

USE OR ABUSE OF: Well-known Trademarks

by

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Submitted in fulfilment of the requirements for the degree
(LLM)

In the Faculty of Law,
University of Pretoria

October 2012

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ACKNOWLEDGEMENTS

My sincere gratitude and appreciation to the following individuals;

Professor HB Klopper, for your valuable insight and wisdom in the field and for the motivation and assistance throughout the research.

My Husband, Glen Ntuli, for your patience and support throughout this period and for your love and encouragement.

SUMMARY

What is trademark dilution and what does anti-dilution statutes protect? Those are the primary questions that the dissertation seeks to answer.

When a well-known trade mark is used by a non-competitor in such a way that the misrepresentation is created that the latter's performance has the same source or origin as the well-known trademark, it is called trademark misappropriation. One of the main reasons for the misappropriation is to promote the latter's product and/or performance and thus benefit from it. Whether we call it use or abuse...it is the dilution of the advertising value of the well-known trademark.

The dissertation investigates the concept of dilution in order to establish the specific interest that is protected against dilution.

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1. INTRODUCTION

“If you allow Rolls Royce restaurants and Rolls Royce cafeterias, and Rolls Royce pants, and Rolls Royce candy, in ten years you will not have the Rolls Royce mark anymore.”¹

When a well-known trademark is used by a non-competitor in such a way that the misrepresentation is created that the latter’s performance has the same source or origin as the well-known trademark, one in fact has to do with the misappropriation of the advertising value of the well-known trademark.²

Whether you call such conduct use or abuse...it is misappropriation.

The concept of dilution is one of the most misunderstood concepts in trademark law especially with regard to what the purpose is for protection against dilution and what the protectable interest is.

The dissertation seeks to examine the concept of trademark dilution in order to determine the interest that is protected.

When a perpetrator uses a well-known trademark that belongs to another, one of the main reasons is to promote their own product and/or performance and thus benefit from it. Such misappropriation according to Neethling³ may infringe upon the rights of the owner of the well-known trademark in two ways. It may violate or damage the reputation of the trademark. This will be the case where the perpetrator’s performance is of such a bad or poor quality that the ordinary consumer who is confronted with such performance obtains a lesser opinion of the well-known

¹ Quoted by WJ Derenberg, “The problem of trademark dilution and the Anti-dilution statutes (1956) 44 California law review 436,229.

² Neethling (1993), 309

³ Neethling (1993), 309

trademark as a result of the association that exists between the perpetrator's performance and the well-known trademark.⁴ Every time the original trademark appears on promotions or when the consumer comes across products with that trademark, he or she automatically thinks about the two as one in the same. Secondly, it infringes upon the proprietor's rights in that there is dilution of the effectiveness, drawing or selling power of the well-known trademark.⁵ The trademark loses its ability to call to the consumer's mind a specific product belonging to the proprietor. It loses its ability to attract customers to the proprietor's products.

Therefore there are two possible interests that are protected by dilution. The dissertation seeks to establish that the Interest that is protected by anti-dilution provisions is not the good will of the business but instead the advertising value of the trademark.

The advertising value of the trademark is a separate entity from the trademark. It is a different intellectual property altogether. The advertising value exists separate from the goodwill of the business. The dissertation discusses the advertising value as a separate right and asset distinguished from the trademark.

In order to get a mark to be well-known, a proprietor has to spend vast amounts of money, he has to invest money and time in order to make sure that the brand is part of the commercial scene, that expenditure and effort is what anti-dilution provisions seeks to protect, not the good will. Anti-dilution provisions seek to prevent exposure of a perpetrator's mark or performance without expense by third parties.

⁴ Neethling (1993), 309

⁵ Neethling (1993), 309

In order to establish a trademark like black label, millions of rands are spent in advertising and marketing strategies. One minute on TV can cost millions of rands. What anti-dilution provisions do effectively or not is to prevent third parties who haven't invested anything whatsoever in the trademark from misappropriating the advertising value and reputation vested therein and from making money out of it and using constitution to justify such conduct.

Objectively such conduct bars on abuse of trademark. Any unauthorised use of a trademark is unlawful, when a third part uses such trademark to promote his own product or to benefit from it somehow and hiding behind the Constitution, that is abuse not only of the rights that such party has under the Constitution but abuse of the trademark by over exposure. If such third party obtained no benefit from such conduct it would be a completely different story.

The use of a well-known trademark by a third party does not necessarily impact on the proprietor's profitability; it only affects the extent to which the trademark is capable of attracting customs. Consumers gradually disassociate the trademark from the proprietor's product. When the trademark is used uncontrollably for other products belonging to other traders this will lead to the dilution of the trademark. The proprietor might not be able to show a decline in their business as a result of such conduct, but the trademark will over time lose its ability to focus attention to the proprietor's product.

If the interest that is protected is the good will of the business as suggested *Laugh It Off Promotions CC v South African Breweries International (Finance) BV t/a*

Sabmark International & Another (2006) (1) SA 144 (CC),⁶ a proprietor would be able and must show a decline in their business.

A proprietor will find it almost impossible to meet the test as applied in *Laugh It Off Promotions CC v South African Breweries International* for the well-known mark to be protected under section 34(1) (c). How is a proprietor going to show likelihood of substantial loss of profit resulting from that use?

It's impossible to show loss of profits because the marks catered for under section 34(1) (c) are not in the same field of competition. It would be strange if a proprietor lost income.

What is involved is the unauthorised use of a well-known trademark, the prejudice that a proprietor suffers is not loss of income but the fact that his trademark is reduced in value through overexposure and over a long period of time such proprietor can lose income.

While the owner of a well-known mark has invested millions of rands in establishing a reputation for that mark, it should not be morally or legally defensible for another person to make money out it.

The dissertation distinguishes between good will on the one hand and advertising value of a trademark. The advertising value is a separate entity divorced from the good will.

If it is accepted that the protected interest is the advertising value of the trademark, the principles that apply in determining whether there was a breach or whether there was damage will be different from those applied under good will.

⁶ Hereafter referred to as *The Laugh it Off case*

The dissertation also distinguishes between the common law protection of assimilation from the statutory protection under section 34(1) (c) of the Trademark Act 194 of 1993.

A person faced with an abuse of his well-known mark has options. He can either use section 34(1) (c) if his well-known trademark is registered in South Africa or use protection afforded under the common law. S 34(1) (c) and assimilation can exist side by side.

After the Constitutional Court decision in the *Laugh It Off case* section 34(c) has lost its teeth. It's impossible for aggrieved parties to prove loss of profit. The effect of the Constitutional Court decision is that use of a well-known trademark is justifiable under the Constitution unless an aggrieved party can show a likelihood of substantial loss. It has opened a gateway for abuse. A well-known trademark owner will find it difficult to show likelihood of substantial loss of profit resulting from that use. In the premises section 34(c) is almost a useless provision.

The dissertation critically analyses the Constitutional case of *Laugh It Off case* to determine whether and where the Constitutional Court went wrong.

Part two deals with an analysis of the nature and functions of a trademark in order to determine how such marks contribute to the society and economy and their importance to the proprietor.

Part three deals with the concept of trademark dilution, what it is, where it originates from, is the protection afforded against dilution under common law and statutory law and the rationale for the protection of trademarks against dilution. Part three also deals with a brief comparative survey in order to determine the similarity in approach

by some sister jurisdictions and to see which foreign anti-dilution classes to attend and which to bunk.

The fundamental aspect of the dissertation will also be discussed in chapter three, where a discussion will be done on what the anti-dilution provisions seeks to protect and then chapter four the dissertation will conclude.

2. TRADEMARK PROTECTION

2.1 Introduction

“A trademark is not the name of a product but it is an adjective- a word which describes the product. The trademark function means that the word describing the product functions to inform the purchaser of the source of the goods, not the nature of the goods.”⁷

What is the value of a trademark to a proprietor or to the consumer who purchases products bearing that trademark? What benefits do trademarks contribute to the society or to the economy that they deserve protection?

Trademarks function powerfully in growth-oriented societies in which consumers have the capacity to choose what they want and to buy wisely. Trademarks play a role in encouraging firm growth and expansion, in helping consumers buy, to reduce the time consumers spend in choosing between different brands, it promotes the production of new products.⁸ The social value of a trademark is ultimately connected

⁷ <http://www.aief-usa.org/ipr/workshop/presentation/hennessey.pdf> page 13(last visit 25 September 2012)

⁸ As above

to its economic value.⁹ It has the function of expanding and strengthening goodwill and as such is a valuable aspect of any trader's commercial interests.

The question of what value trademarks add to the owner or how they contribute to the economy such that they deserve special protection can only be answered with reference to the role and the function that they perform.

A trademark has the ability not only to identify a business but also to distinguish the goods or services of one person from those of another person:

“Trademarks perform a variety of socio-economic functions. Such functions include (a) the source-origin function, (b) the product differentiating-distinguishing function, (c) the quality guarantee function, and (d) the advertising function”¹⁰

2.2 The Nature and Function of a Trademark

2.2.1 Nature of trademarks

A trademark is a mark used or proposed to be used by a person in relation to goods or services for the purpose of distinguishing the goods and services in relation to which the mark is used or proposed to be used from the same kind of goods or services connected in the course of trade with any other person.¹¹

In order to understand the reasons why trademarks are afforded protection, one has to look at the functions performed by the mark in order to understand what is being protected and also to identify how such marks can be infringed upon.

⁹ <http://www.aief-usa.org/ipr/workshop/presentation/hennessey.pdf>

¹⁰ Kaseke (2006),6

¹¹ See section 2(1) of the Trademarks Act 194 of 1993

The study of the function of a specific legal institution is the cornerstone and the most important part of the study of that institution.¹²

Economides states that the primary reasons for the existence and protection of trademarks are that:

“(1) They facilitate and enhance consumer decisions, and (2) they create incentives for firms to produce goods and desirable qualities, even if these qualities are not observable before purchase.”¹³

The essence of Economides’ argument was that trademarks help consumers in their decision making when faced with different products of different quality. Trademarks help consumers reduce the time they spend shopping by selecting a product that is known to be of high quality based on the trademark that appears on the product.

