editors

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# Preface

The legal systems of Southeast Europe are in transition for over three decades. Following the profound political and economic changes in the early 1990s, they took their own ways of development, sharing not only their legal history but also the continuous influences deriving from the European and international law. The intensity by which EU law affects the regional developments is very strong in all national legal systems of Southeast Europe, while the variances depend largely on the progress each country has made toward the EU membership. In addition, legal obligations under international law are continuous challenges for these countries.

*The Balkan Yearbook of European and International Law (BYEIL)* aims at providing insights into recent developments in European and international law and presents a forum for scholarly discourse on these areas of law from the perspective of Southeast Europe. While the BYEIL's focus is on the Southeast European region, its scope is not limited to that region and contributions concerning the issues in European or international law in general are welcomed as well. This policy is reflected in the contents of the BYEIL. Besides these two sections, each issue of the BYEIL is devoted to a particular topic.

The third issue of the BYEIL is devoted in particular to the specific legal challenges that the Southeast European countries are facing in the area of intellectual property law. In five papers, authors discuss topics in Serbian and Bosnian and Herzegovinian copyright, trademark, and patent laws, whose relevance extends beyond their national borders. The papers published in the permanent sections on European law and international law explore contemporary challenges in public and private law disciplines. They stretch across various legal fields, including consumer

law, commercial law, company law, and criminal law, and tackle some of the fundamental theoretical matters as well as portray the most recent developments in legal practice.

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**Part I**  
**Intellectual Property Challenges**  
**in South-East Europe**

# The Referential Use of Another's Trademark in the Context of Comparative Advertising



Slobodan M. Marković

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## 1 Introductory Remarks

This topic leads us in the field of trademark law and unfair competition law.

By the referential use of another's trademark, we mean the act of a person who is not the holder of the respective trademark, but who uses that mark in public communication for the purpose of identifying or indicating the goods/services (hereinafter: products) of the trademark holder. The term "nominative use" is

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sometimes employed as a synonym.<sup>1</sup> In its broadest sense, the referential use includes all cases in which someone, through another's trademark, gives any public statement/information about the products of the trademark holder. This can be part of news reporting, creative expression, advertising, offering one's own products as compatible with the products of the trademark holder, etc. We shall limit our considerations to cases where referential use takes the form of information addressed to consumers for the purpose of influencing their market decisions. Sometimes, the sender of this information is an entity that is not a competitor of the trademark holder (e.g. the trader advertises which brands are represented in his shop).<sup>2</sup> Sometimes, on the other hand, the sender of the information is a competitor of the trademark holder.

The relevant legislation in the European Union (hereinafter: the EU), at the moment, consists of: the Directive on the harmonization of laws relating to trademarks<sup>3</sup> (hereinafter: the Directive on Trademarks), the EU Trademark Regulation,<sup>4</sup> the Unfair Commercial Practices Directive in the business-to-consumer relationship in the internal market<sup>5</sup> (hereinafter: the Unfair Competition Directive) and the Misleading and Comparative Advertising Directive<sup>6</sup> (hereinafter: the Advertising Directive).

In Serbia, as a country in the process of joining the EU, the relevant legislation, which is more or less harmonized with the mentioned EU legislation, consists of: the Law on Trademarks<sup>7</sup> (hereinafter: LOT), the Law on Trade<sup>8</sup> (hereinafter: LOTrade) and the Law on Advertising<sup>9</sup> (hereinafter: LOA).

The issue we shall deal with concerns the permissibility of referential use of another's trademark without the consent of the trademark holder. The answer to this question is not simple. The matter is challenging since certain legal norms require a deeper understanding of their meaning and purpose, so that the effect *summum ius summa iniuria* can be avoided. The problems we are talking about can only be

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<sup>1</sup>Max Planck Institute for Intellectual Property and Competition Law (2011), p. 102.

<sup>2</sup>The trademark holder sold to the trader the labeled products for retail sale, and the exclusive right of the trademark holder to further market these products was exhausted.

<sup>3</sup>Directive (EU) 2015/2436 of the European parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks (Official Journal of the European Union L 336/1).

<sup>4</sup>Regulation (EU) 2017/1001 of the European parliament and of the Council of 14 June 2017 on the European Union trade mark (Official Journal of the European Union L 154/1).

<sup>5</sup>Directive 2005/29/EC of the European parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market (Official Journal of the European Union L 149/22).

<sup>6</sup>Directive 2006/114/EC of the European parliament and of the Council of 12 December 2006 concerning misleading and comparative advertising (Official Journal of the European Union L 376/21).

<sup>7</sup>Official Gazette of the Republic of Serbia, No. 6/2020.

<sup>8</sup>Official Gazette of the Republic of Serbia, No. 52/2019.

<sup>9</sup>Official Gazette of the Republic of Serbia, No. 6/2016 and 52/2019.

partially remedied by appropriate interventions in the legal text, while the rest is left to the ability of the judiciary to apply the law purposefully.

## 2 Critique of the Text of LOT from the Aspect of Its Harmonization with the EU Directive on Trademarks

The issue we are dealing with concerns the content and the limits of the trademark holder's right. In other words, we need to understand what prohibitive rights the trademark holder has in relation to third parties, how far they reach, and where the freedom of third parties to use someone else's trademark begins.

