

BURGER WARS

The *McDonald's* decisions were analysed for *De Rebus* readers by Pretoria patent attorney and president of the SA Institute of Intellectual Property Law, Chris Job, in 1996 DR 317 (Transvaal Provincial Division) and 1996 DR 677 (Appellate Division).

In this article Owen Dean, a partner in the Centurion firm of Spoor and Fisher, which represented the McDonald's corporation in the litigation, takes readers behind the Transvaal judgement to explain why McDonald's was successful on appeal.

However, on 758 of this issue, Pretoria attorney Dan Badenhorst criticises the appeal court's decision, saying that it raises more questions than it answers.

GAME, SET AND MATCH TO McDONALD'S

Owen Dean

THE notorious *McDonald's* case has now been finally decided and McDonald's Corporation (MC) has been successful. It has reaffirmed its right to its trade mark McDONALD'S (along with companion marks such as BIG MAC and GOLDEN ARCHES DEVICES) in South Africa. The decision of Southwood J, in the Transvaal Provincial Division of the Supreme Court, has been reversed by the unanimous judgment of the Appellate Division, the judgment being written by Grosskopf JA. The decisions of the two courts have been adequately summarised by Chris Job in his articles in *De Rebus* entitled 'The *McDonald's* decisions' (1996 DR 317) and 'The *McDonald's* appeal decisions' (1996 DR 677).

Those who read these articles* know that the Transvaal court found that the trade mark McDONALD'S was not a well-known international trade mark in South Africa and that the registered trade marks owned by MC were cancelled by that court on the grounds of non-use; and that the Appellate Division found to the contrary that the trade mark McDONALD'S is a well-known international trade mark in South Africa and refused the application to cancel MC's registered trade marks on the grounds of non-use. What the reader will not, however, have learnt from these articles is how it came about that the two courts reached diametrically contradicto-

ry decisions. I will develop this point further by drawing an analogy with a game of tennis.

Normally an appeal is won or lost once the 'game' has entered the deuce phase. It is of course not uncommon in a tennis match for each of the players to win a game to love, but in this instance there was only one game! The two adjudicators each awarded the game to love to the opposing players. In his articles Job, like a radio commentator, described the course of the game as it played itself out before each of the adjudicators but he did not really address the question why the game should have had such a different result before each of them. In this article I will seek to provide this analysis. I do not here mean to criticise Job's articles – he was not purporting to make this analysis.

The court's underlying approaches

The key to the question why the two adjudicators called the same game so differently lies in their respective predispositions to, and assessments of, the evidence. Southwood J, in the Transvaal court, found MC's evidence to be wholly unsatisfactory whereas Grosskopf JA found it to be perfectly adequate. Southwood J's dissatisfaction with the evidence adduced by MC is apparent from his judgment. The criticism of the evidence emerges more clearly from Job's first article in which he catalogued the judge's critical comments regarding the

evidence. Job's summation of the criticism of the evidence, emphasises the essential and prominent features of the subject being described. Southwood J's views, as highlighted by Job, are clear, namely that MC was largely the author of its own undoing by failing to produce any evidence which supported its contention that the trade mark McDONALD'S is a well-known international trade mark in South Africa and is entitled to the protection provided in s 35 of the Trade Marks Act 194 of 1993.

Professor Coenraad Visser's article entitled 'McDonald's Fried' *Juta's Business Law* vol 4 no 1 1996 at 15 is to the same effect as Job's. He encapsulates his view as follows: 'McDonald's lost because it failed to produce convincing evidence, not because of the court's interpretation of the law.' He states that, on the evidence, 'McDonald's let itself down'.