He captures the important role played by a trademark by stating that without these trademarks consumers would often select any products of undesirable quality while firms, unable to inform the consumers of signals of the goods of unobservable high quality, would simply choose to produce goods with the cheapest possible unobservable qualities.¹⁴

However because of the existence of trademarks, it becomes possible to identify unobservable qualities and on the other hand firms now have an incentive to produce goods of quality.¹⁵

Schechter states that that the true function of a trademark is to identify a product as satisfactory and thereby stimulate further purchases by the consuming public.¹⁶

¹² Hertzog (1980),7

¹³ <http://www.stern.nyu.edu/networks/trademarks.pdf> (last visit 25 September 2012)

¹⁴ <http://www.stern.nyu.edu/networks/trademarks.pdf>

¹⁵ www.law.harvard.edu/faculty/tfisher/iptheory.html (last visit 28 September)

¹⁶ Schechter (1927), 814

Therefore the role of a trademark in the economy is very important in that it assists consumers make informed decisions when shopping and it also prompts firms to produce goods that are of high quality and that consumers want.¹⁷ And to the trader it increases turnover and goodwill.

The consumer now relies on a trademark to act as a symbol of quality and guarantee of satisfaction.¹⁸

Trademarks have been recognized by the commercial and industrial sectors of the South African economy as commercial assets of considerable importance and value entitled to protection as such, through trademark legislation.¹⁹

The reason underlying the protection of trademarks in South Africa is two-fold: (a) to prevent deception and confusion linking the goods of the holder of a trademark and that of a non-holder (b) to balance the interest of the registered holder, ensuring he has the widest possible protection against the interests of other traders to continue fair and normal trade.²⁰

2.2.2 Function of trademarks

(a) Introduction

As already indicated above, in order to understand the reasons or rationale for trademark protection an analysis of the functions of a trademark is important to determine the interest that is protected by trademark laws.

¹⁷ <http://www.stern.nyu.edu/networks/trademarks.pdf>

¹⁸ Schechter (1927), 814

¹⁹ Kaseke (2006), 447

²⁰ <http://ejil.oxfordjournals.org/content/20/3/773.full.pdf+html> (last visit 25 September 2012)

Trademarks perform a number of important functions and amongst those functions only a few are important to obtaining trademark protection.

(b) Source or Origin Function

Originally, trademarks were used as indicators of source or origin.

In terms of this function, trademarks operated as indicators of the source upon which the product on which the trademark appeared came from.

The modern trademark traditionally indicated either the origin or ownership of the goods.²¹ This was the basis upon which trademarks enjoyed protection.

Laing argues that “trademarks were viewed exclusively as ‘badges of origin’ the purpose of which was to indicate a connection in the course of trade between the marked goods or services and the owner of the trademark.”²²

According to Friedrich-Karl Beier a trademark should identify the origin of the goods with a particular company. He goes on to say that the rights vested on the trademark owner should serve to protect this function of the trademark only.²³

Anselm Kemperman Sanders and Spyros M. Maniatis however conceptualise the origin function as amenable to two distinct interpretations. First they are of the view that originally a trademark was regarded as a badge of origin in a limited sense- that of identifying the actual or concrete source or manufacturer of the product. This they called the concrete origin function. Secondly they argue that the origin function can be interpreted in a more general and expanded sense, to identify a single unknown

²¹ Schechter (1927), 814

²² Laing (1997), 55

²³ Beier (1970), 61

source guaranteeing the quality of the product to which the trademark is affixed, which is called the abstract origin.²⁴

As a result of modern trade and the national and international distribution of goods from the manufacturer through the importer and retailer to the consumer, and licensing and franchising, the source or origin of the goods bearing a trademark is seldom known to the consumer.

Amanda Michaels points out that while the origin function may have been suitable for the economy in the 19th century, the significant changes in the wholesale and retail trade structures have placed new demands on the trademarks.²⁵

The economic developments in the 20th century and the rapid growth of industry, effective product distribution and large scale promotion had the impact of exposing the limitations of recognising the origin function as the sole function of the trademark.²⁶

Rutherford states that the trademark is in fact capable of fulfilling different functions.

Hertzog is of the view that the origin function can be interpreted as relating to origin in the sense of some (known) business, or as relating to origin in the sense of some (unknown) business. These two interpretations are referred to as, alternatively, the concrete and abstract theories of origin.²⁷

He goes on to say that in some cases, it may be clear that a trademark is fulfilling a concrete origin function like in the case of factories and business marks. However often times it is not as clear.²⁸

²⁴ Anselm Kemperman Sanders and Spyros M. Maniatis (1993), 407

²⁵ Michaels (1980), 13

²⁶ Rutherford (1990), 151

²⁷ Hertzog (1980),20

²⁸ Hertzog (1980),20

Dan Shanaham recognises the progression of the trade industry and states that the origin function serves the primary source while the other functions serve secondary functions.²⁹ Because of the licencing arrangement, Shanaham argues that consumers do not expect that the goods on which the trademark is affixed to come from one identifiable manufacturer.

The trademark according to Schechter does not indicate that a product comes from a definite source but merely that the goods in connection with which the trademark is used emanate from the same source or have reached the consumer through the same channels as certain other goods that have already given the consumer satisfaction.³⁰

The initial accepted basis for protection of a trademark as an identifier of origin has given way to a wider notion of its value as an asset and its pivotal role in advertising and building a brand. Schechter argues that the notion of the function of a trademark solely indicating 'source of origin' is an archaic one.³¹

Lord Mackenzie Stuart poses the question whether the origin function has only limited value by stating:

“As I have said there is no doubt that the law protects and from the beginning intended to protect the negative aspect or origin function. Common sense and equity, in the broadest sense require that a manufacturer or regular trader in goods of a certain type should be protected against the counterfeit and that whether the falsity is intentional or otherwise. In fact the law goes further. It protects the holder of the mark even when his connection with the product is of the most tenacious save that he is the registered holder of the mark.”³²

²⁹ Dan Shanahan(1982), at 239 citing the GE trademark case [1969] RPC 418, [1970] RPC 339

³⁰ Schechter (1927), 816

³¹ Schechter (1927), 339

³² Lord Mackenzie Stuart IIC Vol 7 (1976) 27-38, at 30

Gardiner however is of the view that the origin function of trademarks still maintains a dominant position in trademark law.³³

Trademarks have traditionally enjoyed protection on the basis of their ability to indicate the origin or source of the products on which they appear, however as a result of economic development in the twentieth century and especially the rapid growth of industry, effective product distribution and large scale promotion, it was realised that a trademark was capable of fulfilling different functions.

(c) Distinguishing Function

The second function that a trademark serves is that of distinguishing a trademark owner's goods or services from those of his competitors.³⁴ Hertzog explained it in this way:

"The trademark (a) in a negative sense may indicate that a product bearing this mark is not the same as the one bearing that specific mark, and (b) in a positive sense it may indicate that all articles bearing the same mark are of an identical nature".³⁵

Gardiner asserts that, before a mark can indicate a link between a particular product and a source, the mark must identify the product and must, in order to qualify as a trademark, have the capability of distinguishing such products from products emanating elsewhere.³⁶

³³ Gardiner (1995), 458

³⁴ Laing (2005), 17

³⁵ Hertzog (1980), 14

³⁶ Gardiner (1995), 458-459

Klopper and Van der spuy argue that this function is essentially the main function served by a trademark.³⁷ They support this argument by stating that the South African Trademarks Act 194 of 1993 places emphasis on the distinguishing function.

They illustrate the distinguishing function by using this example:

“By giving toothpaste the trademark “Pepsodent”, the manufacturer of the toothpaste distinguishes his product from toothpaste that has a distinguishing trademark of “Aquafresh”.³⁸

This is a very important function because as Gardiner states, if a mark cannot perform this function, the mark is not a trademark, whatever other functions it might perform.³⁹ Gardiner contends that this ability to distinguish goods and services is fundamental to trademark law.⁴⁰

Eligibility for registration and the degree of trademark protection accorded to the mark depends largely on the mark’s distinctiveness. The role of a trademark when performing the product distinguishing function was succinctly formulated by Shanahan when he pointed out that:

“When a customer orders 7UP he does not expect to get sarsaparilla. He knows that he is going to get a particular kind of soft drink- so in that sense the mark has a kind of descriptive function. However the mark is not simply a description. It indicates to all and sundry that the soda bearing the mark owes its formulation and quality to a particular organization. It is therefore a trademark”.⁴¹

Kaseke argues that this function may be given two possible interpretations. On one hand the function may be concerned with the trademarks ability to distinguish products and on the other hand the function attaches significance to the owner of the

³⁷ Klopper and Van der spuy (2008), 140

³⁸ Klopper and Van der spuy (2008), 140

³⁹ Gardiner (1995),459

⁴⁰ Gardiner (1995),459

⁴¹ Dan Shanahan, (1982) 72

products which are being distinguished, which then make origin function and the distinguishing function as one function.⁴² What is protected under this function is a trademark's ability to distinguish.

This is a very important function as it serves as a requirement for the trademark to qualify for protection under the South African legislation. The core property of any sign that may be protected as a trademark is its distinctiveness. The sign must serve to distinguish goods or services of a given enterprise from those of other enterprises. Signs lacking distinctiveness are excluded from protection.

The Trademark Act of 1993 emphasis on the distinguishing function which according to Klopper and Van der Spuy is more realistic, from a modern commercial point of view.⁴³

Rutherford states that a trader uses his trademark in relation to his goods or services to identify and distinguish them from similar products of, and at the same time, enabling the consumer to identify the product of a particular trader and to distinguish it from a range of competing products.⁴⁴

In the case of *Two Pesos Inc v Taco Cabana Inc*, the American Supreme Court asserted that "the Lanham Act's purposes [are to secure] to a mark's owner the goodwill of his business and protecting consumers' ability to distinguish among competing producers".⁴⁵

⁴² Kaseke (2006), 14

⁴³ Klopper and Van der spuy (2008), 141

⁴⁴ Rutherford (2006), 355

⁴⁵ 505 US 763, 112 S.Ct. 2753 (1992)

(c) Quality Guarantee Function

Gardiner states that the origin of the quality function is to be found in the medieval bench marks which created a link between the marks and quality of both the workmanship and the goods on which the trademarks appeared.⁴⁶

The function was simply an assurance or guarantee to a consumer that the product obtained from a particular manufacturer will produce the same type of quality all the time. People observing a certain mark on a certain article, come to expect the same quality from all article bearing that mark.