Our legislator incorrectly titled the provision of Article 49 of the LOT, which defines the exclusive rights of the trademark holder, with "Scope of the rights of the trademark holder".<sup>10</sup> This editorial flaw is harmless from the aspect of the interpretation and application of this legal norm. However, the matter becomes very problematic in the wording of paragraph 3 of the same article, which lists the exclusive rights of the trademark holder. This paragraph begins with the statement: "In terms of paragraph 2 of this Article, the trademark holder has the right to prohibit in particular: . . ." (the list of exclusive rights follows). The phrase "in particular" was translated into Serbian as "i sledeće" which means "and the following" or, more descriptively, "not only what is enumerated, but also something else." In this way, the legislator resorts to a formulation that makes this list of exclusive rights open, not closed.<sup>11</sup> It is not difficult to grasp the origin of this nomotechnical weakness: it is a failed translation of the beginning of paragraph 3, Article 10 of the EU Directive on Trademarks, which reads in English "The following, in particular, may be prohibited under paragraph 2". Quite specifically, the term "in particular" is translated to mean "especially". Indeed, this meaning of the term "in particular" exists in the English language, but there is also a meaning that only makes sense in this context, and that is "specifically" or "that and nothing else."<sup>12</sup> The whole problem can be solved by deleting the word "i" ("and") from the Serbian text. The fact that this oversight persisted despite several previous amendments to the LOT indicates that neither the legislator nor the professional public have any idea of the potential problem of too broad a linguistic definition of the rights conferred by trademark, thus leaving the door open for the trademark holder to prohibit certain cases of use of his trademark,

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<sup>10</sup>The corresponding provision of Article 10 of the EU Directive on Trademarks is entitled "Rights conferred by a trademark". Obviously, content (rights conferred) and scope (outreach of the rights conferred, limitations etc.) are two different notions.

<sup>11</sup>The same mistake was made by the Croatian legislator when formulating Article 11, paragraph 3 of the Trademark Act (Official Gazette No. 14/2019). Such a mistake, however, was not made by the Montenegrin legislator. See Article 10 and Article 11 of the Law on Trademarks (Official Gazette of Montenegro No. 72/2010, 44/2012, 18/2014 and 40/2016).

<sup>12</sup>Cambridge Dictionary Online, <https://dictionary.cambridge.org/dictionary/english/particular?q=in+particular>.

although they cannot be subsumed under any of the points of paragraph 3, Article 49 of LOT.

There is another serious omission of the Serbian legislator in the harmonization of LOT with the EU Directive on Trademarks. Namely, the provision of Article 14, paragraph 1, point 3 of the Directive<sup>13</sup> has not been fully transposed in Article 54, paragraph 2, point 3 of the LOT. It omits that the trademark holder may not prohibit another person from using that mark in commercial transactions in accordance with good business practice for the purposes of identifying or referring to the goods or services of the trademark holder himself. Instead, our legislator has prescribed only one permitted form of referential use of someone else's trademark, and that is when its use is necessary to indicate the purpose of the goods or services, especially when it comes to spare parts or accessories. So, our legislator simply ignored the part of the text of the EU Directive on Trademarks, which is completely new in relation to the previous EU Directive on Trademarks from 2008.<sup>14</sup> There is one ironic moment in guessing what could be the reason for that. Namely, the general rule on the admissibility of referential use, on the one hand, and the example (that our legislator took over), on the other hand, the EU legislator connected with the words "in particular". This time, however, he had in mind the opposite possible meaning of those words: "especially", and not "that and nothing else". It turns out that our legislator, again completely ignoring the context, in this case also chose the wrong meaning of the English phrase "in particular".<sup>15</sup>

Although these issues will be dealt with in detail later, we shall present here only one example of the consequences of the mentioned legislative flaws. It is a common practice for traders to advertise by using trademarks of products they procured for retail purposes.<sup>16</sup> In respect to those products, of course, the exclusive right of the trademark holder to put them on the market is exhausted, but there is no exhaustion of the exclusive right to use the trademark for the purposes of advertising the products. According to the EU Directive on Trademarks, this practice unequivocally falls within the permitted forms of referential use, while according to the LOT it unequivocally represents a trademark infringement. Such a discrepancy between the EU Directive on Trademarks, and the "harmonized" LOT is simply not an acceptable situation.

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<sup>13</sup>"A trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade, the trade mark for the purpose of identifying or referring to goods or services as those of the proprietor of that trade mark, in particular, where the use of the trade mark is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts."

<sup>14</sup>Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks (Official Journal of the European Union L 299).

<sup>15</sup>In this confusion, there is no need to absolve the EU legislator from responsibility for the use of linguistic phrases whose meaning is ambiguous. It is a great nomotechnical weakness.

<sup>16</sup>For example, INTERSPORT, a Serbian retail chain for sports shoes, clothes and gear of various brands, advertises by using the trademarks of the products on offer: "Adidas", "Puma", "Nike", etc.

### 3 Theoretical and Legislative Framework

#### 3.1 Trademark Functions

The most difficult problems of the practical application of today's trademark law stem from the ambiguity of views on the purpose of trademark law, or more specifically, the functions of a trademark that are legally protected. Ample literature has been published on this subject. To save space and keep the reader's attention, we take the freedom to start with some commonplace statements,<sup>17</sup> and to take a step further from there. So, the following is indisputable.

