STEALING FOREIGN FRUITS – I

Passing-off

By
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On 12 July 1989 Kriegler J handed down judgment in the Transvaal Provincial Division in the as yet unreported case of *Tie Rack plc v Tie Rack Stores (Pty) Ltd.* The case raises the interesting question whether a local trader may, without authorization, use in his business a well-known foreign trade mark that has not been used in South Africa by the originator of the mark. The applicant framed its complaint, as in many of these cases, under several heads, alleging, first, that the respondent had been guilty of passing-off,[1] secondly, that the applicant's trade mark had been unlawfully infringed and, thirdly, that its copyright in its device had been violated. In this article, the claim under the first head is examined.

The applicant was a company registered in the United Kingdom. Initially, it operated specialist stores in Britain on a small scale, selling ties and various clothing accessories under the name 'Tie Rack'. A distinctive logo was developed for the business, depicting the letter 'T' in the form of a collar and tie, with the remainder of the logo printed in a style known as Caslon, after its originator. The colouring of the logo was dark blue with white and yellow markings.

By mid-1988 the applicant had expanded its operation to North America, Europe and Australia, opening outlets in major shopping areas and places where they were likely to catch the attention of tourists. Considerable publicity was given to the applicant's trading activities and its 'Tie Rack' logo by means of advertisements placed in magazines with an international circulation. In addition, in view of the fact that the business was highly successful, articles were written about it in international periodicals. It was accepted by Kriegler J that the logo and business activities of the applicant accordingly enjoyed substantial repute in various countries of the world. No direct promotion of the applicant's business or of its 'Tie Rack' logo had taken place in South Africa, however, nor had any sales of its merchandise been made in this country. Furthermore, there was no evidence before the court that the applicant intended to trade in South Africa in the future, although it was proved that a number of South African residents were aware of the applicant's trading activities, as well as its logo.

The applicant then decided to register its logo as a trade mark in South Africa and to form a local company with a similar name to its own, but its efforts were thwarted through the existence of such registrations in the name of the respondent, a South African company altogether unconnected with the applicant.

The leading lights in the respondent were one Peter Goldman and one Keith Ferguson. Goldman had lived for some years in the United Kingdom, where he became aware of the growth of specialist clothing stores, including the 'Tie Rack' stores operated by the applicant. The respondent was formed in 1987 by Goldman and Ferguson, who subsequently set up shops under the name 'Tie Rack' in Cape Town, Sandton and central Johannesburg. The respondent acquired ownership of two existing registrations of the trade mark 'The Tie Rack', one, under class 25, for '[c]lothing, including boots, shoes and slippers' and the other, under class 42, for

[1] On passing-off, see Mervyn Dendy 'Pitfalls of Advertising — V: Passing-off' (1988) 17 *BML* 217.

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'wholesale, retail merchandising and mail order services'.[2] It thereupon adopted a logo that was substantially similar to that of the applicant, incorporating a white and gold stylized collar-and-tie device resembling the capital 'T' in the applicant's trade mark, with the remainder of the letters of its 'Tie Rack' logo being printed, like those of the applicant, in gold Caslon lettering on a dark blue background. While the local logo was not identical to that of the applicant, it reproduced the substance of the foreign logo to such an extent, said Kriegler J, as to be an imitation of it. The respondent's logo, it emerged, had been designed for South African use from the logo appearing on one of the applicant's plastic carrier bags.

The litigation was precipitated by the failure of the applicant's attempts to register its logo in South Africa in consequence of the preemptive action taken by Goldman and Ferguson. The applicant sought an order of court restraining the respondent from continuing to use the 'Tie Rack' name and logo, and cancelling the 'Tie Rack' trade mark registrations. Also requested was an inquiry into the loss of profit sustained by the applicant as a result of the respondent's conduct, and delivery up of all copies of the offending logo.

A consideration of all the facts led the court to the conclusion that the respondent had intentionally copied the name, logo and trading image of the applicant.

Turning to the claim based on passing-off, Kriegler J invoked the definition set out in the leading case of *Capital Estate & General Agencies (Pty) Ltd v Holiday Inns Inc*:[3]

> 'The wrong known as passing-off consists in a representation by one person that his business (or merchandise, as the case may be) is that of another, or that it is associated with that of another, and, in order to determine whether a representation amounts to a passing-off, one enquires whether there is a reasonable likelihood that members of the public may be confused into believing that the business of the one is, or is connected with, that of another.'

The applicant claimed that, in view of the reputation that its name, logo and trading activities enjoyed internationally and in South Africa, the respondent's use of that name and logo in its business would be likely to cause confusion or deception amongst a substantial number of South Africans, who would think that the respondent's business was that of the applicant or was connected in some way in the course of trade with it.

The crucial issue, opined Kriegler J, was whether the applicant enjoyed any goodwill in South Africa. The court adopted the description of goodwill given by Lord Macnaghten in the British case of *Commissioners of Inland Revenue v Muller & Co's Margarine Ltd*, which reads as follows:[4]

> 'It is the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates. Goodwill is composed of a variety of elements. It differs in its composition in different trades and in different businesses in the same trade. One element may preponderate here and another element there . . . .
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> 'For my part, I think that if there is one attribute common to all cases of goodwill it is the attribute of locality. For goodwill has no independent existence. It cannot subsist by itself. It must be attached to a business. Destroy the business, and the goodwill perishes with it, though elements remain which may perhaps be gathered up and be revived again.'