What the trademark does effectively in not necessarily to indicate the origin of the product but to guarantee to the consumer that the goods purchased under the mark have the same meritorious qualities as those previously noted in earlier purchases of goods bearing the mark.⁴⁷

By quality function, what is meant according to Gardiner is that “each time the consumer encounters a marked product he will proceed from the supposition that the product is more or less of the same quality as other products featuring the same mark.”⁴⁸ He goes on to say that the quality function becomes a trust function which assures the public that the product featuring the mark has maintained the known properties and characteristics. If all products of a certain type all have the same word or name, the consumer will have no way of telling the products apart.⁴⁹ Thus, when a consumer buys a product and likes it, and goes back to the store to buy more, if all similar products are sold under the same name, the consumer will not be able to tell which were the products he or she liked and will therefore be unable to obtain

⁴⁶ Gardiner (1995),476

⁴⁷ Gardiner (1995),476

⁴⁸ Gardiner (1995),480

⁴⁹ Gardiner (1995),480

products with the qualities he/she desires. Trademarks assist persons faced with different options to select a product which past experience has shown to be satisfactory. The quality function helps them to pick the product they know they can trust because of past experience. Without trademarks, consumers could not identify a superior product, the superior product would not enjoy greater sales, and there would be no incentive for the manufacturer to make a better product.

Economides explains the quality function by distinguishing between search goods and experience goods.⁵⁰ He defines experience goods as those goods that a consumer buys and gathers information and features about the particular products through experience. The consumer subsequently uses that experience to purchase the product again.⁵¹ That is how the trademark assists, in helping the consumer faced with a multiplicity of trademarks to select the product which past experiences have shown to be satisfactory. He defines search goods as goods which are infrequently consumed by the same individual.⁵² Because the consumer lacks past experience or previous consumption, the consumer is compelled to rely on information they obtained from advertisements on the particular product.⁵³ If, for example, a company makes a refrigerator that a consumer buys and likes, the consumer may very well buy a stove or a washing machine with the same trademark. Even though the consumer has no way of telling if the product is of high quality, he or she will rely on the quality associated with the trademark to make a choice of buying or not. Take as another example the trademark Apple which is known for manufacturing computers and phones. The mark is well-known for the quality products it produces. If Apple decides to expand their business to manufacture household appliances, consumers will use

⁵⁰ <http://www.stern.nyu.edu/networks/trademarks.pdf>

⁵¹ As above

⁵² As above

⁵³ As above

their knowledge of the trademark based on past experiences in order to decide to trust that the appliances are or will be of high quality. In other words, experience with a trademark helps a consumer who is satisfied with the quality to trust a particular trademark without first trying out or testing the product. The greatest advantage of a trademark to the consumer is that market information about the product is accurate, so that the purchaser can buy the desired product and avoid products of lower or different quality. However, when a consumer wants to buy a product for the first time, they will have to rely on the information they have gathered through advertisements or other people's experiences in order to select a product, which brings us to the fourth function of trademarks, the advertising function.

(d) Advertising Function

The advertising function of the trademark was first advocated by Frank Schechter when he argued that “the true function a trademark is to identify a product as satisfactory and thereby stimulate further purchases by the consuming public”.⁵⁴ He described the basis of this function as follows:

“The fact that through his trademark the manufacturer or importer may “reach over the shoulder of the retailer” and across the latter's counter straight to the consumer cannot be over-emphasised, for there lies the key for any effective scheme for trademark protection”.⁵⁵

Schechter's argument was that the basis for the protection of trademarks is to protect the advertising function. He states that a trademark is not merely a symbol of the goodwill of a business but in fact is the agent for the creation and perpetuation of the

⁵⁴ Schechter (1927]

⁵⁵ Schechter (1927),818

goodwill of the business and that he said is the aspect of the trademark that is most in need of protection.⁵⁶

Diamond explains this function by stating that:

“A trademark obviously is a symbolic device that can be used in advertising. More specifically, the package that bears the trademark becomes an advertising medium itself- an advertising medium that is particularly important in present-day merchandising when so many products are bought off the shelf in supermarkets and other self-service establishments.”⁵⁷

Owners of trademarks spend a lot of money establishing the distinctive quality of their marks and in creating a reputation for the mark. They work hard at trying to create a brand with that mark. They attempt to give a mark the ability to imprint upon the public mind an anonymous and impersonal guarantee of satisfaction.

Hertzog states that when an owner of a mark uses the mark in trade and also promotes the product on which the mark appears, the mark may become possessed of certain attractiveness and suggestive properties.⁵⁸ This he adds gives the mark a value independent of the qualitative properties of the product advertised.⁵⁹ Once a trademark owner succeeds in getting his trademark to call to mind a specific product and to evoke an association and desirability with that product, the trademark has advertising value.⁶⁰

The importance of the advertising function lies in the significant potential which a mark provides for the producer to communicate with consumers via the advertising media. A trademark provides the means by which a product is identified and

⁵⁶ Schechter (1927),818-818

⁵⁷ Diamond(1975),290

⁵⁸ Hertzog (1980),14

⁵⁹ Hertzog (1980),14

⁶⁰ Rutherford (1990),151

attention is drawn thereto. It is the phenomenon which provides the reason for protecting trademarks; a mark obtains its notoriety through advertising expenditure.⁶¹

The role of the advertising function is to create and retain custom by selling the product. The trademark with advertising value plays the role of communicating to the consumer the qualities and characteristics of the product it appears on. The trademark creates an association between the product and the trademark. The trademark becomes a sales magnet because it becomes the devices that stimulates a desire for the product and helps to sell that product and thereby creating and retaining custom.⁶² The advertising function of a trademark involves the ability of the trademark to call the mind and to draw attention of the purchasing public to a specific product by virtue of the distinctive quality, uniqueness, selling power and commercial magnetism inherent in the particular trademark.⁶³

Rutherford is of the opinion that of all the functions that a trademark serves the advertising function is regarded by modern commerce as the most prevalent and important economic function.⁶⁴ Rutherford states that through the use of sophisticated advertising techniques, a manufacturer is simply trying to promote the sales of his product; He does that by using his trademark to identify and distinguish his product from those of other manufactures and then he uses it as a conduit for the transmission of the persuasive power of his advertising.⁶⁵

The advertising function symbolises an ability of the mark to create and retain custom by imprinting on the mind of the public a guarantee of satisfaction by creating a desire for further satisfaction in respect of the goods upon which the trademark

⁶¹ Rutherford (1990), 157

⁶² Kaseke (2006), 22

⁶³ Schechter (1927), 816

⁶⁴ Rutherford (1990), 151

⁶⁵ Rutherford (1990), 56

appears.⁶⁶ Schechter describes the advertising function of the trademark as the trademark selling the product. The trademark is not merely a symbol of goodwill but is an agent for imprinting upon the mind of the public a guarantee of satisfaction.⁶⁷

3. WELL-KNOWN TRADEMARKS

3.1 The Protection of Well-known Trademarks

(a) Introduction

“Trademarks have been recognized by the commercial and industrial sectors of the South African economy as commercial assets of considerable importance and value entitled to protection as such, through trademark legislation”.⁶⁸

Not every registered mark can perform that function in its particular trade or industry. For a mark to be of such importance as described by Kaseke it has to have certain qualities about it which distinguish it from other marks in its particular trade or sector. Such marks have been described by some authors as famous or well-known trademarks.⁶⁹

Laing states that: “...while an ordinary mark serves the function of distinguishing the trademark owner’s goods from those of his competitor and act as a badge of origin for consumers, a well-known brand does far more”.⁷⁰ Well-known trade-marks according to Laing have a unique selling power, inherent advertising value, and

⁶⁶ Schechter (1927), 814

⁶⁷ Schechter (1927), 814

⁶⁸ Kaseke (2006), 447

⁶⁴ Laing (2005), 17

⁷⁰ As above

commercial magnetism reaching beyond the immediate product it identifies.⁷¹ Laing has described these trademarks as ‘creative silent salesman’ and states that such a ‘creative silent sales man’ has great value which is protected by trade-mark law.⁷²

Before a mark can attain a reputation in a specific field or become well-known, the owner spends a lot of time, effort and money to form it into a brand. The owner promotes his product by firstly using his trademark to identify and distinguish his product and then he uses his trademark as a conduit for the transmission of the persuasive power of his advertising.⁷³ Through advertising and marketing, the trademark owner not only promotes the sales of his product but also creates a brand which will later sell the product for him. If a trader manages, through advertising efforts, to establish a unique identity and commercial magnetism in his trademark, then he has created a valuable asset of considerable economic worth⁷⁴

Owners of well-known brands would want to maintain the strength and selling power of their marks as they are valuable but intangible assets.⁷⁵

While brand managers have direct control over how their brand names are used in brand extensions, they have considerably less control over how they are used by other entities.⁷⁶

⁷¹ Laing (2005), 17

⁷² As above

⁷³ Rutherford (1990), 151

⁷⁴ Rutherford (1990), 151

⁷⁵ <http://www.stat.osu.edu/~amd/papers/Trademark.pdf> at page 4

⁷⁶ <http://www.stat.osu.edu/~amd/papers/Trademark.pdf> 4 (last visit 25 September 2012)

If a person or firm were to use a famous mark in such a way as to cause consumer confusion or deception regarding product source, the original owner of the brand name could sue the "second user" on the basis of trademark infringement.

A trade-mark registration confers a limited monopoly on the trade-mark proprietor. It entitles him to the exclusive use of his trademark in relation to the product for which it is registered for the purpose of distinguishing his product from others. As a corollary, it entitles him to prevent others from using his trademark, or a confusingly similar mark, in the course of trade in relation to the same or similar products (s 34(a) and (b) of the Trademarks Act, 1993). However the imitative use of a trademark does not always cause confusion among consumers, particularly when it is used in a product category completely unrelated to that of the trademark owner.⁷⁷ Dilution as already discussed occurs when the distinctive character of a well-known trademark is impaired, or when its reputation is damaged due to the link that the public draws between it and its unauthorised use on another product or service. The owner of a well-known trademark is entitled to prevent any unauthorized use of his mark that takes unfair advantage, or erodes or dilutes the distinctive character or repute, of his mark. In this instance likelihood of confusion or deception is not required.