- (a) Since the historical beginnings of the legal protection of distinctive marks up to the present day, the dominant function of the trademark has been to protect/ensure the credibility of information on the origin of the labeled product. The implied guaranty of the quality of the labeled product naturally relies upon this function. These two functions are the basis for the complementarity of the interests of trademark holders, on the one hand, and consumers, on the other. Namely, due to the reliability of the information on the origin of the labeled product, the consumer also believes in the consistency of its quality, on the basis of which he makes purchasing decisions. At the same time, the supplier of goods, i.e. the trademark holder thus has an incentive to maintain the quality of his product and to improve it, in order to ensure the loyalty of consumers. The cumulative effect of this interaction is to enable competition in the market.
- (b) Since the third decade of the twentieth century, the idea that trademark law must provide immediate protection to an advertising function of a trademark has emerged.<sup>18</sup> This idea follows the evolution of marketing practices whose mission of building consumer awareness of the existence of a labeled product turns into a mission of persuading consumers to procure that product. The general term for the intangible value that trademark holders build and exploit in this way is REPUTATION of a trademark. In the last few decades, the trend of direct protection of reputation, completely independent of the protection of indicating the origin of products, has aggressively expanded in the trademark law.
- (c) The correspondence between a particular legal good and a particular public interest in the cases under a) and b) is somewhat different. Thus, the trademark, as a form of legal protection of the credibility of information on the origin of products, serves the function of reducing transaction costs, which enhances the efficiency of the market. This is certainly in the public interest. However, with the trademark as a form of direct legal protection of the reputation of the mark,

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<sup>17</sup>*Manifesta haud indigent probatione* (what is known requires no proof). This paper is addressed to trade mark specialists who don't need the meticulously sorted scientific references in order to take a position on accuracy of the statements under a), b) and c) above.

<sup>18</sup>The advertising function of a trademark has always existed, but not as an independent one and directly protected. It was indirectly protected since derived from the function of indicating the origin of the product.

the only public interest can be seen in the concept of abstractly understood property as one of the central social values from the arsenal of natural/human rights.<sup>19</sup> The logic of this view is that the trademark holder has INVESTED in the reputation of his mark, and that the protection of this investment must be covered by the functions of the trademark. In recent literature, this is increasingly referred to as the investment function of a trademark.<sup>20</sup>

Summarizing the presented views, we can state that today's trademark law has two focuses. The traditional one is the protection of the indication of origin of the labeled product; the modern one is the protection of the reputation of the mark as such (investment function of the trademark). The said dualism of focus is in fact a current reflex of the historical dualism of private law frameworks for the protection of distinctive marks: the trademark law and the unfair competition law.

### ***3.2 Interaction of Trademark Law and Unfair Competition Law***

It is common knowledge that distinctive marks have been used for more than 2500 years. The socio-historical conditions that have led to the need for a systematic legal regulation of their use can be roughly reduced to the following:

- the collapse of the medieval system of guilds, as a consequence of the industrial revolution, the abandonment of artisanal production and the establishment of a competitive market in early nineteenth century Europe;
- mass production and development of transport that increased the distance between the producer and the market for his products, as well as the time gap between production and consumption;
- the collapse of the traditional system of trust in producer-consumer relations, which existed only in the small local markets.<sup>21</sup>

These circumstances have led to the massive fraudulent labeling of products with other people's distinctive marks, and thus to the escalation of the asymmetry of

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<sup>19</sup>Article 1, paragraph 1 of the Protocol No.1 to the Convention for the Protection of Human Rights and Fundamental Freedoms: "Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law."

<sup>20</sup>The argument about reducing transaction costs and the consequent increase in market efficiency comes from the arsenal of so-called utilitarian doctrine, while the argument about investing comes from the spheres of natural law and law on human rights. This is a reflection of a deep theoretical dichotomy that permeates the law on trademarks, and which can be reduced to the fact that there is no single position on what is meant when it is said that a trademark is the "intellectual property" of its owner.

<sup>21</sup>Dornis (2017), pp. 10–12. The author refers to an abundance of sources that plastically depict the extent of fraud and confusion due to the use of other people's distinctive marks in the market.

information between suppliers and consumers. The first reaction of the legislator was the criminalization of such a practice and the threat of criminal sanctions. Obviously, the legislator put consumers in the center of protection against fraud, by protecting their interest in obtaining true information about the origin of products on the market.<sup>22</sup>

Although criminal protection of trademarks still exists today, it is the last one we think of when we talk about trademarks. The process of migration of protection of distinctive marks from the sphere of public (criminal) law to the sphere of private law is the result of the private nature of entrepreneurship as an expression of freedom of economic activity. This is where the bifurcation in the development of legal protection of distinctive marks begins: one stream represents the law on unfair competition, and the other the law on trademarks. The first established protection in the form of a tort lawsuit against the act of using someone else's distinctive mark contrary to good business practice; the other established protection in the form of an absolute exclusive right (trademark). The common private law denominator of both fields of law is empowering a legal person that uses a certain distinctive mark, to start a private lawsuit before a civil court in order to defend itself from third parties who use its mark without its consent, and thus compromise its market position.<sup>23</sup>

This, compared to criminal protection, has changed the emphasis in the protection mechanism. The public interest in preventing fraud and deception on the market was the goal in criminal law, and the protection of the interests of trademark holders was a consequential effect. In the private law protection regime, the matter is a bit more complicated. In the unfair competition law, the immediate goal remained the protection of the competitive market, but the interest of the holder of the trademark was instrumentalized for that purpose. In trademark law, on the other hand, the immediate goal becomes the interest of the trademark holder, and the prevention fraud and deception in the market becomes a consequential effect.

