

Trade-mark dilution laughed off

By Owen Dean

In the case of *Laugh It Off Promotions CC v South African Breweries International (Finance) BV t/a Sabmark International & Freedom of Expression Institute (CC)* (case CCT 42/04) the Constitutional Court of South Africa was for the first time called on to consider a claim of infringement of a registered trade mark. In its judgment (as yet unreported) the Constitutional Court upheld an appeal from a decision of the Supreme Court of Appeal, in *Laugh It Off Promotions CC v South African Breweries International (Finance) BV t/a Sabmark International* 2005 (2) SA 46 (SCA), which had itself dismissed an appeal, and therefore reaffirmed the judgment, in the case of *SAB International t/a Sabmark International v Laugh It Off Promotions CC* 2003 (2) All SA 454 (C). Unlike the two preceding courts, the Constitutional Court held that Laugh It Off Promotions had not infringed the registered trade marks of Sabmark International on which it relied. Sabmark International's case was founded on trade mark infringement by dilution. The judgment of Mosenke J in the Constitutional Court opens as follows:

'This case brings to the fore the novel, and rather vexed, matter of the proper interface between the guarantee of free expression enshrined in section 16(1) of the Constitution and the protection of intellectual property rights attaching to registered trade marks as envisaged by section 34(1)(c) of the Trade Marks Act 194 of 1993 [the Act] and consequently to related marketing brands.'

The judgment of the court can be viewed on two levels: Firstly, the broad issue of the inter-relationship between intellectual property rights and the fundamental right of freedom of speech enshrined in the Constitution; and secondly, whether on the facts as presented to it, Sabmark International had established a case of trade mark infringement by dilution against Laugh It Off and was entitled to an interdict on the strength of the infringement of its rights. On the second level the judgment undoubtedly brought disappointment to trade mark proprietors and to Sabmark International in particular, but on the first level trade mark proprietors and all intellectual-property owners can find some comfort.

The facts and the nature of the dispute

Laugh It Off Promotions CC (Laugh It Off) produced and sold t-shirts which prominently feature corruptions of well-known trade marks. These corruptions, while being derived from the well-known trade marks, make social statements of one form or another and are in the nature of parodies of the well-known trade marks. Among the trade marks used in this manner by Laugh It Off was CARLING BLACK LABEL BEER Label trade mark. It is apparent that what Laugh It Off did was to mimic the CARLING BLACK LABEL mark and to substitute the original words with 'BLACK LABOUR WHITE GUILT', 'AFRICA'S LUSTY LIVELY EXPLOITATION SINCE 1652' and 'NO REGARD GIVEN WORLDWIDE'.

South African Breweries (SAB) claimed that by selling t-shirts bearing the contentious label, Laugh It Off infringed its CARLING BLACK LABEL registered trade marks by dilution. More particularly, SAB claimed that the use of the contentious label would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the CARLING BLACK LABEL mark and so would devalue the mark. Laugh It Off defended the case on the basis that its use of the trade marks had not infringed Sabmark's registered trade marks in as much as the likelihood of detriment to the reputation of the marks had not been established and that, in any event, it was exercising freedom of expression, a right entrenched in the Bill of Rights contained in the Constitution. Details of the judgments of the courts *a quo* can be found in 2003 (July) *DR* 32 and 2004 (Dec) *DR* 36.

By virtue of its reliance on the defence of freedom of expression, Laugh It Off sought leave to appeal to the Constitutional Court, and lodged an appeal against the judgment of the Supreme Court of Appeal.

It was accepted by all parties, and by the Constitutional Court itself, that the real issue on appeal was whether Sabmark International had properly demonstrated the likelihood of unfair detriment to the repute of the CARLING BLACK LABEL marks. To answer this question the court was required to weigh up intellectual property rights against the right of freedom of expression, both in general and with reference to the facts of this particular case.