It is important to determine what the concept "well-known" encompasses in the context of trademarks because before an owner of a mark can be entitled to claim protection under trademark dilution, his trademark must be well-known or must have a reputation in the jurisdiction where he seeks protection.

⁷⁷ <http://www.stat.osu.edu/~amd/papers/Trademark.pdf> at page 4

(b) Well-known trademark

In order for a proprietor to claim protection against dilution, his trademark must be known primarily for a specific product and must have established, in addition, a wide commercial reputation, encompassing more than one class.⁷⁸The Trademark Act does not define “well-known”. It is important for the owners of well-known trademarks to know whether the trademark should be well-known to the general public or just to a particular section of the market in order to qualify for protection under anti-dilution provisions. In *Triomed (pty) Ltd v Beecham Group plc* the court held that “well-known” in relation to section 34 (1) (c) of the Trademark Act 194 of 1993 should be interpreted in the same way as in section 35 of the Trademark Act 194 of 1993.⁷⁹The court held that the phrase “well-known in the Republic” means a mark with a reputation to a substantial number of members of the public or persons in the trade in question.

In *Mc Donald’s Corporation v Joburgers drive-inn Restaurant* the court held that the trademark must be well-known to potential traders and customers of the particular goods and services in the whole of South Africa and includes all ethnic groups of the population.⁸⁰

However, according to the Supreme Court of Appeal in *McDonald’s Corporation v Joburgers Drive-Inn Restaurant* a trademark is well-known in South Africa if it is well-known to persons who are interested in that to which a trademark relates. It will be

⁷⁸ Alberts (2007),36

⁷⁹ *Triomed (pty) Ltd v Beecham Group plc*, 2001 2 SA 522 (T), at pg

⁸⁰ *McDonald’s Corporation v Dax Prop CC & Another; McDonald’s Corporation v Joburgers Drive-Inn Restaurant (Pty) Ltd & Another; McDonald’s Corporation v Joburgers Drive-Inn Restaurant (Pty) Ltd & Dax Prop CC* 1997 (1) SA 1 (A)

sufficient for this purpose if a substantial number of persons that will be normally be interested in the particular goods and services are aware of the trademark.⁸¹

3.2 Trademark Dilution

(a) Introduction

When a third party exploits the commercial magnetism, goodwill or popularity of a well-known trademark on non-competing goods, such conduct results in a particular form of injury to a trademark owner. Trademark dilution refers to the diminishing of trademark's marketing value.

Dilution is said to occur when the distinctive character of a well-known trademark is impaired, or when its reputation is damaged due to the association that the public makes between it and its unauthorised use in respect of another product or service.⁸²

Given that it can harm a trademark in two ways, two types of dilution are commonly recognised: dilution by blurring and dilution by tarnishment.

Dilution in the form of blurring occurs when consumer gradually disassociate the trademark from the proprietor's product or service. Dilution by tarnishment occurs when a well-known trademark is used in relation to inferior goods or services, or in a degrading or offensive context, which leads to an unfavourable association in the public mind. Here the trademark is diluted not only by the erosion of its distinctive character but also by the tarnishing of its positive reputation and good name where it is parodied or used in an offensive or negative connotation.⁸³

⁸¹ McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty) Ltd & Dax Prop CC 1997 (1) SA 1 (A), at pg

⁸² Rutherford (2006), 359

⁸³ Pistorius (2004), 728

(b) Dilution by blurring

Dilution by blurring is the typical type of dilution. A claim for dilution by blurring seeks to protect against the misappropriation of the advertising value of a trademark in the absence of competition or a likelihood of confusion. Pistorius has defined dilution by blurring as the gradual consumer disassociation of the trademark from the proprietor's product or service.⁸⁴

Schechter describes dilution by blurring as “the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods”.⁸⁵ According to Schechter:

“The more distinctive or unique the mark, the deeper is its impress upon the public consciousness, and the greater its need for protection against vitiation or dissociation from the particular product in connection with which it has been used.”⁸⁶

In the case of dilution by blurring, the positive association which the plaintiff's trademark enjoys in relation to the plaintiff's goods is transferred to the defendant's goods. In this way, the advertising value of the plaintiff's trademark is shared between two or more products, and its ability to exclusivity focus on the plaintiff's product becomes ‘blurred’ or ‘eroded’.⁸⁷

Kaseke states that:

“what is meant by blurring occurs when the exclusive focus on the trademark owner's goods, which is brought about by the advertising value, uniqueness, selling power and so on of his trademark, is rendered dim (and is in this way deformed and rendered less visible in its exclusive focusing function)

⁸⁴ Pistorius (2004), 728

⁸⁵ Schechter (1927), 814

⁸⁶ Schechter (1927), 814

⁸⁷ Rutherford (1990), 153

when that value is used (or is misappropriated) by another trader without the trademark owner's permission in respect of the other trader's goods."⁸⁸

He goes on to say that:

"the exclusive focus becomes dim because, instead of being concentrated only on the trademark owner's goods, it becomes concentrated on different goods-competing or non-competing- and this is what is meant by the expression often-used without adequate explanation that the advertising value becomes "blurred", "whittled away", "watered down", "eroded", "corroded", "attenuated" and so on, or "is shared between different product".⁸⁹

This blurring, he continues: "Dilutes or lessens the ability of the trademark to exclusively focus the attention of members of the consuming public on the trademark owner's goods."⁹⁰

Rutherford maintains that: "dilution by blurring occurs where a well-known trademark is used by others in relation to a variety of other products. This leads to the gradual consumer disassociation of the mark from the proprietor's products. As a result, the distinctiveness and commercial magnetism of the trademark becomes eroded and eventually destroyed."⁹¹

In *Verimark v BMW*, the court pointed out that the mere fact that consumers will associate the allegedly infringing mark with the well-known trademark is not sufficient to establish dilution by blurring, evidence of some additional factor that indicates a lessening of the capacity of the well-known trademark to distinguish the products of its proprietor is required.⁹²

⁸⁸ Kaseke (2006), 389

⁸⁹ Kaseke (2006), 451

⁹⁰ Kaseke (2006),451

⁹¹ Rutherford (2006), 356

⁹² *Verimark (Pty) Ltd v BMW* 2007 (6) SA 263 (SCA)at par 93-94

(c) Dilution by tarnishment

Dilution, according to Pistorius, may also occur by what is known as tarnishment which occurs when the well-known trademark is used in relation to inferior goods or services, or in a degrading or offensive context, which leads to an unfavourable association in the public mind.⁹³

She goes on to explain that the trademark is "...diluted not only by the erosion of its distinctive character but also by the tarnishing of its positive reputation and good name where it is parodied or used in an offensive or negative connotation."⁹⁴

Kaseke wrote that:

"the distinctive quality and commercial magnetism of a trademark which serves to evoke satisfaction and to focus attention in the public mind on the trademark owner's goods can be diluted and tarnished if the trademark is linked to products of inferior quality, or products of an immoral or unwholesome character, or where the trademark is portrayed in an unsavoury context likely to evoke negative thoughts about the trademark owner's goods."⁹⁵

In such situations, the trademark's reputation and commercial value diminishes when the public transfers the negative or undesirable characteristics of the defendant's goods to the trademark owner's goods.

Mostert notes that:

"the unauthorised use of a trademark in an unsavoury context could tarnish the favourable association that it evokes with the purchasing public about a product. If a trademark is used without consent on non-

⁹³ Pistorius (2004), 728

⁹⁴ Pistorius (2004), 728

⁹⁵ Kaseke (2006), 456

competing goods in an offensive and unsavoury connotation, the favourable association which it creates with the purchasing public can be severely tarnished”.⁹⁶

In the *Triomed (pty) Ltd v Beecham Group plc, 2001 2 SA 522 (T)* tarnishment was described as an unfavourable association between the well-known registered mark and the defendant’s mark.⁹⁷ The court noted that it is an impairment of the capacity of the well-known mark to stimulate the desire to buy.⁹⁸

Tarnishment, according to Rutherford, occurs where “the trademark is used in relation to inferior products, or where it is used in an offensive or negative context. This leads to an unfavourable association attaching to the mark and consequent erosion of the repute of the mark.”⁹⁹

In *Verimark (Pty) Ltd v BMW* the court pointed out that, in the case of tarnishment, it must be substantial in the sense that it is likely to cause substantial harm to the uniqueness of the trademark.¹⁰⁰

One can argue that tarnishment can lead to the watering down or erosion of the impact value or economic value of the trademark because when a competitor uses the trademark, his intention is to misappropriate the fame and the value that underlies the trademark in order to promote his own product. The eventuality that his product turns out to be of a lesser quality is the after effect of the act of misappropriation. What the competitor sought to achieve was to share in the fame or reputation of the well-known brand in order to promote his product.

⁹⁶ As quoted by Kaseke (2006), 50

⁹⁷ *Triomed (pty) Ltd v Beecham Group plc, 2001 2 SA 522 (T)*, at page 557

⁹⁸ *Triomed (pty) Ltd v Beecham Group plc, 2001 2 SA 522 (T)*, at page 557

⁹⁹ Rutherford (2006), 359

¹⁰⁰ *Verimark (Pty) Ltd v BMW 2007 (6) SA 263 (SCA)* par 93

Tarnishment and blurring are the effect of the act of misappropriation. The concept of dilution seeks to prevent this act of misappropriation in order to protect the trademark owner from the effect of it which is the blurring or tarnishment of his trademark.

Therefore one can conclude that dilution is the misappropriation by a competitor of the reputation/fame or advertising value of the well-known trademark in order to use it on his products in order to exploit the commercial magnetism, the selling power and the unique distinctive identity embodied in the trademark for his own advantage or benefit.¹⁰¹

3.3 The protection under South Africa Legislation

3.3.1 The Trademark Act, 194 of 1993

Our current Trademarks Act 194 of 1993 ('the Act') came into force in May 1995. Before then, the repealed Trademarks Act 62 of 1963 did not specially protect well-known marks. Provision was made only for traditional infringement.

When the South African Trademarks Act 194 of 1993 came into force on 1 May 1995, it included section 34(1) (c) which provides:

"...that one commits trademark infringement when one uses in the course of trade, in relation to any goods or services, either an identical or a similar mark to the registered trademark which is well-known in South Africa and such use of the mark will likely take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trademark, irrespective of whether confusion or deception is present or likely."