By focusing on the interests of the trademark owner, who has been given the legal authority to prohibit another (under certain conditions) from using his mark in commercial transactions, the basis of the idea of ownership over the mark has been formed. These "proprietary" powers originally arose from the fact that the mark really functions as a means of indicating the origin of the labeled product on the

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<sup>22</sup>Prussian Criminal Code of 1851 (Art. 269), then the Criminal Code of the German Empire of 1871 (Art. 287). See details in Dornis (2017), p. 13, 14.

<sup>23</sup>For the sake of precision, we must draw attention to one nuance. Namely, according to the unfair competition law, consumers (through their associations) also have the right to sue. On this basis, one can understand the dichotomy "propertization vs. socialization", which some authors see in the relationship between trademark law and unfair competition law. See Dornis (2017), p. 50. Time has confirmed the appropriateness of this observation. It can be seen from Article 1 of the EU Directive on Unfair Competition, which states: "The purpose of this Directive is to contribute to the proper functioning of the internal market and achieve a high level of consumer protection by approximating the laws, regulations and administrative provisions of the Member States on unfair commercial practices harming consumers' economic interests." It is evident that there is no mention here of the rights of economic entities.

market.<sup>24</sup> In Germany and in a number of other European countries, soon after, the administrative proceedings for the registration of trademarks were introduced. The registration created a firm distinction between trademark law, on the basis of which the subject acquires the exclusive right to a registered trademark, and the unfair competition law as a form of protection for an unregistered trademark. At the same time, a hierarchical relationship was established between them, which provided stronger protection to the registered trademark than to the unregistered one.

In the United States, the development was different insofar as trademark registration was made possible only with the enactment of the federal Lanham Act in 1946. Until then, the protection of trademarks was based only on common law rules. More precisely, within the unfair competition law (being a part of common law), a corpus of rules that can be called common trademark law crystallized. The actual use of a certain mark to distinguish certain goods on the market was until 1946 the only way to acquire a trademark as an exclusive right; afterwards, it became an alternative to the registration of a trademark in administrative proceedings. This informality in acquiring a trademark has made the dichotomy between trademark law and the unfair competition law less pronounced in the United States than in Europe. Namely, the fact that the state creates a trademark as an exclusive right by its sovereign act, has become the main demarcation between trademark law and unfair competition law in Europe. In contrast, the prevailing view in the United States has always been that this is only a technical matter, and that the essence of both legal fields is the same: the protection of goodwill as an intangible asset owned by the trademark holder.

Until the middle of the twentieth century, the distinction between trademark law and unfair competition law in Europe resulted in legal practice reaching for trademark law in classic cases of infringement of a registered trademark because of confusion about the origin of products. At the same time, unfair competition law served for the protection against confusion caused by the use of unregistered marks, as well as against all other uses of registered and unregistered marks, in which an element of contradiction to good business practices could be detected (unfair/dishonest conduct in the market).

If we look at today's situation, we can notice a trend of intertwining of trademark law and unfair competition law. On the one hand, certain institutes of the unfair competition law spill over into the trademark law. The most striking example is the institute of the famous (renowned) trademark, whose protection against dilution was traditionally located in the unfair competition law, and now represents an integral part of the trademark law.<sup>25</sup> Another example concerns the criterion of fairness/unfairness as a measure of the permissibility/prohibition of a certain act. This

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<sup>24</sup>This is the core of trademark's goodwill (German—*Verkehrsgeltung*).

<sup>25</sup>In the USA, this was done through the Federal Trademark Dilution Act of 1995. In Europe, see Article 10, paragraph 2, item c) of the EU Directive on Trademarks; Article 9, paragraph 2, item c) of the EU Trademark Regulation; Article 56, paragraph 2 of the LOT. At the international level, see Article 16 of TRIPS Agreement.

criterion is intrinsic to unfair competition law, but it is now integrated into trademark law as a criterion for trademark infringement.<sup>26</sup> On the other hand, confusion regarding trademarks has become one of the criteria for determining the act of unfair competition.<sup>27</sup> Conclusively, there is no longer an unambiguous prevalence of trademark law in relation to unfair competition law.

Based on these facts, the literature suggests that the protection of distinctive marks via unfair competition law and via trademark law shows a trend towards the consolidation of objectives, and, moreover, the unification of these two legal areas.<sup>28</sup>

### 3.3 Consolidation of Goals

Since the permissibility of comparative advertising as a form of referential use of another's trademark cannot be discussed without relying on both unfair competition law and trademark law, it is crucial to comprehend the consolidated goals of both branches of law. This is for the simple reason that all forms of use of another's trademark, which are compatible with these purposes, must be legally permitted, regardless of the discussions that are taking place about the functions of trademark. More specifically, these consolidated objectives must be reflected in the functions of trademark.

Let us start with the least controversial statement: labeling products with distinctive marks is a form of social communication. This statement calls for the need to look at this communication through the eyes of semiotics (the science of signs). The theory is dominated by the so-called triadic concept of a sign (mark), according to which a distinctive mark can be broken down into its three necessary components: (a) a verbal, graphic or three-dimensional signifier, (b) a specific commodity that is labeled and (c) information on the labeled commodity, such as goodwill (signified).<sup>29</sup> Therefore, when an economic entity labels its products and puts them on the market, it sends information to the consumer about its products. Since the consumer is a "referee" in market competition, competitors provide him with information through their trademarks, helping him to navigate the market and orient himself when deciding to enter a specific transaction. Hence, the correctness (which implies

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<sup>26</sup>In the EU Directive on Trademarks, the term "unfair" is mentioned once in the preamble, and then in Article 5, paragraph 3, item a); in the EU Trademark Regulation it is mentioned in Article 9, paragraph 2, item 3; in LOT it is mentioned in Art. 6, para. 1, item 4 and Art. 56, para. 2.