But the Appellate Division differed from these views. The Appellate Division held that by means of market survey and other evidence produced by MC as to the reputability which its trade mark McDONALD'S enjoys in South Africa, it established all the facts necessary for the court to make a finding that the trade mark McDONALD'S is a well-known foreign trade mark within the meaning of s 35 of the 1993 Trade Marks Act. The contrary view of the Appellate Division raises the question: where did the court *a quo* go wrong in its assessment of the evidence, and did the above-mentioned authors make their own independent assessments of it (and if so where did they go wrong?) or did they simply unquestioningly accept and re-echo the views expressed by the court *a quo*?

I submit that the court *a quo* and the >



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* See also 'Protection of well-known trade marks under the new Act' by Frederick Mostert and the late Anton Mostert SC in 1995 DR 443 – Editor.

above-mentioned authors went wrong first and foremost by not approaching the facts in a common sense and realistic manner, while paying due regard to the motives of Joburgers Drive-Inn Restaurant (Pty) Limited (Joburgers) and Dax Prop CC (Dax) in seeking to appropriate the trade mark McDONALD's and the entire portfolio of registered trade marks owned by MC. In the second place, the court *a quo* placed a wrong interpretation on s 35 of the 1993 Trade Marks Act, with the result that it misconceived the test by which MC's evidence had to be measured. Put differently, that court misconstrued what it was that MC was required to prove in order to enjoy the benefits offered by s 35. These two issues will be discussed further below.

Evidence relating to renown of trade mark McDONALD's

Before going on to analyse the Transvaal court's evaluation of MC's evidence in support of its contentions relating to the renown of the trade mark McDONALD's in South Africa, I shall briefly summarise the evidence considered to be relevant in this regard by the Appellate Division.

The spark which virtually ignited the explosion of litigation which occurred in this matter was an article which appeared on 29 August 1993 in the *Sunday Times*. The following is an extract from the article: 'Big Macs may soon be eaten all over South

Africa, but not because American hamburger giant McDonald's is entering the market. Nor will they be on sale before judgment in which could be SA's biggest trade mark battle [sic].

Chicken Licken franchise owner George Sombonos plans to start his own national McDonald's hamburger chain ...

The chain will serve McMuffins and Big Mac burgers. Restaurants will also be decorated with a large M device similar to two joined arches.'

Both Joburgers and Dax made application to register the entire portfolio of McDonald's trade marks in their own names and sought to appropriate the trade marks to themselves. They also both brought applications before the court to cancel all MC's registered trade marks (some 56 registrations).

It will be recalled that, after an interim interdict had been granted against Joburgers restraining it from infringing the trade mark McDONALD's, Joburgers purchased a small business in Durban which had been trading since 1978 under the style ASIAN DAWN/MACDONALDS. This purchase immediately led to MC obtaining a contempt of court order against Joburgers for breaching the interim interdict. While negotiations for the purchase of this business were taking place, the seller, having agreed on a particular price, became aware of Joburgers' litigation with MC and the true objective on the part of Joburgers in purchasing the business. The seller sought to increase the purchase price substantially.

This gave rise to litigation between the seller and Joburgers and in papers before the court in those proceedings (which papers were incorporated into the evidence in the *Joburgers* case) it was stated by a director of Joburgers that it wished to acquire the business in order to secure the goodwill built up during the 18 years of use of the MACDONALDS trade mark for itself and that should it not acquire the business its position in regard to the proceedings with MC would be severely prejudiced.

MC caused two market surveys to be conducted in order to establish the notoriety of the trade mark McDONALD's. These surveys were conducted, respectively, in Gauteng and in the Durban area among the upper income groups. These surveys showed that of the order of 80% of the so-called 'universe' (i.e. the sample of the target sector of the population covered by the survey) consulted knew the trade mark McDONALD's as being the mark of a foreign company. In devising and preparing the market survey evidence MC had thoroughly researched all South African judgments which had dealt with market surveys and had consulted extensive foreign authority on the issue. It had constructed the questionnaires used in the market surveys and the evidence flowing from it in accordance with the prescriptions of these authorities.