Section 34(1)(c) introduced protection which falls outside the traditional scope of trademark infringement. This protection is for a well-known registered trademark

¹⁰¹ Kaseke(2006), 32

against use of the mark by others on goods or services that are dissimilar to those on which the proprietor of the mark has used it. Such trademarks are then protected against the dilution of the distinctive character or reputation which it has acquired.

This provision is, according to Smith intended to protect proprietors of well-known trademarks against erosion and diminution of their rights through offending use by infringers:¹⁰²

“Section 34 (1) (c), despite the absence of the word “dilution” in its text, is in fact an anti-dilution provision aimed at protecting the advertising value of a trademark well-known in the Republic from dilution”¹⁰³.

This type of infringement, according to Kelbrick prevents the use of the same or a similar mark on any goods or services, similar or dissimilar. This means that while the mark must be registered for some goods or services in South Africa protection is also given for goods or services for which it is not registered¹⁰⁴

The most important decision dealing with the protection of well-known trademarks against dilution is *Laugh It Off Promotions CC v South African Breweries International (Finance) BV t/a Sabmark International & Another (2006) (1) SA 144 (CC)*. This Case concerned the interface between the protection afforded to the proprietor of a well-known registered trademark by s 34(1)(c) of the Trademarks Act and the right to freedom of expression as entrenched in s 16(1) of the Constitution of the Republic of South Africa, 1996.

Laugh it off had produced and sold T-shirts with the general layout and colours of the respondent’s registered marks for a beer label, but with a different message. The

¹⁰² Smith (2004), 196

¹⁰³ Smith (2004), 196

¹⁰⁴ Kelbrick (2007), 87

trademark BLACK LABEL had been replaced by BLACK LABOUR while the slogan “America’s lusty, lively beer-brewed in South Africa” had been replaced by “Africa’s lusty, lively exploitation since 1652- no regard given worldwide”. The Respondents approached the High Court for an interdict on the grounds of section 34(1) (c) of the Trademarks Act 194 of 1993. The applicant resisted the relief sought, contending that its use of the trademark had not infringed the section inasmuch as the likelihood of detriment to the reputation of the marks had not been established and that, in any event, it was expressing freedom of expression as entrenched in section 16(1) of the Constitution.

The respondents conceded that Sabmark had established the first three requirements for infringement, but denied that its use of the CARLING BLACK LABEL trademark would be likely to take unfair advantage of, or be detrimental to, the distinctive character or repute of such mark. It contended that the right to freedom of expression protects its comments and that s 34(1)(c) should be interpreted restrictively in a way that gives adequate protection to this right.

The High Court and the Supreme Court of Appeal rejected the appellant’s contention and found that the appellant’s use of the marks was not mere parody that pokes fun at the trademarks. The Courts *agou* held that it was rather a publication which borders on hate speech because it invokes the race factor, something that our Constitution and our new democracy are at pains to eschew. The Constitutional Court, pointed out that the purpose of s 34(1) (c) is to protect the trademark and the commercial interests of the proprietor of a well-known registered trademark by prohibiting use which, although not giving rise to confusion or deception, still

materially undermines the repute of the mark.¹⁰⁵ The provision is aimed at preventing the dilution of a well-known trademark by blurring as well as by tarnishment.¹⁰⁶ The present case concerned dilution by tarnishment. The Constitutional Court criticised the two-stage approach adopted by the Supreme Court of Appeal (The Supreme Court of Appeal had first enquired whether the conduct complained of amounted to infringement in terms of s 34(1)(c), and then whether such infringement was justified by a claim to freedom of expression.¹⁰⁷ The Constitutional Court held that such an approach precluded a proper evaluation of the guarantee of freedom of expression and prevented an understanding of the requirements of s 34(1) (c) consistent with the Constitution. He held that the correct approach is first to determine whether the expression is protected by s 16(1).¹⁰⁸ If it is, the requirements of s 34(1) (c) must be construed in the light of the Constitution and applied in a manner that does not unduly restrict freedom of expression. This involves a balancing of the constitutional guarantee of freedom of expression against the rights of the trade-mark proprietor for the purpose of determining whether the use complained of is unfair and materially harmful to the repute of the mark.¹⁰⁹

The approach of the Constitutional Court appears to be that where freedom of speech is found to prevail, there is no detriment in the legal sense, even though factually there may be, for example, risk of confusion. Indeed, it appears that the matrix of what constitutes detriment is enlarged in the interpretative process to include constitutional concerns, so that where an expression is found to be constitutionally protected, ultimately, there can be no detriment.

¹⁰⁵ Laugh It Off case, at pg. 163

¹⁰⁶ As above

¹⁰⁷ As above at pg. 164

¹⁰⁸ As above at pg. 165

¹⁰⁹ As above

The Court stressed that the section requires that any detriment relied upon by a trade-mark proprietor must be unfair also: it must be substantial in the sense that it must be likely to cause substantial harm to the uniqueness and repute of the mark.¹¹⁰

The conduct of laugh it off in this case represents a classic case of dilution by tarnishment. What the Constitutional Court failed to realise was the fact that the conduct of laugh It Off constituted trademark infringement in terms of section 34(1) (c). The conduct might be protected under the Constitution but when looking at the requirements in the section, Sabmark International was entitled to the protection under section 34(1) (c)

To succeed with the claim the proprietor has to show that the infringer has created an association in the minds of consumers between the well-known trademark and his infringing mark and also establish a transfer of repute from the well-known trademark to the products of the infringer that would facilitate the sale of the infringer's products. This it appears was not enough.

Reversing the decision of the Supreme Court of Appeal, the Constitutional Court held that Laugh It Off's use of the CARLING BLACK LABEL trademark did not constitute an infringement in terms of s 34(1)(c).

The decision by the constitutional court in *Laugh It off case* has received many criticisms. One of the implications is that it made it difficult for trademark holders to claim protection under section 34(1) should they be confronted with the same situation.

¹¹⁰ As above at pg. 167

A content analyses of the provisions of section 34 (1) (c) of the Trademark Act will now be made in order to determine what the owner of a well-known trademark will be required to prove before he is entitled to claim protection afforded under this section.

In the course of trade

In order for the owner of a well-known trademark to be successful with his claim for protection under section 34 (1) (c), the unauthorised use of his well-known mark must be *in the course of trade*. Despite the fact that the perpetrator need not use the trademark on goods similar to those of the trademark, the use by the perpetrator must still be in the course of trade.¹¹¹ In *Verimark (Pty) Ltd v BMW* stated that section 34 (1) (c) of the Act is not limited to trademark use.¹¹²

Similar or identical to the well-known trademark

In terms of section 34 (1) (c) of the Act, the court in *Bata limited v Face Fashions Close Corporation and Another* case held that the similarity of the trademarks had to be considered without reference to likelihood of confusion or deception. The court gave the word similar a strict interpretation, arguing that although the section seeks to preserve the reputation of the registered trademark, giving it a wide interpretation might have the effect of creating an unacceptable monopoly to the registered owner of a trademark and thereby unduly stultifying freedom of trade.¹¹³

¹¹¹ Klopper et al (2008), 195

¹¹² *Verimark (Pty) Ltd v BMW* 2007 (6) SA 263 (SCA)

¹¹³ *Bata limited v Face Fashions Close Corporation and another* 2000 JDR 6657 (SCA), at 5.

The court concluded in the context of section 34 (1) (c) of the Act that the section does not apply if the two marks are similar simply because they contained features of the same kind or there is a slight resemblance between them.¹¹⁴

Likely to take unfair advantage of, or be detrimental to, the distinctive character or repute of the registered trademark

The concepts of ‘unfair advantage’ and ‘detriment’ are alternative requirements.

The concept of ‘unfair advantage’ requires an enquiry into the benefit gained by the infringer from the use of the allegedly infringing mark.¹¹⁵

The concept of ‘detriment’ requires an enquiry into the damage to the distinctive character or repute of the trademark.¹¹⁶

“The words ‘detrimental to the distinctive character’ refer to dilution by blurring. The words ‘detrimental to the repute’, on the other hand, refer to dilution by tarnishment”.¹¹⁷

The notion of taking unfair advantage of the distinctive character or repute of a trademark is akin to the notion of misappropriation.¹¹⁸ The proscription of such conduct is aimed at preventing the exploitation or free-riding on the reputation of a well-known trademark. Unlike the notion of detriment to the distinctive character or repute which requires a lessening of the distinguishing capacity of the trademark, taking unfair advantage involves the accrual to the infringer of some benefit or

¹¹⁴ *Bata limited v Face Fashions Close Corporation and another*, at 6

¹¹⁵ Rutherford (2007), 465

¹¹⁶ Rutherford (2007), 465

¹¹⁷ Rutherford (2007), 465

¹¹⁸ Rutherford (2007), 469

marketing advantage flowing from his use of the well-known trademark.¹¹⁹ To succeed with a claim of taking unfair advantage, the proprietor has to prove that the infringer has created an association in the minds of consumers between the well-known trademark and his infringing mark. Also, the proprietor has to establish a transfer of repute from the well-known trademark to the products of the infringer that would facilitate the sale of the infringer's products. The unfair advantage accruing to the infringer would also have to be substantial. The court in *Laugh It* held that likely prejudice or detriment must be restricted to material harm in the economic sense.¹²⁰

In *Verimark (Pty) Ltd v BMW*¹²¹ the court pointed out that not only must the advantage be unfair, but it must be of a significant degree to warrant the restraining of non-confusing use. The unfair advantage accruing to the infringer must also be properly substantiated or established to the satisfaction of the court. The court held that the mere mental association between the infringing mark and the registered trademark is clearly not sufficient to establish an unfair advantage, the trademark proprietor would; in addition, probably have to establish a transfer of repute from the well-known trademark to the products of the infringer that would facilitate the sale of the infringer's products.¹²²

¹¹⁹ Rutherford (2007), 470

¹²⁰ *Laugh It Off* case, at pg. 168

¹²¹ *Verimark (Pty) Ltd v BMW* 2007 (6) SA 263 (SCA)

¹²² As above at par 106

3.4 A comparative survey

3.4.1 Introduction

The background to our trademark law was neatly summarised by Harms DP who stated that the major shift in the approach in South African trademark law followed the adoption of the European Union's directive on trademarks during 1988 which was followed by the United Kingdom which brought its laws into conformity with the directive and did so by the passing of the Trademarks Act of 1994.¹²³ He stated that our country decided to follow the United Kingdom and passed the 1993 act, which was based on the bill that led to the adoption of the UK act in 1994, and which is now in many respects the same as that of the UK and the European community.¹²⁴ The South African Trademarks Act 1993 was derived from the European Directive and the British Trademarks Act 1994.