<sup>27</sup>EU Unfair Competition Directive, Article 6, para.2, item a). At the same time, the EU Directive on Trademarks and the EU Trademark Regulation stipulate that the trademark owner has the authority to prohibit another from using his trademark, if such use violates the norms of unfair competition law, which regulate comparative advertising. These provisions have their counterpart in Serbian LOT and LOA.

<sup>28</sup>Dornis (2017), p. 239.

<sup>29</sup>Beebe (2004), p. 646. Inspired by the semiotic theory of Charles Sanders Peirce, the author discusses the fundamental issues of trademark law: the subject matter and scope of protection.

truthfulness in the first place) of information is the main condition for the functioning of the market based on consumer decisions. That is how the economic meaning of product labeling is established: information on the origin of the product (and indirectly on its quality) → reduction of transaction costs → market efficiency. Therefore, the trademark serves the function of economization of the process of informing the consumer about products on the market.<sup>30</sup>

Returning to the fields of trademark law and unfair competition law, we must conclude that their common (consolidated) goal is, first and foremost, to ensure the free flow of information to help the consumer make an economically rational (or at least informed) decision, that is, to prevent the flow of information that is not serving that function. That is why the prevention of consumer deception, i.e., the prevention of misleading labeling of products, has always been in the center of attention of both branches of law. A very pictorial way to define the information value of a trademark, which (value) is thus protected, is navigation information, or **navigation goodwill**.

But, as we have already indicated, trademarks are, due to various advertising techniques, carriers of additional information that can be generally tagged as reputation. Manipulating the will of the consumer through the reputation of the trademark is based on the scarcity of immaterial goods such as exclusivity, prestige, diversity, etc. The consumer's decision to obtain a trademarked product is thus attributed predominantly to his will to obtain the immaterial goods that the trademark symbolizes, rather than the product *per se*. In a word, by purchasing a product, the consumer appropriates the immaterial value of trademarks' symbolic meaning. This value, called BRAND in modern parlance, is an upgrade over navigation goodwill, and can be termed **surplus goodwill**.<sup>31</sup> The current issue of trademark law and the unfair competition law is to what extent and in what way it is possible and necessary to protect this surplus goodwill. In trademark law theory, those trademark functions that go beyond the scope of preventing confusion about the origin/quality of the product, in particular the investment function, are directly related to this issue.

To summarize, we can localize the issue of referential use of someone else's trademark in the field of relations between the legal policy that protects navigation goodwill and the legal policy that protects surplus goodwill. More precisely, the question is whether this second policy can limit or compromise the first one. If the answer is no, the referential use of another's trademark, which is in the function of

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<sup>30</sup>Landes and Posner (1987), p. 269.

<sup>31</sup>We owe the terms 'navigation goodwill' and 'surplus goodwill' (which make up the information asset of the trademark holder), as well as a successful explanation of the concepts they denote to T. Doris: "Two different scenarios can thus be distinguished. The first consists of cases where the consumer is actually or potentially confused. In these situations, the consumer's referee function is impeded; damage will occur as a result of distorted decision making and transacting. What is affected in these cases is navigation goodwill. The second scenario, by contrast, comprises cases where the consumer's market transaction remains unmanipulated in terms of information correctness and the freedom of decision making. These cases may be characterized as protecting a different category of trademark goodwill—concretely, surplus goodwill. Protection then especially focuses on a trademark's prestige, association-creating capacity, or scarcity-signaling properties." See Doris (2017), p. 358. We shall continue to use these pictorial terms in this paper.

correctly informing the consumer, cannot be prevented by reasons related to the protection of the reputation of that mark. If the answer, in turn, is positive, referential use can be prevented, although it would provide accurate information to consumers. As we shall see, the answer is not unambiguous, but it still allows the formulation of certain rules.

#### 4 Comparative Advertising as the Most Legally Sensitive Form of Referential Use of a Trademark

The EU Advertising Directive defines comparative advertising as advertising that “explicitly or implicitly identifies a competitor or a good or service offered by a competitor”.<sup>32</sup> Furthermore, noting that comparative advertising has the potential to harm competition but also to enhance it, the Directive sets as its goal the prescribing of conditions for the permissibility of comparative advertising. Liberalism or strictness of these conditions reflects different accents of competition policy, in different times and countries. The United States is characterized by a traditionally liberal attitude of legal practice towards comparative advertising.<sup>33</sup> Such a practice was also supported by the Federal Trade Commission in its Policy Statement on Comparative Advertising.<sup>34</sup> Moreover, the legislator took such a position when he explicitly excluded cases of using someone else's trademark in comparative advertising from the application of the rules on preventing the dilution of trademarks.<sup>35</sup> It is evident that the *ratio* of such attitudes is based on giving priority to the policy of freedom of

<sup>32</sup>The same formulation was provided by our LOA in Article 14, paragraph 1. Explicit identification exists e.g. in an advertising statement: “Ariel washes what is left behind Merix.” An example of implicit identification could be: “TV Antena, as the second-ranked in terms of rating, has twice as many hours of cultural program as the first-ranked television.” It is not superfluous to mention that the so-called superlative advertising (e.g. “Polly is the cheapest chicken hot dog on our market”) is also a form of implicit identification of all other competitors.