The court held that, although the applicant's name, logo and trading activities may have been known in South Africa, the applicant had not established any goodwill in this country; that being so, there could be no question of a passing-off by the respondent. In coming to this conclusion, the court followed the decision in *Slenderella Systems Incorporated of America v Hawkins*, in which Williamson J said:[5]

> 'The court will protect the right of property existing in another in regard to the name or goodwill enjoyed by that other in respect of a trade or goods. That right or property may be enjoyed by a peregrinus but only, it would seem, where that peregrinus has a right of property in regard to his name or goods within the jurisdiction of the court.'

A similar approach, commented Kriegler J, has been adopted by the courts of England and New Zealand.

Contemporary legal commentators regard passing-off as a species of the broader delict of unlawful competition.[6] On this basis, the respondent also argued that the conduct of the applicant constituted unlawful competition in the wide sense. The court, however, rejected

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[2] On the registration of trade marks for different classes of goods and services, see Mervyn Dendy 'Pitfalls of Advertising — XII: Trade Mark Protection' (1989) 18 *BML* 215 at 217.

[3] 1977 (2) SA 916 (A) at 929C–D.

[4] [1901] AC 217 (HL) at 223–4.

[5] 1959 (1) SA 519 (W) at 521A–B.

[6] G C Webster & N S Page *South African Law of Trade Marks, Unlawful Competition, Company Names and Trading Styles* 3 ed (1986) 396.

this argument too, reasoning that whatever the propriety of the respondent's conduct may have been, the applicant was not trading in South Africa, nor did it state that it intended to trade in this country in the future, and there was thus no question of competition taking place between the two companies.

The attitude of Kriegler J is consistent with the approach to the wrong of passing-off adopted by South African, British and Commonwealth courts over the years. Relatively recently, though, there have been glimmerings in some English decisions of the notion that a foreign reputation, even if not accompanied by actual use of a trade mark in the local market-place or by the existence of goodwill in the sense described above, may be deserving of protection. The recent judgment in *Pepsico Inc v United Tobacco Co Ltd*[7] tends in that direction. There a foreign company, which had used the trade mark 'Ruffles' for potato chips on an extensive scale internationally, was making preparations for the launch of its product in South Africa when a local company pre-empted it by launching a substantially similar product under the same mark. The court held that the preparations made by the oversea company were sufficient to impart knowledge of the mark to members of the potato-chip trade in South Africa; this form of use, it was held, generated sufficient goodwill to provide the basis for a finding that the local company had acted unlawfully in launching its product under the same trade mark.

The trend has developed in recent cases of drawing a distinction between the 'reputation' attaching to a trade mark and the 'goodwill' identified by that mark. Goodwill is required before passing-off can take place: mere reputation is insufficient. Reputation can, of course, be created by advertising internationally with a 'spillover' effect in South Africa, but goodwill cannot be created in this manner, so the argument goes.

It is submitted, however, that if an oversea trade mark has acquired a reputation in South Africa for the product it represents, even though there is no goodwill in this country identified by the mark, there is a significant possibility that consumers will be confused or deceived should that mark, or a very similar one, be used by a local trader. Therefore, if a South African consumer knows of the existence of 'Tie Rack' goods and stores overseas and then sees 'Tie Rack' goods and shops in South Africa displaying a substantially similar logo to the foreign one, he is surely likely to be confused into thinking that the local enterprise is associated or connected with the overseas business. If so, it is hardly in the public interest that he should be misled in this way, and it is unfair that the local entrepreneur should benefit from the oversea trader's reputation. Arguably, therefore, the existence or nonexistence in South Africa of goodwill accruing to the foreign company is irrelevant, since the conduct of a local trader in copying an oversea mark (with concomitant benefit to himself) will unfairly serve to preclude the foreign trader from extending his business activities to South Africa and thus exploiting his reputation and trade mark here.

The legal principles relied upon by Kriegler J evolved from the mid-nineteenth to the mid-twentieth century, when international trade was very different from what it is today. Since the end of the Second World War the world has been shrinking, from the point of view of commerce, at an ever-increasing rate. Trade across international boundaries and the existence of multinational corporations are no longer the exception but the rule. Licensing or franchising of trade marks has become the order of the day. Modern communications such as satellite television instantaneously bring into our homes events happening, as we watch them, all over the world. Foreign advertisements and products are projected almost daily into our lives by banners, hoardings and the like at international sports events and other occasions of international importance. The law must keep pace with these developments, take into account these changed circumstances and give recognition to the existence in practice of a world market and to the manner in which it operates.

Particularly at this time we in South Africa should do whatever we can to encourage foreign trade and investment. There are enough obstacles confronting foreign traders who contemplate doing business in South Africa without our permitting imitators of their ideas to stand in their way as well. A corporation such as the applicant in the *Tie Rack* case cannot be expected to conduct business here if it cannot do so under its international trade mark. Few foreign traders, if any, are prepared to adopt a different trade mark from that which they employ in the rest of the world purely for the privilege of doing business in South Africa. By allowing local copyists to pre-empt foreign traders through appropriating their trade marks, we are closing the door in the face of foreign businessmen whose capital investments we can ill afford to forgo.

The time is overdue for our law to register its disapproval of the all-too-prevalent practice on the part of local entrepreneurs of imitating and misappropriating well-known foreign trade marks.

South Africans, one would hope, have sufficient native ability not to have to stoop to stealing foreign fruits; we can — and must — cultivate our own instead.

Goodwill is required before passing-off can take place

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[7] 1988 (2) SA 334 (W).