Kelbrick in her article concludes that the 1993 Trademark Act was allegedly drafted with an eye to: "ensure conformity with similar legislation elsewhere (notably, the First Council Directive of 21 Dec 1988 to Approximate the Laws of the Member States Relating to Trademarks (89/104/EEC) (the 'EC Directive'), and the Trademarks Act, 1994 (c 26), in the United Kingdom (the 'UK Act 1994')"¹²⁵. In order to understand our trademark legislation and case law, a brief analysis of the legislation and case law of the United Kingdom and Europe is therefore required.

¹²³ Century City Apartments v Century City Property Owners (57/09) [209] ZASCA 157 (27 November 2009) par 26

¹²⁴ As above

¹²⁵ Kelbrick (2007), 88

3.4.2 Origins of dilution doctrine

According to Maguire the dilution doctrine was born in Germany in 1925. It was then, he went further, adopted and raised in America from 1927 onwards when Schechter's article was published, in 1989 it arrived in Europe, and in 1994 came to the United Kingdom.¹²⁶ This chapter is consequently devoted to the laws of different jurisdictions to determine the extent of protection afforded to well-known trademarks and also the similarity in approaches of the different jurisdictions. The relevant jurisdictions are Europe and the United Kingdom

3.4.3 European Community

In the European community trademark protection is found in the Trademark Harmonisation Directive 89/104/EEC and Community Trademark Regulation (EC). The First Council Directive of 21 December 1988 to approximate the Laws of the Member States Relating to Trademarks 89/104/EEC (European Directive) aims to harmonise the trademark laws of the European Union and requires all member states to adapt their national trade-mark laws in accordance with its provisions. Article 5(2) of the Trademark Harmonisation Directive gives member states the option of conferring on the proprietor the right to prevent others from:

“using in the course of trade any sign which is identical with or similar to, the trademark in relation to goods or services which are not similar to those for which the trademark is registered, where the trademark has a reputation in the member state and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character and repute of the trademark.”

¹²⁶ <http://www.marques.org/teams/LGMS/2009%20Colm%20Maguire.pdf> at page 4 (last visit 25 September 2012)

This section provides for protection against dilution. The wording of this article is similar to the wording of section 34(1) (c) of The Trademark Act, 194 of 1993. The protection is afforded to a proprietor of a mark where such a mark is registered and where the trademark has a reputation in the member state. In order for a proprietor to prevent others from using his mark the trademark must be registered, it must have a reputation and the use of that trademark must be in the course of trade and must take unfair advantage of, or must be detrimental to, the distinctive character and repute of the trademark. The use of the well-known mark that is prevented must be in the course of trade. Such use must be a trademark use, i.e. use that indicates origin.¹²⁷

Maguire states that: “If dilution is not anchored by a use requirement, then it risks morphing into a right to prevent the mere reproduction of a well-known mark, imposing costs on competitors and consumers by severely restricting, if not eliminating, their ability to use familiar marks as a general tool of communication and competition.”¹²⁸

The trademark use requirement limits the protection afforded to well-known marks by the dilution doctrine to situations where another trader’s use of a mark *to identify the origin of his product* causes detriment to a mark’s distinctive character or repute.¹²⁹

¹²⁷ <http://www.marques.org/teams/LGMS/2009%20Colm%20Maguire.pdf>) at page 43

¹²⁸ As above, at pg.43

¹²⁹ As above, at pg.43

This is different to the South African Trademark Act, 194 of 1993 in that in South Africa use is not limited to use for the purpose of indicating origin. The only requirement is that use must be in the course of trade; whether is for the purpose of advertising, whether it is for the purpose of making fun of the trademark for humour, whether it is for the purpose of confusing consumers.

3.4.4 United Kingdom

(a) Dilution

The British Trademarks Act 1994 reflects the United Kingdom's attempt to harmonise its trade-mark law in accordance with the European Directive. The Act sets out four types of infringement. The other three types of infringement will not be discussed but the focus will only be on one dealing with trademark dilution.

Section 10 (3) states that a registered trademark is infringed where a person uses in the course of trade:

“(d) a sign which is identical or similar to the trademark in relation to goods or services which are not similar to those for which the trademark is registered and where the trademark has a reputation in the United Kingdom and, use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or repute of the trademark.”

The Act provides for protection against use of a similar or identical sign. This is a wide protection because the Act does not define “sign” at all and therefore means any sign.¹³⁰In order to establish infringement under this section, the owner of the mark which has a reputation, will have to establish and prove four elements. First, that the defendant has *used a sign in the course of trade*, which is either identical

¹³⁰ Gardiner (1995), 649

with or similar to his registered trademark; *and* that the defendant has used the sign in relation to goods or services which are *either* similar or not similar to those covered by his registration. Second, that his trademark has a reputation in the United Kingdom. Third, that the use of the sign by the defendant is without due cause; Fourth, that such use takes unfair advantage of or is detrimental to, the distinctive character or the repute of the proprietor's registered trademark.¹³¹

The court held in *Daimler Chrysler AG v Alvai (t/a Merc)*¹³², that in deciding a case under section 10(3) of the UK Trademarks Act, a court had to answer the following questions:

“Does the proprietor's mark have a reputation? If so (2) is the defendant's sign sufficiently similar to it that the public are either deceived into the belief that the goods are associated with the proprietor so that the use of the sign takes unfair advantage of the mark, or alternatively causes detriment in their minds to either (a) the repute or (b) the distinctive character of the mark, or (3) even if they are not confused, does the use of the sign nonetheless have this effect, and (4) is the use complained of nonetheless with due cause.”

Section 10(3) does not require the establishment of likelihood of consumer confusion or deception even though it is not expressly stated but is implied.¹³³ The Trademark Act requires that the Mark should have a reputation in the United Kingdom but it need not be well-known.¹³⁴

In the *Premier Brands UK Limited v Typhoon Europe Limited and Peter Granville Norfolk Battersby*, the court held that the purpose of section 10(3) of the UK

¹³¹ *Daimler Chrysler AG v Alvai (t/a Merc)* [2001] ALL ER (D) 189 (Jan), at par 88

¹³² As above

¹³³ Kaseke (2006), 404

¹³⁴ As above

Trademarks Act was to be found in Recital 9 of the EC Trademarks Directive; namely, to provide “extensive protection to those trademarks which have a reputation”, over and above the protection granted to trademarks without a reputation.¹³⁵

The court states:

“[T]he owner of... a distinctive mark has a legitimate interest in continuing to maintain the position of exclusivity he acquired through large expenditures of time and money and that everything which could impair the originality and distinctive character of his distinctive mark, as well as the advertising effectiveness derived from its uniqueness, is to be avoided... its basic purpose is not to prevent any form of confusion but to protect an acquired asset”¹³⁶.

(b) Requirements

(i) Unauthorised use

The later use of the earlier mark must be without due cause.¹³⁷ This requirement was included as a requirement to function as a limitation to “ameliorate the argument that an extension of trademark protection to dissimilar goods would affect too great an extension to the protection which should be afforded to trademarks.”¹³⁸

The court in *Premier Brands UK Limited v Typhoon Europe Limited and Peter Granville Norfolk* held that:

¹³⁵ *Premier Brands UK Limited v Typhoon Europe Limited and Peter Granville Norfolk Battersby* [2000] ALL ER (D) 52 at par 13-14.

¹³⁶ As above

¹³⁷ Gardiner(1995), 650

¹³⁸ As above

“the expression “without due cause” as an infringement concept in the context of section 10(3), referred to three different scenarios; namely, first, using a later sign which is identical to the earlier trademark with a reputation without due cause; second, taking unfair advantage of the distinctive character or repute of the earlier trademark without due cause; and third, causing detriment to the distinctive character or repute of the earlier trademark without due cause”.¹³⁹

The court went further and stated that “due cause would be satisfied by a defendant only where the user of the later sign is under an overwhelming compulsion to use the later sign and no other sign, or where the user of the later sign is entitled to use the later sign as a matter of legal right derived from prior rights in the use.”¹⁴⁰

Kaseke is of the view that the above restriction of ‘use with due cause’ protects the advertising value of marks with a reputation from parasitic uses.¹⁴¹

Under the South African Trademark Act, unauthorised used simply means use without the permission of the trademark owner. I understand the requirement without due cause as another way of stating that the defendant did not have any lawful reason to use the mark, whether by way of consent or authority from the law.

(ii) Mark must have a Reputation in the United Kingdom

There must be an earlier mark with a reputation and a later mark.

(iii) Marks must be similar marks

¹³⁹ *Premier Brands UK Limited v Typhoon Europe Limited and Peter Granville Norfolk*, at par 17

¹⁴⁰ *As above*, at 18

¹⁴¹ Kaseke (2006), 408

The two must be identical or similar, such that a mental link is drawn between the two marks by consumers (this is necessary, but *not sufficient* to establish dilution), even though they are not confused.

(iv) *In the course of trade*

In *Arsenal Football Club PLC v Matthew Reed*, the court clarified the meaning of the expression “use of a trademark in the course of trade” as “use which occurs in the world of business, in trade, the subject of which is, precisely, the distribution of goods and services in the market.”¹⁴²

It is submitted that the use of a sign in the course of trade prohibited under section 10(3) should be given a similar meaning.

(v) *Unfair advantage or detriment*

There must be unfair advantage taken of the distinctiveness or repute of the earlier mark (free-riding); detriment to its distinctive character (blurring); or detriment to its repute (tarnishment).