<sup>33</sup>See *Smith v. Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968) at <https://casetext.com/case/smith-v-chanel-inc>. This was a dispute between the holder of the “Chanel” perfume brand and the defendant who advertised his perfumes in a magazine by stating: “We dare you to try to detect any difference between Chanel #5 (\$25.00) and Ta’Ron’s 2nd Chance (\$7.00)”. The court sided with the defendant, assuming that the Chanel product itself was not patented and that the defendant had the right to copy it „for imitation is the life blood of competition. It is the unimpeded availability of substantially equivalent units that permits the normal operation of supply and demand to yield the fair price society must pay for a given commodity.” Therefore, “a competitor’s chief weapon is his ability to represent his product as being equivalent and cheaper.”

<sup>34</sup>See Charlotte J. Romano (2005), p. 378.

<sup>35</sup>See §1125, (c)3 A 1) the Lanham Act: “The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection:

(A) Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person’s own goods or services, including use in connection with—

(i) advertising or promotion that permits consumers to compare goods or services...”

information for consumers. On the other hand, Europe is characterized by a more restrictive position of legal practice<sup>36</sup> and the legislator,<sup>37</sup> which carries out a kind of “censorship of true market information” in order to protect trademark holders.<sup>38</sup>

It is not difficult to assume that true information about a product is most easily communicated to consumers through comparative advertising, because the consumer experience with someone else’s reference product is taken as a benchmark for consumer expectations regarding the product being advertised. Comparative advertising always aims to emphasize a certain superior characteristic of the advertised product, on the basis of which the consumer will choose that product and not the reference product. This practice has a positive effect on market efficiency due to the combination of the two consequences. The first is to eliminate the overestimation of the reference product, and alleviate the anticompetitive effect of the reference product trademark. The second is to eliminate the underestimation of the advertised product, which increases competition.

The only one who suffers here is the reference trademark holder. The question is whether trademark law and unfair competition law provide a basis for protecting his interest in such cases. As we shall see, the answer varies, depending on several factors that can be classified into two groups: factors related to the protection of navigation goodwill and factors related to the protection of surplus goodwill.

On the side of positive law, the criteria for this assessment are mostly contained in the unfair competition law, and the resulting assessment is unreservedly recognized by the trademark law.<sup>39</sup>

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<sup>36</sup>One of the most striking examples is the L’Oréal case (C–487/07) before the European Court of Justice. There, the court took the position that the comparative advertising of the defendants’ own perfumes through the use of Chanel’s trademarks and the message that they smell the same, has elements of trademark infringement, although this does not cause any confusion.

<sup>37</sup>The EU Advertising Directive (Art. 4, para. 1, item g) explicitly prohibits comparative advertising of products that are presented as imitations or replicas of products labeled with someone else’s trademark. The same provision is taken over in Article 14, paragraph 2, item 7 of the LOA of Serbia. That prohibition, through the appropriate blanket norm of trademark law, acquired the status of a basis for trademark infringement. For legal theory, this is, therefore, an example of the prevalence of unfair competition law over trademark law.

<sup>38</sup>Dornis and Wein (2016), p. 430.

<sup>39</sup>See Article 10, paragraph 2, item f of the EU Directive on Trademarks, i.e. Article 49, paragraph 2, item 5 of the LOT.

#### 4.1 *Comparative Advertising and Protection of Navigation Goodwill*

To put it simply, this is an assessment of the permissibility of comparative advertising depending on whether it contributes informing consumers correctly or, on the contrary, misleads them, creating thereby confusion in the market.<sup>40</sup>

The referential use of another's trademark in permitted comparative advertising does not constitute a trademark infringement. If, on the other hand, the specific comparative advertising is misleading (and therefore not permissible) it constitutes a trademark infringement.

Our attention here is drawn to a special category of comparative advertising where the advertised product is presented as an imitation or replica of the reference product labeled with a registered trademark. From the aspect of consumer information and welfare, all the advantages of comparative advertising that have already been mentioned, are especially evident in the advertising of imitation or replica, because the consumer is suggested to have the same experience in consuming the reference and advertised product, with, as a rule, lower price or any other benefit that accompanies the advertised product.

In Europe, this method of comparative advertising is *a priori* not permissible and constitutes an infringement of the reference product trademark. How to explain this absolute ban from the aspect of market efficiency and consumer welfare? It is difficult to defend the hypothesis that this prohibition was based on the irrefutable presumption that any advertising of an imitation or replica is misleading. This is particularly in light of the statements in the preamble of the EU Advertising Directive: (a) for comparative advertising to be effective, it is sometimes indispensable to identify a competitor's products through his trademark, and (b) there is no trademark infringement if the intended target is solely to distinguish between the products and to highlight differences objectively.<sup>41</sup>

It is possible to speculate that this prohibition has to do with the protection of the reputation of the reference trademark i.e. of its surplus goodwill (which is our next topic). Namely, it is reasonable to assume that the reference trademark should already be renown, so that advertising a competing product as an imitation or replica would be effective.

