

# COMMENT

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## UNFAIR COMPETITION AND UNHEALTHY PROMOTIONS: MOORGATE TOBACCO LTD v PHILIP MORRIS LTD AND ANOTHER

### Introduction

The recent High Court case, *Moorgate Tobacco Ltd v Philip Morris Ltd and Another*<sup>1</sup>, has answered with an emphatic negative a hitherto open question: "Is the tort of unfair competition part of Australian intellectual property law?" Leading commentators have to date treated the matter with appropriate caution. For instance, the most up-to-date treatise has suggested that "it will be clear that there has not yet been an instance in Anglo-Australian law, where a plaintiff has succeeded in the absence of some element of deception or confusion, against a defendant who has sought to appropriate the image or reputation associated with his goods, services or business."<sup>2</sup> Delivering the judgment of the court, Deane J went somewhat further in this case, asserting that as far as the tort of unfair competition is concerned, such "use of the phrase is, in an Australian context, simply mistaken in that unfair competition does not, in itself, provide a sufficient basis for relief under the law of this country".<sup>3</sup> The court also resisted Moorgate's separate claims that the law of contract, confidential information and fiduciary obligation provided them with grounds for relief. This case, therefore, is something of a landmark in the development of the law in this area. Also, importantly, it evidences a variety of theories of property law and the legitimate role of the court in pronouncing on them: whether, for instance, it is appropriate for the court to determine the just ground rules for business activity, and when a proprietary right in information has been established. Like so many other complaints, it all started with tobacco.

The origin of the suit was a complex series of negotiations between the appellant's predecessors, Loew's Theatres Inc (Loew's) and the respondent regarding a licence to produce a new low tar cigarette to be named, tentatively, "Golden Lights", a brand name which had been successfully promoted in the United States some two years before the commencement of this action. In essence, Loew's floated the idea that the respondents could have a licence to manufacture and distribute the "Golden Lights" cigarettes. Philip Morris Ltd (Philip Morris) were in a privileged position in this regard because they and their predecessors had held a licence since 1963 to manufacture and distribute "Kent" cigarettes for the

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1 (1985) 56 ALR 193.

2 Staniforth Ricketson, *The Law of Intellectual Property* (Law Book Co., Sydney 1984), 596. See further his more recent and comprehensive survey of unfair competition, "Reaping Without Sowing: Unfair Competition and Intellectual Property Rights in Anglo-Australian Law" (1984) 7 UNSWLJ 1.

3 (1984) 56 ALR 196, at 210.

appellant and its predecessors. With this infrastructure established, they were well set up to introduce the “new line arrangement”, as the parties described their latest product.

In 1973 Philip Morris assigned to the second respondent, Philip Morris Inc (PM Inc), its right to market and use the trade mark “Marlborough Lights”. As registered proprietor PM Inc marketed, unsuccessfully as it happened, this brand of low tar and nicotine cigarettes until early 1978 when it decided to embark on the name “Marlborough Golden Lights”, Philip Morris having assigned its rights in the trade mark Golden Lights in December 1977. This action was taken after Moorgate, having taken over as licensor, had resolved that they would not be renewing the licence in relation to “Kent” but would be marketing “Kent” themselves for 1977.

Moorgate based its case on four grounds. First it maintained that the pre-existing licence agreement conferred contractual rights in respect of this trade mark. The court quickly disposed of this issue. For one thing, the licence agreement’s terms were confined to “licensed products” defined in the agreement as the various types of Kent cigarettes: this could not be held to refer to the new low tar and nicotine cigarette. For another, there was nothing in the contract to substantiate Moorgate’s insistence that the licence agreement’s explicit terms embraced “trade mark rights”, or that its implied terms required the respondents to do nothing to hinder or prevent rights as to the trademark “Kent”. Second, it claimed that it was the proprietor of the trade mark. Third, the negotiations regarding a new licence agreement to sell the low tar and low nicotine cigarettes imposed equitable obligations on the respondents. In particular, the respondents’ application for registration of the “Golden Lights” trademark was seen by the appellants to be in breach of a fiduciary duty and an abuse of confidential information. Fourth, the respondents’ actions were argued as being tortious, namely, “unfair competition”. So, the general question that arose was, what is the ambit of property in a trade mark and the mechanisms for protecting that property right?

### **Trade Marks and Property**

As the Court recognised,

The evidence discloses that, in applying for registration in Australia of the trade mark “Golden Lights”, Philip Morris and PM Inc had the related objectives of seeking to obtain and preserve the marks “Golden Lights” and “Lights” for the Philip Morris Group and of preventing BAT [British-American Tobacco, the group of which Moorgate was a member] from marketing product under the marks “Golden Lights” or “Kent Golden Lights”.<sup>4</sup>

Moorgate, therefore, could only introduce onto the Australian market its own low tar cigarettes with the trademark “Kent Golden Lights” if it could prevent its major competitor’s registration of the trademark, since by s 40(1) of the Trade Marks Act 1955 (Cth) it is the “person who claims to be the proprietor of a trademark” who may apply. Did Moorgate own the trademark “Golden Lights”?

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4 Ibid, at 202.