In *Pfizer Ltd and Pfizer Incorporated v Eurofood Link (United Kingdom) Ltd*¹⁴³ the court stated the following:

¹⁴² *Arsenal Football Club PLC v Matthew Reed*, case C-206/201, Judgement of the ECJ dated 12 November, 2002, available at <http://www.curia.eu.int.>, at par. 62

¹⁴³ *Pfizer Ltd and Pfizer Incorporated v Eurofood Link (United Kingdom) Ltd* [2000] E.T.M.R. (Issue 10) 896

“The concept of ‘unfair advantage’ requires an enquiry into the benefit to be gained by the defendant from the use of the mark complained of and ‘detriment’ requires an enquiry into the goodwill accruing to the business in the good sold under the trademark. The advantage or detriment must be of a sufficiently significant degree to warrant restraining what is, *ex hypothesi*, a non-confusing use.”¹⁴⁴

Kaseke maintains that the taking advantage of the repute of an earlier trademark in the context of section 10(3) of the UK Trademarks Act should be construed as:

“equivalent to uses of a later sign which seek to associate the qualities of the goods of the user of the later sign with the goods of the owner of the trademark for the purpose of exploiting the good reputation of the goods of the owner of the trademark in order to enhance the promotional efforts of the user of the later sign in respect of his own goods.”¹⁴⁵

He further and states that:

“uses of a later sign are detrimental to the distinctive character or repute of an earlier trademark with a reputation in the context of section 10(3) of the UK Trademarks Act where such uses have the effect of eroding the position of exclusivity acquired by the owner of the earlier trademark through large expenditures of time and money, and everything which impairs the originality and distinctive character of, as well as the advertising effectiveness derived from, the trademark and its uniqueness in the marketplace should be regarded as detrimental to the distinctive character and repute of the earlier trademark and should, ipso facto, be prohibited.”¹⁴⁶

The court in *Premier Brands UK Limited v Typhoon Europe Limited and Peter Granville Norfolk* held that detriment to the distinctive character of a trademark with a

¹⁴⁴ As above, at 910

¹⁴⁵ Kaseke (2006), 405

¹⁴⁶ as above

reputation in the context of section 10(3) has been generally described as “dilution”, and has been said to occur in one of two ways, namely by “blurring” or “tarnishment.”¹⁴⁷

In order for a claimant to succeed in claiming protection under section 10(3), there must be actual unfair advantage or detriment. Kaseke opines that a mere risk of unfair advantage or detriment is not enough.¹⁴⁸

The difference with the position in South Africa is that what is required to succeed in claiming protection under section 34(1)(c) is a likelihood of unfair advantage or detriment, in other words, a probability of the occurrence of detriment or of taking unfair advantage. For actual unfair advantage or detriment to be established, Kaseke is of the view that: “there must be some connection formed by the relevant public between the use of the sign by the defendant and the trademark and its reputation, and some advantage or detriment must then be established as having rubbed off from the trademark with the reputation.”¹⁴⁹

3.5 The rationale behind protection.

The injury of trademark dilution is caused by the misappropriation of the advertising value of a trademark which erodes the reputation, commercial magnetism, distinct quality and selling power embodied in the trademark.¹⁵⁰ The aim of dilutive conduct

¹⁴⁷ *Premier Brands UK Limited v Typhoon Europe Limited and Peter Granville Norfolk* at par 15

¹⁴⁸ Kaseke (2006), at 410

¹⁴⁹ As above

¹⁵⁰ As above),47

is, according to Gardiner, “to exploit the commercial magnetism, selling power and advertising value embodied in the well-known trademark”¹⁵¹

When the South African Trademarks Act 194 of 1993 came into force on 1 May 1995, it included section 34(1)(c) which provides that:

“...one commits trademark infringement when one uses in the course of trade, in relation to any goods or services, either an identical or a similar mark to the registered trademark which is well-known in South Africa and such use of the mark will likely take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trademark, irrespective of whether confusion or deception is present or absent”.

This provision is, according to Smith is intended to protect proprietors of well-known trademarks against erosion and diminution of their rights through offending use by infringers.¹⁵²

In *National Brands v Blue Lion Manufacturing*, the Court held that section 34(1) (c) introduces a new form of trademark protection into our law, which aims to protect the commercial value that attaches to the reputation of a trademark, rather than its capacity to distinguish the goods or services of the proprietor from those of others.”¹⁵³ Kunev states that dilution refers to the impairment of a “famous” mark’s distinctiveness or reputation where no likelihood of confusion is created by defendant’s use of its junior mark.¹⁵⁴

¹⁵¹ Gardiner (1995), 637

¹⁵² Smith (2004),196

¹⁵³ *National Brands Ltd v Blue Lion Manufacturing (Pty) Ltd* 2001 (3) SA 563(SCA) at 568

¹⁵⁴ Kunev(2009), 286

In *Klimax Manufacturing v Van Rensburg*, the Court held that “diluting occurs when the offending use, typically in relation to non-competing goods or services, dilutes the uniqueness and distinctive nature of the trademark. That is what s 34(1) (c) was designed for.”¹⁵⁵

The protection available to trademark holders against the dilution of their marks exists outside the traditional framework of trademark infringement. The reason for such protection is that certain trademarks – those with a “reputation” or a degree of fame attached to them – are worthy of protection from infringement by third parties exploiting their fame for an undue benefit.¹⁵⁶ These trademarks are so well known that they transcend national borders and product limitations. World-wide, this resulted in demands for the increased protection of these marks, contrary to the two basic principles mentioned above. In South Africa, too, there was increased pressure for extended protection of such marks.”¹⁵⁷

The dilution provision seeks to protect, the commercial value that can attach to trademarks: value that is created through the nurturing and promoting of brand associations with the mark through advertising and marketing¹⁵⁸. Maguire says that:

“The dilution doctrine thus challenges our traditional understanding of the interests that trademark law should be protecting, by shifting its long-standing focus away from consumer protection, toward a focus on protecting the trademark itself.”¹⁵⁹

¹⁵⁵ *Klimax Manufacturing Ltd & Another v Van Rensburg & Another* 2005 (3) SA 445 (SCA) at 454

¹⁵⁶ <http://www.marques.org/teams/LGMS/2009%20Colm%20Maguire.pdf> at page 8

¹⁵⁷ Kelbrick (2007), 87

¹⁵⁸ <http://www.marques.org/teams/LGMS/2009%20Colm%20Maguire.pdf> at page 8

¹⁵⁹ As above, at page 8

The importance of protecting the advertising value of a well-known trademark was emphasised by Rutherford:

“The preservation of the reputation and unique identity of the trademark and the selling power which it evokes is of vital importance to the trademark proprietor to protect and retain his goodwill. Other traders will frequently wish to exploit the selling power of the established trademark for the purposes of promoting their own products. The greater the advertising value of the trademark, the greater the risk of misappropriation. Any unauthorised use of the trademark by other traders will lead in gradual consumer disassociation of the trademark from the proprietor’s product.”¹⁶⁰

The owner of a well-known mark has a legitimate interest in continuing to maintain the position of exclusivity he acquired through large expenditures of time and money and that everything which could impair the originality and distinctive character of his distinctive mark, as well as the advertising effectiveness derived from its uniqueness, is to be avoided... its basic purpose is not to prevent any form of confusion but to protect an acquired asset.¹⁶¹

3.6 Protected interest

Character merchandising has been defined as the commercial exploitation of famous and popular images for the purpose of promoting or advertising products, services and business.¹⁶² The images that are used for this purpose are limited to images that have acquired fame or images that have acquired a quality which makes it susceptible to commercial exploitation in the market place for promoting or

¹⁶⁰ Rutherford(2009), 359

¹⁶¹ *Premier Brands UK Limited v Typhoon Europe Limited and Peter Granville Norfolk Battersby* [2000] ALL ER (D) 52 at par 13-14.

¹⁶² Mostert(1982), 413

advertising goods or services.¹⁶³ Mostert states that by the time the images have acquired such fame or reputation to qualify as an advertising image, the creator will have spent considerable time and effort in bringing about its existence and fame.¹⁶⁴ This is the same as trademark dilution. What the infringer wants is to exploit the fame and reputation inherent in the mark to promote or advertise their products. The link he creates between the well-known mark or image with his product could give him an advantage or tarnish the well-known mark.

There are two possible consequences of dilution as shown in the previous parts. On the one hand dilution can cause blurring of the trademark which takes place when the distinctive character or inherent uniqueness of a trademark is weakened.¹⁶⁵

On the other hand dilution can cause tarnishment which occurs where unfavourable associations are created between a well-known registered trademark and the mark of an unauthorised user.¹⁶⁶

In the case of *Laugh It Off* the consequence of dilution that was involved was tarnishment. The Constitutional Court held that section 34(1) (c) served a vital importance in preserving trade and commercial interest of owners of trademarks which have a reputation.¹⁶⁷ The operative word here being trademarks with a reputation.

The Constitutional Court acknowledged that the protection afforded to well-known trademarks should be seen as extending beyond traditional and primary functions of trademarks. The Court held that the section is aimed at protection the unique identity

¹⁶³ As above

¹⁶⁴ As above

¹⁶⁵ *Laugh It Off* case, at pg 165

¹⁶⁶ As above

¹⁶⁷ As above at pg 163

and reputation of registered trademarks.¹⁶⁸ The most important question then arises, “what is the interest that is protected by dilution provisions”? Is it the distinctiveness of the mark, or maybe the origin function of the trademark, or could it be the goodwill of the business or the underlying advertising value of a trademark?

One can argue that the advertising value of a trademark and the Goodwill of a business are the two possible interests that are protected from dilution. The principles applicable to determine whether there is a likelihood of detriment to the reputation of a mark will be different depending on the interest, between the two, that one is dealing with. If the interest that is protected is the good will of the business, then for a trademark owner to succeed in his claim under dilution, not only will he need to show that he suffered damage but he will have to show evidence of a decline in his business. However, should it be found that it is the advertising value that is protected, the trademark owner need only show that the suffered damage_in some form or another.

The crisp issue in *Laugh It Off case* 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 Back Label registered marks. The Court distinguished between the interest protected under tarnishment and that protected under blurring and held that under tarnishment, the object of protection appeared to be the repute, the good selling name of the mark.¹⁶⁹ The court held that the likely prejudice or detriment required by the section must be restricted to material harm in the commercial sense.¹⁷⁰ It held

¹⁶⁸ As above

¹⁶⁹ As above at pg 164

¹⁷⁰ As above at pg 168

that the respondent had to provide evidence to demonstrate the probability of economic harm. The court held that the mere fact that the [expressive] act may stir discomfort and appear to be morally reprobate or unsavoury to others is not ordinarily indicative of the breach of section 34(1) (c).¹⁷¹

The effect of the decision by the Constitutional Court is that a trademark owner whose trademark has been infringed upon will not succeed under section 34(1) (c) if he or she is unable to show a likelihood of economic harm. This seems to suggest that the object of the enquiry into damage of the trademark is the impact the conduct had on the goodwill of the business. If the conclusion of the court had been that the object of the enquiry was whether the impact value of the trademark was diminished, the test employed would have been different. The court would not have looked at the business's profitability or the economic harm to the business.