Most probably, however, the ban is a consequence of the lobbying activities of the French cosmetics industry, which wanted to protect the trademarks of its powerful protagonists from competing advertisements of the type "X smells the

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<sup>40</sup>See Article 4 of the EU Advertising Directive, i.e. Article 14 of the LOA. Without intending to present all these criteria in more detail, we can only state that the mere truthfulness of advertising information *per se* does not guarantee that it is not misleading. For instance, it will be misleading if it is used to compare different or irrelevant properties of the advertised and reference product.

<sup>41</sup>See items 14 and 15 of the preamble to the EU Advertising Directive.

same as Chanel 5, but is five times cheaper.”<sup>42</sup> Thus, the legacy of the generally restrictive attitude of French law towards comparative advertising has gained some satisfaction in terms of EU law.<sup>43</sup>

Regardless of the genesis of this prohibition in EU law (as well as in the law of member/candidate states), let us try *ex post* to make some sense of it, if possible. Starting from the fact that it is basically a “perfume clause”, we will examine what can be a problem with the practice of perfume advertising, such as “X smells the same as Y” or “if you like X, you will love Y”. The problem may be the failure to meet one of the main conditions for the permissibility of comparative advertising, and that is the OBJECTIVITY of the information communicated to consumers. With the senses of smell, as well as with feelings of love, approval, enthusiasm, etc. there is no objective and verifiable comparison of the substantial, relevant and representative properties of two or more products. The statement “X smells the same as Y” must be interpreted as a suggestion of the same consumer experience, which does not necessarily mean the objective equivalence of product properties.<sup>44</sup>

Consequently, it seems that the mentioned format of comparative advertising of a product as an imitation or replica of another product would not be permitted, even if there was no explicit prohibition of such an advertising.<sup>45</sup>

However, the problem of prohibition remains in cases where the advertised product has objectively verifiable substantial, relevant and representative properties of the reference product (e.g. X drills are the same in quality and durability as Y drills, at half the price). Since it has no justification in the economic logic of protection of navigation goodwill, the prohibition in these cases must not completely prevent comparative advertising which conveys a message of the objective equivalence of the reference and imitated product. Therefore, it must be interpreted as narrowly and formalistically as possible. In particular, the solution lies in the skill of formulating an advertisement, where it is necessary to avoid the words “imitation” or “replica”, and instead use Aesop’s language, which will convey to consumers the

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<sup>42</sup>Dornis and Wein (2016), p. 432. The authors refer to this as the “French signature in Brussels”, recalling that this prohibition is referred to as a “perfume clause”.

<sup>43</sup>For a detailed insight into French case law, see Romano (2005), p. 379 et seq.

<sup>44</sup>For example, a certain ice cream may taste and smell like raspberries because it is one of the ingredients of the ice cream. Other ice creams can have the same taste and smell, but thanks to the addition of artificial aromas. Thus, there is no objective equivalence between these two products despite the same smell and taste.

<sup>45</sup>In the second instance, the Federal Court of Germany decided on the permissibility of the use of “equivalence tables” (German - *Konkordanzliste*) of perfumes from well-known manufacturers and their imitations i.e. replicas (BGH, Urteil vom 5. 2. 2004 - I ZR 171/01 - Genealogie der Düfte; see <https://lexetius.com/2004,846>). The court’s position is that using such a table in communication with consumers is not a permissible form of comparative advertising because it creates the illusion of equivalence of the reference product and imitation, based on the subjective impression of the consumer about them. It is interesting, however, that the court considers it permissible to use such a list in communication with product dealers, because that communication is not about advertising but about instruction.

message about product equivalence. This view is accepted in German legal practice.<sup>46</sup>

There is one relic of French provenance in the trademark law of Serbia, which is difficult to fit into the last conclusion. It is a provision that explicitly prescribes that adding the words “type”, “manner”, “according to the process” to someone else's trademark is an infringement of the trademark.<sup>47</sup> These words are, as a rule, part of the statement in the comparative advertisement. The EU Directive on Trademarks and the EU Trademark Regulation do not have such a provision. This means that comparative advertising in Serbia is subject to an additional restrictive criterion that does not exist in the EU. Hence, we call on the domestic legislator to see the mentioned connection, and to eliminate this relic from LOT.

## 4.2 *Comparative Advertising and Protection of Surplus Goodwill*

Being a value *per se*, the reputation of the mark is today protected by unfair competition law and trademark law, independently of the occurrence of confusion about the origin of the product. Reputation is the *terminus technicus* that we use to denote the amalgam of fame, distinctiveness and labeling power in the market, making it a means of conveying to consumers not only information about the origin of products, but also other information aimed at promoting sales. So, it is about the “surplus” of information that forms the so-called **brand**.

While the legal protection of navigation goodwill deals with the issue of preventing market confusion, the legal protection of surplus goodwill deals with the issue of the external effect of using a reputable trademark. It consists in the attractiveness that the trademark has for consumers, and its ability to symbolically convey to them the reasons for buying any product that is labeled with it.

It is not difficult to understand why it is in the interest of the holder of a reputable trademark to internalize that external effect, i.e. to “appropriate” it economically by prohibiting others to use it. The argument for this thesis is the protection of investment in reputation building i.e. brand. In contrast, competitors are interested in freely enjoying the benefits of comparative advertising. The law has set certain rules by which it distinguishes the rights of the trademark holder from the freedom of competitors. However, the delicate task of purposeful application of that distinction is left to the courts.

