

# Brands in the Boardroom 2007

## Trademark dilution – protecting famous trademarks in South Africa

**DM Kisch Inc**

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# Trademark dilution – protecting famous trademarks in South Africa

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Thirteen years after the historic first general elections that marked the start of democracy in South Africa, this country has become a political and economic success story. With a consistent growth rate, respectable investment ratings, an abundant supply of natural resources, a modern infrastructure, and well-developed financial, legal, communications, energy, and transport sectors, South Africa is now enjoying considerable attention from foreign businesses that have recognised the market's potential.

South Africa has a very competitive market, with local and international businesses constantly vying for the attention of over 47 million inhabitants. However, many foreign companies wanting to make the move into the territory sometimes find that local entrepreneurs have misused the erstwhile isolation of South Africa during the apartheid era to seize the opportunities that foreign companies could not. Foreign brands with large selling potential were in several instances pounced on and attempts were made by local entrepreneurs to exploit their international reputations – some even obtained registration of the relevant trademarks! This is exactly what happened to McDonald's Corporation and GAP Inc.

The courts in the *McDonald's* case eventually found in favour of the foreign entity, while the court in the *GAP* case found only partly in GAP Inc's favour; and a case on trademark dilution last year found against a local big brand proprietor. In this most recent instance, which was taken on appeal to the highest court in the land, the Constitutional Court's judgment shows how South African courts may now use other considerations like constitutional rights to determine just how far the monopolies conferred by the reputations in foreign marks may stretch.

## The theory behind dilution and the protection of well-known marks

With governments around the world increasingly intent on creating competitive environments in which to trade and the implementation of anti-trust regimes the norm, why then are well-known marks afforded such seemingly wide protection and such large monopolies?

Determining the boundaries of intellectual property law is always a balancing act between free trade and curbs on excessive protectionism, while still protecting the hard-earned defined monopolies of those who expend energy creating and maintaining brand awareness of innovative or distinguishable products. There seem to be two main justifications for the broader protection afforded to well-known marks: the mark itself is worthy of special identity rights because it is so highly distinctive; and the trademark owner's investment in creating and enhancing such extensive goodwill should be rewarded by additional legal protection. The law then moved to prevent detriment to the mark's distinctive character or repute and the concept of dilution was born.

Dilution has often been accused of being a vague concept, but it is generally understood that the term refers to the gradual eroding away of the distinctive quality of a trademark, whereby the association of the mark with a particular proprietor and its goods/services is gradually destroyed. There would be a typical blurring of the mark, which then eventually becomes generic, and the mark is no longer able to attract consumers to the goods/services of a particular proprietor. As the primary function of a trademark is to indicate origin, trademark monopoly rights are lost.

A reading of the new Act shows that well-known marks are not limited in protection by registration, use requirements or likelihood of consumer deception or confusion. This was initially criticised by commentators who pointed out that this may lead to the creation of absolute monopolies and ultimately a new

## Developing dilution law in South Africa

Traditionally in trademark law, the basic prerequisite for infringement is likelihood of consumer confusion. Famous trademarks, however, much like famous people, are these days surrounded by additional security.

An ordinary trademark serves the function of distinguishing the trademark owner's goods or services from those of its competitors and acts as a badge of origin for consumers. A brand that passes the well-known mark test does far more and is of much greater value. It has a rare selling power and strong advertising value that attracts custom beyond the product it identifies. Trademark law throughout most of the modern world now recognises this value and grants it special protection.

South Africa's trademark laws were amended in 1993, following international trends and agreements in this area, such as the Trade Related Aspects of Intellectual Property Rights (TRIPs) agreement, to introduce new provisions dealing with the dilution of trademarks. Prior to that, the old Act (no 62 of 1963) made little provision for the protection of well-known marks and only classic infringement was provided for. So, under that Act the owner of a famous mark could only protect it, if it was registered, and only against the use of an identical or confusingly similar mark in respect of the identical goods or services for which the famous mark was actually registered. It could only register its well-known marks as a defensive registration for other goods or services in special circumstances.