The court held that the trademark proprietor bears the burden of proving a probability of substantial harm or detriment which, seen in the context of the case, amounts to unfairness. An interpretation of s 34(1) (c) that conforms to the Constitution requires that the likely detriment must be material harm in the commercial sense – economic and trade harm.¹⁷²

When using the test employed by the Constitutional Court, a proprietor will find it almost impossible to claim protected under section 34(1) (c).

The question the Constitutional Court failed to ask is how is a proprietor going to show likelihood of substantial loss of profit resulting from that use? It's impossible for

¹⁷¹ As above at pg 170

¹⁷² As above at pg 168

a trademark owner to show loss of profits because the marks catered for under section 34(1) (c) are not in the same field of competition. It would be strange if a proprietor lost income as a result of conduct of dilution.

The court incorrectly held in the *Laugh It Off case* that the respondents had to adduce evidence to establish likelihood of detriment by showing a likelihood of loss by sales by virtue of the reduced commercial magnetism of the mark.¹⁷³ The prejudice that the owner of the trademark suffers in case of dilution is not loss of income or a decline in his business but it is the fact that his trademark is reduced in value through overexposure. What he will lose over time is far much more than his income.

As Schechter has pointed out:

“If you allow Rolls Royce restaurants and Rolls Royce cafeterias, and Rolls Royce pants, and Rolls Royce candy, in ten years you will not have the Rolls Royce mark anymore”¹⁷⁴

The interest that is involved under dilution is therefore not the protection of the goodwill of the business but the advertising value of the trademark. The advertising value of the trademark functions to direct the purchasing public to its goods. A claim under dilution therefore prohibits other traders from assuming the goodwill built up by the trademark owner in his goods, thereby attracting custom not through the merits and quality of their own goods, but through sharing in the selling power of the owner's trademark. The injury of trademark dilution is caused by the misappropriation of the advertising value of a trademark which erodes the reputation, commercial magnetism, distinctive quality and selling power embodied in the

¹⁷³ As above at pg 170

¹⁷⁴ Quoted by WJ Derenberg, “The problem of trademark dilution and the Anti-dilution statutes (1956) 44 California law review 436,229

trademark.¹⁷⁵ Misappropriation of the selling power or advertising value of the trademark is commercially injurious to the trademark owner and results in the impairment of the goodwill of his business.

Goodwill must be distinguished from advertising value. In *Shaw Brothers (Hong Kong) Ltd v Golden Harvest (HK) Ltd 1972 RPC 559*, the court held that goodwill is a thing very easy to describe but difficult to define:

“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”.¹⁷⁶

What is protected under dilution is the advertising value which is vital in the creation and attainment of goodwill. It is the selling power or the advertising value which other traders wish to exploit for the purpose of promoting their own products.

3.7 Common law protection of well-known common law trademarks.

(a) Introduction

In a competitive and free market, conducting a successful business involves a constant battle for market-share and creating goodwill. Some of the ways of achieving this is by building a brand that distinguishes your products or services from the products and services of competitors, protecting registrable intellectual property in order to obtain a competitive edge, and growing a reputation based on performance.

¹⁷⁵ Rutherford(1990), 152

¹⁷⁶ *Shaw Brothers (Hong Kong) Ltd v Golden Harvest (HK) Ltd 1972 RPC 559*, at pg

Competitors often want to share in the spoils of a trusted and established business. Although competition per se is allowed and indeed essential in a free market, the boundaries of acceptable competition are often transgressed by competitors trying to profit from the vested interests of a competing party, thus resulting in unlawful competition.

Unlawful competition is in essence a collective term for competing acts that infringe the protectable interests of a competitor

(b) Assimilation (Leaning on)

Leaning on is said to occur when one entrepreneur, in order to advertise his performance and in this way promote and expand his goodwill, uses the advertising marks of another entrepreneur.¹⁷⁷

What the infringer effectively does is to misappropriate or utilise the advertising value which a trademark or a trade name of the other entrepreneur has in connection with his own undertaking, thereby leaning on the reputation of the other performance for his own profit or financial gain.¹⁷⁸

Such misappropriation according to Van Heerden and Neethling may infringe the right to the goodwill of the business in one of two ways.¹⁷⁹

First, it may damage the reputation or the good name of the performance of the aggrieved party thereby lessening its selling power or its capacity to attract custom.

This form of harm is also known as tarnishment. This happens where the

¹⁷⁷ Van Heerden and Neethling (1995), 201

¹⁷⁸ Van Heerden and Neethling (1995), 201-202

¹⁷⁹ Van Heerden and Neethling (1995), 209

perpetrator's performance is of a bad or inferior quality and the public, because of the contact with this performance lower their assessment of the aggrieved party's performance as a result of the association created between the two performances.¹⁸⁰

Secondly, the harm is that such conduct may lead to dilution of the advertising value of the aggrieved party's trademark. The consequence of the infringing conduct is that the advertising value of the mark in regard to his performance is decreased and his good will is accordingly infringed.¹⁸¹

There are three requirements that need to be met before a complainant can be successful on a claim of leaning on.

The plaintiff must prove, first, that his trademark has acquired a reputation or advertising value in regard to his performance. Secondly, he must prove that the use of his trademark by the defendant creates the misrepresentation that the defendant's performance has the same origin or source as that of the plaintiff, and that deception or confusion is likely. Thirdly, he must show that his goodwill is or will be infringed as a result of the disparagement/ tarnishment or as a result of the dilution of the said reputation or advertising value.¹⁸²

(d) Comparison between Common law protection of Assimilation and Statutory protection under Section 34(1) (c)

As already discussed in the previous chapters, dilution is the misappropriation of the advertising value of an entrepreneur's trademark, it is the gradual whistling away or

¹⁸⁰ Van Heerden and Neethling (1995), 209

¹⁸¹ Van Heerden and Neethling (1995), 209

¹⁸² Capital Estate and General Agencies (Pty) Ltd v Holiday Inns Inc 1977 2 SA 916 (A); Philip Morris Inc v Marlboro Shirt Co SA Ltd 1991 2 SA 720 (A)

dispersion, erosion or watering down of the magnetism or drawing power or the effectiveness of the trademark.¹⁸³

The protection afforded under Section 34(1) (c) of the South African Trademarks Act 194 of 1993 is more restricted than that afforded under assimilation. A trademark owner faced with a situation like that faced by South African Breweries International has two options.

Should the owner decide to use section 34 (1) (c), he must be able to meet three requirements as discussed in part 3 and as an addition as decided in the Constitutional case of *Laugh* if off the owner must be able to show a likelihood of substantial loss of profit resulting from that use.

This, as already indicated poses a barrier to the owner to claim protection for infringement and such barrier has made the section 34(1)(c) dilution provision useless.

However the trademark owner can as an alternative rely on the common law protection of assimilation which is much wider than statutory protection. Under assimilation, the trademark owner does not need to show a decline in the business or a likelihood of substantial loss of profit. He merely needs to show that his goodwill is or will be infringed as a result of the disparagement/ tarnishment or as a result of the dilution of the said reputation or advertising value. Should South African Breweries International have relied on the common law protection of assimilation, the result would have been different. It would have been possible to establish that its trademark is or will be infringed as a result of the disparagement/ tarnishment or as a result of the dilution of the said reputation or advertising value.

¹⁸³ Van Heerden and Neethling (1995), 214

4. CONCLUSION

Trademarks are used to distinguish the goods of one trader from those of another trader however; well-known trademarks are used by proprietors to create a brand. A trader uses his well-known trademark not only to market his goods but also to sell his products. Well-known trademarks don't merely function as indication of origin or to distinguish products, a well-known trademark serves as a symbol of quality and as an advertising or selling device. This function is regarded in modern commerce as the most important economic function.¹⁸⁴

The point that the Constitutional Court missed in the *Laugh it Off Case* is that the use of a well-known trademark does not necessarily impact on the owner's profitability but it affects the extent to which the trademark is capable of attracting custom.

If the trader creates a trademark that has advertising value, the trademark will become the salesman selling the product.¹⁸⁵ The trademark therefore becomes an important agent in the creation and perpetuation of the goodwill of his business. Such a trademark thus becomes a valuable asset to the owner.¹⁸⁶ It therefore becomes of vital importance to protect and retain the trader's goodwill to preserve the reputation and unique identity of the trademark. What is protected under section 34(1) (c) is in fact the impact value of a well-known trademark. Any unauthorised use of the trademark will lead to the gradual consumer disassociation of the trademark

¹⁸⁴ Rutherford (1990), 151

¹⁸⁵ Rutherford (1990), 151-152

¹⁸⁶ Rutherford (1990), 152

from the owner's product. The more the trademark is used in relation to the products of other, the less likely it is to focus attention on the owner's product.

The exploitation of his trademark advertising value not only gives the other traders an unfair advantage but it also harms his trademark. The protection against trademark dilution is informed by a realization that the owner of the trademark with advertising value has a legitimate interest in maintaining the position of exclusivity possessed by his trademark in respect of his goods.

In pith and in substance there really is nothing that leaves our anti-dilution legislative framework limping as compared to our sister jurisdictions referred to supra. To that extent therefore there really is very little that we can learn from those sister jurisdictions nor are there any lessons therefrom worth balking because our statutory protection is derived from those jurisdictions. What is proving to be more of a hiccup than a solution in our country is the *laugh it Off* decision of the Constitutional Court in so far as it added an additional requirement to our dilution provision. Since the Constitutional Case is the apex Court of our land it remains a fervent hope that either the Constitutional Court can find it within itself to somehow tone down the unintended consequences of *the Laugh it off case* or the legislature must find a way to make section 34(1)(c) useful again. Either way trademarks deserve better protection from dilution than there is in the wake of the *Laugh it Off* case for they really are no laughing matter.

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