Intellectual property rights vs right of freedom of expression

The issue of the status of intellectual property rights under the Constitution came before the Constitutional Court on a previous occasion, *vis* in the case *Certification of the Constitution of the Republic of South Africa* 1996 10 BCLR 1253 (CC). In that case the Constitutional Court rendered a judgment in which it granted its endorsement to the new South African Constitution. In giving judgment in the case, the court was required to rule whether the right to hold intellectual property rights, including trade mark rights, was a universally accepted fundamental right which ought to have been included in the Bill of Rights, as is the case in most countries in the world. The court held that such right to hold such rights was not a universally accepted fundamental right. The court appeared to take the view that, while the intellectual property right may be a fundamental right, it was not universally recognised as such (see para 75).

This decision came in for criticism in intellectual-property law circles as it was felt that intellectual-property rights should be placed on an equal footing with other fundamental rights granted recognition in the Bill of Rights, such as the rights of privacy and freedom of expression. It was felt that if a conflict develops between an intellectual-property right and one of these recognised fundamental rights, the fact that intellectual-property rights do not enjoy parity with these other rights under the Constitution could lead to intellectual property rights being considered to be subservient to such other rights. (See the article entitled 'The case for the recognition of intellectual property in the Bill of Rights' by OH Dean, 1997 (60) *THRHR* (Durban: Butterworths 1997).)

In both the judgment of Moseneke J, which is the judgement of the court, and Sachs J, who gave a supplementary individual judgment, the departure point of the discussion is that the two rights have equal status, despite the fact that freedom of speech is explicitly specified in the Bill of Rights, while there is no such mention of intellectual-property rights. According to Moseneke J, both parties sought to assert rights conferred directly or implicitly by the Constitution. He was of the view that the interplay between free expression and intellectual property in the form of trade marks is not merely academic but is a matter that has important and abiding implications for the workings of the economy and is of concern to the broader South African public (para 30).

Moseneke J expressed the view that the right of free expression in the Constitution is neither paramount over other guaranteed rights, nor limitless. It is not a pre-eminent freedom ranking above all others; it is not even an unqualified right. He said that in appropriate circumstances authorised by the Constitution itself, a law of general application may limit freedom of expression (para 47). He summed up by saying that in the present case the court had to weigh carefully the competing interests of the owner of the trade mark against the claim of free expression of a user without permission (para 49). Sachs J's judgment is to similar effect. He expressed the view that, given the importance of trade mark protection on the one hand and freedom of speech on the other, it becomes necessary to balance the one against the other (para 81). He said that what is in issue is not the limitation of a right, but the balancing of competing rights and that it should not make any difference in principle whether the case is seen as a property rights limitation on free speech, or a free speech limitation on property rights (para 83).

Nowhere in the judgments is there any suggestion that freedom of speech is a superior right to the right to hold intellectual property. Accordingly, in effect the court equated the right to hold intellectual property with a universally accepted fundamental right, namely the right of freedom of speech. This belated recognition by the Constitutional Court of the status of intellectual property rights is to be welcomed and it goes some way towards rectifying the situation created by the court previously refusing to recognise that the right to hold intellectual property is a universally accepted fundamental right. Cinderella has been welcomed at the ball!

The effect of the irresistible force on the immovable object in the present case

Having established the status of the competing rights, the court considered the effect of Laugh It Off's right of freedom of speech on Sabmark International's trade mark infringement claim. The court's departure point was that s 34(1)(c) of the Trade Marks Act must be seen through the prism of the Constitution and the rights enjoyed by others under the Constitution. Following on this, the court said that the relevant provision of the Act must be interpreted in a manner so as to make the least inroads on Laugh It Off's constitutional right of freedom of expression. The section itself required the infringer to act in an unfair manner. This means that the very section required a balancing or weighing up of the right of the trade mark proprietor with the conduct of the infringer and applying the criterion of fairness to that weighing-up process. The court was of the view that the Supreme Court of Appeal adopted an incorrect approach in considering only Laugh It Off's freedom-of-speech right once it had *prima facie* established that infringement had taken place; the correct approach was to have regard to the freedom-of-speech issue in determining whether infringement had taken place in terms of s 34(1)(c) of the Act.