Apart from the market-survey evidence,

MC relied on the evidence of a Mr Collins, the vice-chairman of the South African Franchise Association, who said that in his representative capacity he had received 'numerous requests, too numerous even to be counted' from prospective franchisees and ordinary members of the public for advice as to how to become a McDONALD's franchisee. He also testified that he had addressed numerous meetings, conferences and seminars on various aspects of franchising and that during such addresses he had held up the business format of McDonald's in conducting franchising as an example and had received numerous questions about McDonald's and its business system. He furthermore said that McDonald's was frequently discussed in the South African press and media.

MC demonstrated that between 1975 and 1993 it had received 242 requests from South Africans, many of whom were prominent trading companies, to conclude franchising agreements with them. Correspondence embodying these requests had been placed in a bundle which had been referred to in the affidavits filed on behalf of MC. As undertaken in the affidavits, this bundle was handed up to Southwood J at the commencement of the hearing.

In its evidence MC stated that it is one of the largest, if not the largest, franchiser of fast food restaurants in the world, that there were 13 993 McDonald's restaurants in existence spread over 70 countries, that the annual turnover of McDonald's restaurants amounts to more than US\$23.5 billion, that US\$900 million is spent annually on advertising McDonald's restaurants, and that McDonald's trade marks are in all probability some of the best-known trade marks in the world. These statements were not denied by Joburgers or Dax.

It was contended on behalf of MC that South African travellers overseas encountered McDonald's restaurants in foreign countries and that so-called 'spill-over advertising' via the media such as television, magazines and the like reached the South African public.

The respective courts' perspectives of the evidence

Grosskopf JA approached the evidence from the departure point that intrinsically the word 'McDonald's' has no attractive force; it is a fairly common surname and in the absence of a reputation nobody would wish to appropriate it. He considered it significant that Joburgers and Dax went to considerable trouble and expense to obtain control over the McDonald's marks and that this would make no sense were it not for the reputation that it had acquired over the years. The judge was of the view that the article in the *Sunday Times* referred to above clearly presupposed that its readers would be aware of McDonald's and its

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business, products and marks. He attached significance to the statements made on behalf of Joburgers in the litigation concerning the purchase of the ASIAN DAWN/MCDONALDS business in Durban.

The judge concluded from the conduct and attitude of Joburgers and Dax that it was quite obvious that they considered the trade mark McDONALD's a valuable asset, worth a great deal of trouble, expense and risk to secure and that the trade mark McDONALD's enjoys a considerable reputation in South Africa.

The judge's reasoning accords with common sense and logic. The judge brought a business-like approach to bear in this regard. The motivation on the part of Joburgers and Dax which the judge deduced from their conduct is self-evident.

Grosskopf JA accepted the market-survey evidence as admissible on the basis of the exception provided for in s 3(1)(c) of the Law of Evidence Amendment Act 45 of 1988 and accorded it probative value. In regard to Collins' evidence, Grosskopf JA found that the facts presented by Collins as outlined above constituted admissible evidence and the judge attached weight to that evidence.

Grosskopf JA summed up his conclusions in regard to MC's evidence as to the notoriety of the trade mark McDONALD's in South Africa as follows:

'The evidence adduced by McDonald's leads, in my view, to the inference that its marks, and particularly the mark McDONALD's, are well known amongst the more affluent people in the country. People who travel, watch television, and who read local and foreign publications, are likely to know about it. They would have seen McDonald's outlets in other countries, and seen or heard its advertisements there or its spillover here in foreign journals, television shows, etc. Although the extent of such spillover has not been quantified it must be substantial. Moreover, as has been shown, McDonald's has also received publicity in the local media. The market survey evidence specifically related to two groups of adult white persons living in relatively affluent suburbs of Gauteng and KwaZulu-Natal. It is reasonable to suppose that much the same results would be achieved elsewhere among persons of all races who have a similar financial and social background. These are also the type of people who would have heard about McDonald's and its marks from Collins, or who would have discussed these matters with him, or would have written to McDonald's to solicit a franchise agreement.'