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<sup>46</sup>The Federal Court, deciding on the permissibility of comparative advertising of perfumes (Urteil vom 5. Mai 2011 - I ZR 157/09 - Creation Lamis; see <https://openjur.de/u/228374.html>), took the position that comparative advertising is not prohibited as long as it does not contain an understandable and clear statement that it is an imitation.

<sup>47</sup>Art. 90, para. 2 LOT.

What are the cases of comparative advertising in which harming the surplus goodwill, can lead to trademark infringement?

Firstly, it is an infringement of the so-called famous trademark on the reference product, if the product being advertised is neither identical nor similar to it, whereby the advertiser unfairly benefits from the reputation of the famous trademark or harms its distinctive character i.e. reputation.<sup>48</sup> In other words, the advertiser is not a competitor to the famous trademark holder, but wants to transfer to his product the attention and trust that consumers bestow on the famous trademark (e.g. X is a Rolls Royce among umbrellas).

Secondly, it is an infringement of any trademark with which the reference product is labeled, if the comparative advertisement discredits or denigrates that trademark.<sup>49</sup>

Thirdly, it is an infringement of any trademark of reference product, if the comparative advertiser unfairly benefits from the reputation of that trademark.<sup>50</sup>

Based on these three cases, we can conclude that the surplus goodwill of a trademark may, during comparative advertising, be harmed by: (a) dilution of the famous trademark (damage to distinctiveness), (b) harm to the trademark reputation and (c) unfair appropriation of the trademark reputation. The following is a commentary on each of these items.

Diluting a famous trademark is “overusing” its reputation by putting it in advertisements for various non-competitive products, with its role being to draw consumers’ attention and transfer a part of its attractive power to the non-competitive product. The consequence of this practice can be the loosening of the connection that exists in the minds of consumers between the famous trademark and the products for which it is registered, the relativization of the uniqueness of that trademark on the market, and finally decrease in its advertising value. The economic explanation for the protection of the famous trademark from dilution is mostly indisputable, because it is based on the prevailing doctrine of the elementary purpose of the trademark, which is to reduce the transaction costs when choosing and procuring products on the market. This is, therefore, the case when there is no confusion about the origin of the product, but the use of the famous trademark by non-competitors creates “noise” on the information about the origin of the product. In this way, this form of protection of famous trademarks connects the issue of protection of navigation goodwill and surplus goodwill.

When it comes to defamation (discrediting or denigrating) a trademark, it is worth immediately pointing out that each comparative advertisement emphasizes the value

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<sup>48</sup>See Article 56, paragraph 2 of the LOA, i.e. Article 10, paragraph 2, item c of the EU Directive on Trademarks. It is interesting that the Serbian legislator still uses the archaic term “famous trademark”, even though the EU legislator does not.

<sup>49</sup>See Article 14, paragraph 2, item 4 of the LOA, i.e. Article 4, item d of the EU Advertising Directive.

<sup>50</sup>See Article 14, paragraph 2, item 6 of the LOA, i.e. Article 4, item f of the EU Advertising Directive. It is worth noting here that the Serbian legislator uses the vague and ambiguous term “reputation abuse” instead of sticking to the wording “unfair benefit from reputation” from EU legislation.

of the advertised product at the expense of the reference product. That is actually the point of comparative advertising. In order to be permitted, such advertising must not be misleading (which we talked about in connection with the protection of navigation goodwill), nor must it be defamatory. Defamatory advertising, explicitly or implicitly, verbally or graphically, attributes unworthy, devaluing properties to the reference product or entity from which it originates, even if this may or may not have any factual background.<sup>51</sup> This creates a negative impression on consumers, which they psychologically project on the trademark, more precisely, its reputation. The consequences of such an attack on the reputation of the trademark can be manifested in great economic damage for the trademark holder.

Unfair appropriation of the reputation of another's trademark is a type of comparative advertising, in which through the reputation of the reference trademark, consumers are suggested that the reference product and the competing advertised product belong to the same class of value. Regarding the permissibility of such a transfer of reputation, two questions arise. The first concerns the economic justification of this form of surplus goodwill protection, and the second concerns the condition of unfairness, which qualifies this transfer as impermissible.

At the beginning of the twentieth century, a school of thought was established in the United States, which sees the trademark reputation a value that its holder can legitimately protect from both competitors and non-competitors.<sup>52</sup> Inspired by this, Judge Frankfurter of the Supreme Court formulated the following thought in one verdict: "If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress."<sup>53</sup> The basis for this attitude is the understanding that where there is value (specifically, the reputation of the trademark), there must be protection against the appropriation of that value by persons

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<sup>51</sup>For example, the historical fact is that Krupp, Siemens, Volkswagen are trademarks whose holders were very much associated with the Nazi regime of Hitler's Germany. Emphasizing this fact in modern comparative advertising would not be permissible, because it has nothing to do with comparing the properties of two products; its purpose would be only to morally disqualify one side and deter consumers from purchasing its products. This is all the more so if the defamation is based on untruth or on the subjective malice of the advertiser.

<sup>52</sup>The theoretical article that played a pioneering role in this process is Schechter (1927), pp. 813–833. It is a work that has become not only "the most cited legal article in the field of trademark law, of all time", but also which has had a huge impact on the theory and legislation in this field. See Beebe (2013), p. 2.

<sup>53</sup>See U.S. Supreme Court judgment in *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.* (316 U.S. 203) of 1949, the most quoted part of which reads: "The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress." <https://www.law.cornell.edu/supremecourt/text/316/203>.