It was common cause that the crisp issue on which the result of the appeal turned was whether the use of the contentious label by Laugh It Off was likely to be detrimental to the distinctive character or repute of the CARLING BLACK LABEL registered marks. The court was of the view that for the use of the mark to be detrimental to the distinctive character or the repute of the registered trade marks, or stated broadly, to dilute the registered trade marks, the likelihood of substantial, and not insignificant, damage must be shown and this damage must be of an economic or commercial nature. The damage must be substantial in the sense that it is likely to cause substantial harm to the uniqueness and repute of the marks.

The court conceded that, unlike under the corresponding provision of the British Trade marks Act, Sabmark International did not have to show that it had suffered actual economic damage as a result of the use of the offending label. The court said that Sabmark International should nevertheless have adduced appropriate evidence which substantiated the claim that it is likely that it would suffer economic damage as a result of the use of the offending label. No such evidence had been adduced and Sabmark International had thus not satisfied this element of the delict of trade mark infringement by dilution. It was not sufficient for the bare statement to be made that it was self-evident that the 'attack' on the mark would be likely to cause Sabmark International to suffer economic damage. The court was not prepared to make a finding of the likelihood of substantial damage to the marks on conjecture alone. Taking all the foregoing into account, the court allowed the appeal and reversed the decision of the Supreme Court of Appeal. As a result, Sabmark International's request for an interdict restraining the use of the contentious label was refused.

In his individual supplementary judgment, Sachs J took the matter a step further. He felt that the judgment of the court should not be interpreted so as to give the impression that Sabmark International's claim failed simply because they did not back it up with direct evidence to prove a measure of detriment. He believed that the appeal should be upheld on more substantial grounds. He devoted more attention to the balancing of the rights of free speech and trade mark rights. In conducting the weighing-up and balancing process he had regard to factors such as whether the contentious activity was primarily communicative in character or primarily commercial, the fact that the message could have been conveyed by other means should not be decisive, the medium used and the context of its use, whether the contentious use should be deemed unsavoury, the unimportance of whether the court considered the offending use to be funny or feeble and, in general, similar considerations which should be evaluated in a fact-sensitive and contextual manner against the backdrop of the values of an open and democratic society. After evaluating the facts of the case in the light of these considerations and having due regard to the fact that no proof whatsoever that the imputations of racist labour practices in the past by the producers of CARLING beer would in any way affect the desirability of the product to its consumers, he came to the conclusion that the balancing exercise was easily done. On the detriment side there was virtually no harm to the marketability of CARLING BLACK LABEL beer. On the preservation of freedom of speech side, the communication to the public was of paramount significance. The trade in the t-shirts was incidental to the communication. The object of the exercise as clearly understood by all concerned, was to deliver a message. In the result the scale came down unequivocally on the side of Laugh It Off and its right of freedom of speech.

In conclusion Sachs J warned against the 'chilling effect that over zealously applied trade mark law could have on the free circulation of ideas'. Trade mark litigation and the threat of it should not stifle legitimate debate.

Conclusion

From an intellectual property perspective, the judgment of the Constitutional Court is like the curate's egg, part good and part bad in its effect.

The most favourable consequence which flows from the judgment is the unequivocal recognition of the right to hold intellectual property as a fundamental right having equal status to the specified fundamental rights in the Bill of Rights, such as freedom of speech, privacy, etc. The way in which the court treated intellectual property is to be welcomed and the insight which the court showed in dealing with difficult concepts of trade mark law, an esoteric subject at the best of times, is commendable. This somewhat mitigates one of the other implications which flow from the judgment, namely that this case establishes something of a precedent for the Constitutional Court to sit as a court of appeal against a decision in the Supreme Court of Appeal on a trade mark infringement matter. In effect, in this case the Constitutional Court disagreed with the Supreme Court of Appeal on an issue of trade mark law, namely the interpretation of s 34(1)(c) of the Act.