In sharp contrast to the perspective of Grosskopf JA on the evidence, Southwood J paid no attention at all to the motivation of Joburgers and Dax in attempting to appropriate for themselves the trade mark McDONALD's and the complete portfolio of McDonald's trade marks. Whereas it was obvious to Grosskopf JA why Joburgers and Dax went to the considerable trouble and expense to attempt to acquire ownership of the trade mark McDONALD's, these considerations did not appear to occur to Southwood J at all. Scant regard was paid to the article which appeared in the *Sunday*

Times and no mention was made of the litigation between Joburgers and the seller of the ASIAN DAWN/MCDONALDS business, both of which were regarded as significant by Grosskopf JA. Southwood J dismissed the evidence of Collins as being hearsay and inadmissible on the reasoning that it was an 'informal market survey'. He also rejected the evidence relating to the two market surveys conducted by MC on the grounds that they were hearsay and therefore inadmissible and in any event carried no weight. I shall revert to the question of the market survey evidence below.

Southwood J declined to receive the bundle of correspondence with the 242 prospective franchisees which was handed up to him. Instead he referred only to extracts from the bundle annexed to the respondent's evidence and made a finding that there had been only some fifty approaches over a period of twenty-five years. By contrast, Grosskopf JA accepted that there had been approaches from 242 enquirers.

Southwood J stated that there was no evidence with regard to the spill-over effect of international advertising of the trade mark McDONALD's in South Africa and found that MC's evidence had failed to establish that its trade mark McDONALD's or any of its trade marks were well known in South Africa.

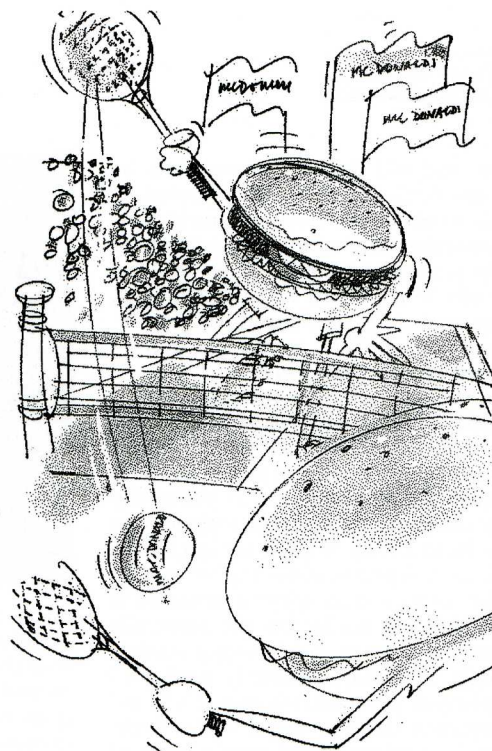
Southwood J's approach to the evidence of the notoriety of the trade mark McDONALD's in South Africa was unsatisfactory. His approach did not accord with the realities of the matter and the practicalities of the modern market place and in particular the media which operate in it. The impression is gained that Southwood J did not properly come to grips with what the case was really all about, namely an opportunistic attempt on the part of Joburgers and Dax to reap from a fertile and cultivated field where they had sown nothing.

Grosskopf JA pointed out that the evidence relating to the notoriety of the trade mark McDONALD's was circumstantial evidence. Relying on the authority of *R v De Villiers* 1944 AD 493, the judge indicated that the correct approach to circumstantial evidence was that the court should not take each circumstance separately and give the respondent the benefit of any reasonable doubt as to the inference to be drawn from each one so taken; it must carefully weigh up the cumulative effect of all of them and must draw inferences and conclusions arising from this holistic approach. The judge said

'the approach of the court *a quo* was to analyse each item of evidence and to show that, by itself, it has little or no probative value. In my view this is a wrong approach'.