The common law action of passing off provided occasional relief in recognising that a trader's reputation can extend beyond its immediate field of activity, but required it to prove that it had a substantial reputation. The Supreme Court of Appeal in *Caterham Car Sales & Coachworks Ltd v Birkin Cars (Pty) Ltd*, noting that a reputation was typically generated through local trading, said that it could in the light of appropriate evidence be found to subsist, notwithstanding the absence of any local trade under the mark. Needless to say, the evidentiary burden of proving a reputation, in the absence of trading activity, is a heavy (and usually expensive) one to discharge.

Section 10(17) of the new Trademarks Act now prohibits the registration of a mark, the use of which would be likely to take unfair advantage of, or be detrimental to, the distinctive character or repute of an identical or similar mark that is already registered, notwithstanding the absence of deception or confusion between the marks. Section 34(1)(c) of the new Act similarly protects against infringement of well-known marks. The new sections do not require the parties to be in competition and if the owner of the well-known mark can show that its trademark is being diluted, use of that trademark by a third party in respect of even unrelated goods or services will not be permitted, despite the complete absence of any likelihood of confusion. The owner of the well-known mark need not even have registered its mark at all to be granted an interdict.

Our laws make no distinction between famous marks and merely well-known ones, and a mark does not have to be as renowned, as it does in the US for example, to qualify for anti-dilution protection. Our anti-dilution law requires only a likelihood of unfair advantage or detriment.

form of copyright, as well as a lack of legal certainty as third party rights can no longer be determined from a search of the register. The courts were called upon to interpret this new law by defining the parameters of this form of trademark protection so that the legitimate interests of the proprietors of well-known marks are protected, but without the creation of absolute monopolies.

### How the courts have interpreted the law

In 1993, in the *McDonald's* case, Joburgers Drive-Inn Restaurant (Proprietary) Limited sought to expunge McDonald's registered trademarks on the basis of non-use, so that it could open up its own fast food outlets under the name McDonalds and obtain registration of the mark. McDonald's Corporation argued special circumstances in the trade for the non-use based on trade embargoes imposed by the US government in the apartheid era and further that even if the registrations were expunged, the American corporation's marks would still enjoy protection here by virtue of the new well-known marks provisions which had, fortuitously, just come into effect. The courts were then faced with a series of questions. How famous does a mark have to be? Does everybody in South Africa have to recognise the mark, or does it only have to be well-known in a particular segment of the market? How does one define that segment?

The first court found that knowledge of the mark had to permeate across all levels of society. In 1996, however, the Court of Appeal said that the test is the same as for passing-off: a substantial number of people interested in that particular field (the relevant market) must recognise the mark. Although McDonald's evidence of reputation in the form of two market surveys was narrowly limited to a small segment of the population (educated, high-earning and well-travelled people who would have been exposed to the brand overseas) situated in affluent areas of the main cities, the court extrapolated the results and still managed to find in favour of the foreign brand holder. The judgment has since been criticised as being too lenient towards the foreign brand holder (the little evidence that was adduced should probably not even have been admissible under hearsay rules), particularly when compared to other jurisdictions like the US where protection of well-known marks against dilution is concerned.

Subsequently, the Supreme Court of Appeal in the *Gap* case in 2005, despite expressing some doubt on the matter, still seemed to have little trouble in finding on the evidence that the American corporation's marks were sufficiently well-known in the particular segment of the market that its goods are aimed at. The court here concentrated more on the issue of when the marks could be regarded as well-known; finding that although the mark could be regarded as well-known at the date the proceedings were instituted, the marks were not well-known at the date when a local group of companies – AM Moolla Group – first registered the mark in South Africa. Accordingly, the AM Moolla Group could not be prevented from using the marks.