The Constitutional Court found that the Supreme Court of Appeal erred in not requiring Sabmark International to adduce evidence of the actual likelihood of it and its CARLING BLACK LABEL trade

marks suffering substantial economic damage. The prospect of the Constitutional Court of Appeal becoming a further Court of Appeal beyond the Supreme Court of Appeal in trade mark and other intellectual property matters is somewhat disquieting and could have the effect of vastly increasing the ultimate costs and duration of bringing intellectual property infringement claims to a final conclusion. This inevitably undermines the status of the Supreme Court of Appeal as being the court of final instance in civil litigation pertaining to intellectual property and other matters.

By virtue of the stature of the Constitutional Court, the necessity to adduce evidence to show the likelihood of suffering substantial economic damage when pursuing a claim in terms of s 34(1)(c) of the Act is now settled law. This evidence may be very difficult to come by in most cases. Sachs J suggested that, if it wished to succeed, Sabmark International should have adduced evidence that imputations of racist labour practices in the past by the producer of the beer would be likely to affect the eagerness of present-day consumers to consume the product. In factual terms, this evidence would be hard to find even if the factual situation existed. Having to cross this hurdle is likely seriously to inhibit the use of the remedy provided for in s 34(1)(c) of the Act. On the other hand, the interpretation placed on the section by the Constitutional Court is in effect no more daunting than the corresponding provision of the British Trade marks Act which requires that evidence of actual damage suffered must be adduced.

The anti-dilution provisions of the Act are rather wide-ranging and far-reaching and, as this case has shown, can bring intellectual property law into conflict with fundamental human rights. The question arises whether the same is true of the standard and more traditional forms of trade mark infringement as provided for in s 34(1)(a) and (b) of the Act. These sections essentially require confusing similarity to exist before the use of a trade mark can be interdicted. The common-law remedy of passing-off is of a similar nature. In enforcing these rights and claiming an interdict, it is a general requirement of the law that the plaintiff must show the likelihood of suffering damage if the infringing activity is not restrained. In the past, the courts, including the Supreme Court of Appeal, have been happy to accept that, once it is shown that confusion is likely, the suffering of damage by the plaintiff is self-evident. Will this assumption also be challenged by the Constitutional Court when weighing up a trade mark proprietor's right against the right of the defender to practice free trade? One can think of other examples of assumptions which have been trite over the years perhaps being looked at afresh through the prism of the Constitution, or perhaps more correctly, the microscope. In the light of what has transpired in this case, the fact that the Supreme Court of Appeal has in the past accepted these assumptions, and they have therefore been settled law, is no guarantee for the future.

As a general proposition, I submit that the assumption that damage automatically follows for a plaintiff where confusion between two trade marks is likely is a different proposition to the rejected assumption that a statement which tarnishes a registered trade mark will cause damage to that trade mark and its proprietor. In the case of the assumption which follows after confusion one deals with a premise that the consumer has been confused and possibly deceived regarding the origin of the product which he has selected. This confusion takes two forms, namely he has purchased the infringing product thinking that it is the genuine product, or he believes the infringing product to be a 'horse from the same stable' as the genuine product. If the confusion is of the product confusion variety then the trade mark proprietor has lost a potential sale and has thereby incurred economic damage. If, furthermore, the infringing product is not to his liking, he could refrain from purchasing the trade mark proprietor's product in the future.

In the event that the confusion is of the mistaken trade connection variety, once again the trade reputation of the trade mark proprietor is at the mercy of someone and his product in respect of which he has no control and any blemishes in relation to the infringing product will accrue to the detriment of the trade mark proprietor. Accordingly, while one can perhaps not say that tarnishing of a trade mark equals a likelihood of the trade mark proprietor suffering economic damage, one can indeed say that confusion between two trade marks equals a likelihood of damage to the trade mark proprietor.

It is probably true to say that the *Laugh It Off* case has opened a new dimension to intellectual property litigation. Many of the cornerstones of intellectual property law as settled by the Supreme Court of Appeal face the possible prospect of being loosened by the Constitutional Court and this in turn could question the very foundations of intellectual property law as known and practised in the past.

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