Test for establishing well-known trade marks

The crucial legal issue underpinning the



whole case was what requirements must be met for a trade mark to constitute a well-known mark as contemplated in s 35 of the 1993 Trade Marks Act and thus to qualify for the protection provided in that section. Southwood J decided that in order to enjoy the protection of s 35, MC should have shown the following in respect of the trade mark McDONALD's:

- 1 Knowledge of the notoriety of the mark pervades the country to a substantial extent – that is, it must be well known across South Africa.
- 2 It is well known to all ethnic groups at all levels of society.
- 3 The mark is well known as being a mark of a person who is a national of, or is domiciled in, or has a real and effective industrial or commercial establishment in, a country which is a member of the Paris Convention of 1883; this would entail a knowledge that the country of origin of the mark has acceded to the Paris Convention.

With regard to requirement 3 Grosskopf JA, said the following:

'If it were correct the section would be a dead letter. It is difficult to imagine any mark, however well known, in respect of which such further facts would be common knowledge.'

Counsel for the respondents in the appeal conceded that this requirement could not be supported.

With regard to requirement 1, Southwood J relied upon the Canadian case of *Robert C Wian Enterprises, Inc v Mady* (1965) 49 TLR (2) 65. Grosskopf JA found that the views expressed in that case were based on Canadian legislation which differs from s 35 and that the case was 'of no assistance'. He also pointed out that subsequent Canadian cases had differed from the views expressed in the *Wian* case. In regard to requirement 2 Grosskopf JA pointed out that the South African population is diverse in many respects such as income, education, cultural values and the >

like and said that if protection is to be granted only to marks which are known, let alone well known, to every segment of the population, or even to most segments of the population, there would be very few marks, if any, which would pass the test; the section would therefore be purposeless. Grosskopf JA accordingly rejected Southwood J's interpretation.

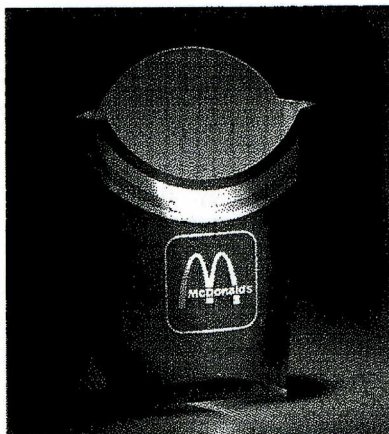
After examining the historical development of British and South African case law with regard to the question of passing-off cases brought by foreign parties, the judge found that the purpose of s 35 was to vary or change the common-law position so as to found a cause of action for in a foreign trade-mark proprietor where it can be shown that his trade mark enjoys a reputation in South Africa but he does not necessarily have any goodwill in this country. Accordingly, he applied essentially passing-off principles to the interpretation of s 35 and expressed the view that a foreign trade-mark proprietor would have a cause of action if he could show that a substantial number of the class of persons who would have an interest in the goods or services of the foreign trade-mark proprietor (i.e. potential customers) would know the foreign trade mark and would be confused by its use by someone else in relation to the relevant goods and/or services.

Market-survey evidence

Southwood J was dismissive of MC's market-survey evidence. He was of the view that the universe selected for the market-survey evidence was inappropriate and too small. He was, however, testing it against the test whether it showed that knowledge of the mark pervaded the entire country to a substantial extent and was possessed by all ethnic groups at all levels of society – that is, the wrong yardstick. In the light of the true test (which is what the survey had been designed to meet) criticism of the scope of the universe of the market surveys was unfounded and his whole perspective of the market-survey evidence was askew.

He held that the market-survey evidence was inadmissible as being hearsay and in any event that it carried no weight. The conclusions were based to a considerable extent on perceived wrong procedures and faults in the questionnaires used in the surveys (e.g. the questions posed), the procedures followed and the conclusion drawn from the results of the survey. In this regard too the Appellate Division disagreed with him.