Interestingly, the court also expunged the local companies' marks from the register on the basis of non-use, as the existence of licences for members of the group to use the marks had not been established. The result is a stalemate between the parties, as the local proprietor's registrations have been expunged, but the court did not stop the local proprietor from continuing to use the marks on the basis that they are the well-known marks of another party. At the time of writing this article, this matter had already returned to court and it remains to be seen what decision will be reached this time around.

In another recent dispute between two locally-based parties, the aptly named Laugh It Off Promotions CC and South African Breweries, has resulted in a Constitutional Court decision that makes the protection of famous marks against dilution in South Africa a considerably more challenging task. South African Breweries makes a beer named Black Label and Laugh It Off produced a T-shirt showing an adaptation of SAB's registered label mark, where the logo is virtually identical but the words had been changed from "Black Label" to "Black Labour, White Guilt" and from "America's Lively Lusty Beer – Brewed in South Africa" to "Africa's Lusty, Lively Exploitation Since 1652 – No Regard Given Worldwide".

The Laugh It Off slogans were pointing fingers at SAB and generally all companies that profited from apartheid's racial laws and the resultant cheap labour force. This case therefore dealt with dilution by tarnishment, where the offending use unfavourably taints the trademark and damages the good reputation attached to it, usually where it has been parodied, or used in an offensive or negative manner.

The Cape High Court and the Supreme Court of Appeal compared the two marks and found that they were so similar that there must be dilution. Laugh It Off argued that SAB was required to prove unfair advantage and detriment and since SAB had not submitted any direct evidence of detriment, it had not proved dilution. The appeal court did not really answer this argument, simply finding that any person coming across the shirts would immediately associate them with SAB and that, since the message was unsavoury and degrading, dilution had been proved. It should be noted that South Africa's dilution provision requires only a likelihood of unfair advantage or detriment.

Laugh It Off also raised a defence under the constitutionally protected right to freedom of speech, arguing that it has a right to parody and make fun of SAB's trademark. The Supreme Court of Appeal recognised that trademark rights are subject to constitutional limitations, but found that prejudice to the well-known trademark far outweighed the right to freedom of speech. The finding on this point was taken on appeal to the Constitutional Court.

The Constitutional Court's judgment expounded on the fine balancing act required when determining how far a brand's monopoly might extend in the context of third party acts directed at parodying or making social commentary concerning the brand in usage. Only if evidence of the likelihood of damage to the selling power of the brand is adduced, can a mark – no matter how famous – be protected against dilution in such a context. The Constitutional Court held that no evidence of likely commercial harm to the SAB brand had been adduced, indeed a subsidiary supporting judgement of Sacks J pointed out that hardly any major South African corporation had escaped criticism in the media in recent years, of the kind exhibited on the T-shirt in issue. Against this background the Constitutional Court held the court of appeal had approached the matter in the wrong way,- it should have construed the trade mark infringement section in a manner that was least destructive of the competing entrenched right to freedom of expression. On the facts, as sales of the shirts were not proved to have a likely negative impact on the selling power of the beer brand, Laugh It Off could therefore continue to express its opinion and sell the shirts.

## Conclusion

The Constitutional Court Ruling reiterates the fair evidentiary burden borne by a complainant when deciding what marks should be protected and how far that protection should reach. All owners of foreign well-known marks will now have to adduce ample evidence on two points: first, to show that their mark is well-known and has a sufficient reputation in the relevant market (as at the date of filing or use of the objectionable trademark); and, second, to prove a likelihood of economic detriment to the reputation attached to the well-known mark, above considerations of parody and/or social comment in regard to the usage complained of.

It is recommended that foreign brand holders contemplating entering the South African market who do not yet have registration of their marks here should seek to obtain registration as soon as possible, ensuring that all goods and services of interest to them are covered. Also, per the *Gap* case, any authorised use that is made of the mark by local companies should be in terms of best practice licensing arrangements.



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