Among the steps followed by MC in following the prescriptions of South African and foreign case law for the acceptability of market-survey evidence, MC, *inter alia*, filed affidavits by all the interviewers who participated in the interviews. The procedure to be followed by the interviewers was fully explained and set out in the evidence of the market-survey



expert, a Mr Corder. Each of the interviewers said unequivocally that the instructions given by Mr Corder had been conscientiously and fully carried out. All answers given by the interviewees were reflected in computer tables comprised in the evidence and copies of the answers given by each interviewee (the completed questionnaires) were tendered by MC to the other parties for inspection. In view of the enormous bulk of these questionnaires they were not annexed to the affidavits of the interviewers. Despite all this, Job (at 321) summarised the court's attitude as follows:

'In this case, the judgment indicates that the questionnaires were not made available to the court, nor did the interviewers make any affidavits as to what they had done and how they had conducted the surveys.'

This statement is in substance incorrect.

Southwood J concluded that the market surveys were unreliable and that they were unable to demonstrate anything for the purposes of the litigation. In substantiating this contention he drew comparisons between certain statistics in the two surveys. He understood these statistics to show a significant discrepancy between the two surveys. However, as was demonstrated to the appeal court, the statistics which he compared were unrelated and he in fact compared the proverbial 'apples with oranges'. It would thus seem that his mistrust of the reliability of the market-survey evidence was at least partly misconceived.

The appeal court ruled that the market-survey evidence was admissible on the basis of the exception provided for in s 3(1)(c) of the Law of Evidence Amendment Act. The court thus considered that the evidence was hearsay but that, in all the circumstances of the matter, including the purpose for which the evidence was tendered, the procedure followed, the fact that no prejudice was caused to the other side because they were given full opportunity to check the results of the survey and did not seriously contest their reliability, the adequacy of the universe, the impracticality of calling hosts of witnesses to give evidence as to their knowledge of the mark, the lack of likelihood that persons ques-

tioned in the survey would lie as to their knowledge of the trade mark McDONALD's, and the underlying theories of market surveys, Southwood J erred in not accepting the market-survey evidence.

Conclusion

I come back to the question posed earlier – namely, where did the court *a quo* go wrong in finding that MC had not proved that McDONALD's is a well-known trade mark within the meaning of s 35? The short answer is that it applied the wrong test as to what MC was required to establish by means of its evidence and then compounded the error by making a series of misdirections in respect of the evidence adduced by MC in order to establish the notoriety of the trade mark McDONALD's. These errors caused its criticism of MC's evidence. This criticism has been shown to have been unfounded and misguided. The appeal court found the evidence adduced by MC to be both satisfactory and sufficient to establish its claim in regard to McDONALD's being a well-known mark. Indeed, the appeal court created a precedent regarding the market-survey evidence. What of the commentators who echoed the views expressed by Southwood J, in regard to MC's evidence? I surmise that their misdirected criticism was probably expressed without making an independent study and evaluation of the evidence embodied in the court record. This perhaps highlights the risk of commentators repeating viewpoints which are expressed in judgments under appeal.

There have been whispered comments that the decision of the Appellate Division has been 'political' and not based on the merits. While it is true that the decision of the Transvaal Provincial Division of the Supreme Court had far-reaching legal, political and commercial implications and led to the international perception that South Africa does not give proper protection to foreign intellectual property, I submit that, on the strength of the foregoing analysis, the decision of the Appellate Division is correct on the law and on the facts and that the decision of the provincial division was reversed because it was wrong on both these scores. I submit that a careful examination of the slow-motion replay of the game shows that Grosskopf JA called the score correctly on the merits in awarding a love game to MC. □

Correction

The final line of the final sentence in Chris Job's article, 'The McDonalds's appeal decisions', on 1996 DR 680 was omitted in error.

The sentence should have read:

'The perception in certain international quarters of South Africa's unwillingness to protect such rights will also, it is to be hoped, now be assuaged.' □