There was no question as to their ownership of that trademark in the US. They had been successfully marketing the product there for two years. For the purposes of Australia, however, it was necessary to establish a trading beachhead. From the authorities, minimal evidence of trading activity is needed to prove ownership. Thus, in *The Seven Up Co v O.T. Ltd*,<sup>5</sup> Williams J said that the court "Seizes upon a very small amount of use of the foreign mark in Australia to hold that it has become identified with and distinctive of the goods of the foreign trader in Australia"<sup>6</sup> in those cases where a local trader is seeking to use a foreign-owned mark. Moorgate argued that the standard of "a very small amount of use" was met by their delivery on three separate occasions of sample cigarette packets and advertising material. The court accepted that trading extended to offers for sale under the mark, including advertisements of the goods. However, the dealings between Moorgate's and Philip Morris' predecessors "were merely preliminary discussions and negotiations about whether the mark would be so used"<sup>7</sup>. Significantly, the Court drew attention to the fact that Moorgate had not attempted to argue that the circulation of American magazines in Australia containing their advertisements amounted to use. By implication, the Court, having emphasised that some finality of decision to trade under a particular name is essential, would have dismissed this evidence. It would seem to follow from the reasoning adopted, however, that if some final decision had been made, then the subsequent appearance of such advertisements would be enough to meet the standard. This point assumes greater importance given the increasing penetration today of local print markets by foreign publications. The more significant aspect of the ruling on this point is its emphasis on the decisive nature of the mental element in trade dealings, such that, for instance, forms of market research and testing of samples, however extensive, would fail to establish use if unaccompanied by a final decision. If the reward of endeavour and investment is seen to be one of the rationales behind trademark protection the Court's reluctance to give protection to the appellants here is more likely to achieve its end, given that PM Inc had been using the mark at the commencement of this action in August 1978. What is also clear is that sharp business practice is no obstacle to registration.

### Confidential Information

Another basis for relief, alleged the appellant, was the law of confidential information. The negotiations which took place over the period from March 1976 to June 1977 involved in the appellant's view a communication of confidential information. As established in the case of *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd*<sup>8</sup>, any action for confidential information must show, first that the information has "the necessary quality of confidence about it";<sup>9</sup> and second, that it was imparted in the course of a confidential relationship. As far as the latter criterion goes, Moorgate had already attempted to assert the existence of a fiduciary duty in this case because of the particular

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5 (1947) 75 CLR 203.

6 *Ibid*, at 211.

7 *Ibid*, at 205.

8 (1948) 65 RPC 203.

9 *Ibid*, at 215, per Lord Greene M.R. See further, N.R. McPhee and J.R. Peden, "Actions for Breach of Confidential Information", (1976) 8 CLA Bulletin 111-116.

relationship of the parties. This was rejected both in the lower courts and the High Court on the ground that it was "bereft of any factual basis"<sup>10</sup>. Clearly this latter finding was going to make it difficult for the appellants to establish that the circumstances of the negotiations imposed a fiduciary duty of non-disclosure. This much is clear from the judgment, for this question is not even considered as far as the discussion of unfair competition is concerned. Rather, claim for relief on this ground was held to fall at the first hurdle, for the Court found that there was no evidence to suggest that the parties considered the evidence to be confidential. After all, what element of the negotiations was confidential? Not the trade mark "Golden Lights" — it had been on the US market for some two years by this time. Senior counsel for Moorgate argued that the very plan to introduce the brand into Australia had "the necessary quality of confidence about it". But this communication was no more than any tentative arm's length business dealing would have involved, as the Court recognised. Indeed, to conclude otherwise would be to establish an unlimited capacity for business operators to prevent those with whom they negotiated from making use of any of the material of the relevant discussions. What would seem to follow from the Court's ruling is that for an action for confidential information to succeed the information must pertain to the very nature of the commodity which is the substance of the transaction.

Equally important are the Court's remarks about the nature of the protection which is held to underpin confidential information. His Honour expressly asserts that:

Like most heads of exclusive equitable jurisdiction, its rational basis does not lie in proprietary right. It lies in the notion of an obligation of conscience arising from the circumstances in or through which the information was communicated or obtained.<sup>11</sup>

This remark, however, sits a little uneasily with the subsequent claim, noted above, that the information must have a necessary quality of confidence. In other words, it must attach to a particularly qualified item of intellectual property. As such it would seem contradictory to maintain that this right purely by virtue of being *in personam* is less a proprietary right for all that. All property rights define relations between persons in respect of things, corporeal and incorporeal. Indeed, the very fact that this right is anchored in a specific form of property would make it as much property as any other intangible. There would thus appear an apparent inconsistency here. This point assumes more significance in the context of the Court's later treatment of unfair competition as an aspect of property rights.

### Unfair Competition

The final ground upon which the appellant claimed that its property rights in the trade mark "Golden Lights" had been infringed was unfair competition. Importantly, Deane J identified three separate meanings of the term:

- (i) as a synonym for the doctrine of passing off; (ii) as a generic name to cover the range of legal and equitable causes of action

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<sup>10</sup> *Supra*, at 207.

<sup>11</sup> *Ibid*, at 208.

available to protect a trader against the lawful training activities of a competitor; and (iii) to describe what is claimed to be a new and general cause of action which protects a trader against damage caused either by 'unfair competition' generally or, more particularly, by the 'misappropriation of knowledge or information in which he has a quasi-proprietary right'<sup>12</sup>.

The Court was emphatic in its rejection of each of these formulae because they were "misleading" and "mistaken". The first two were considered to imply (wrongly, in the Court's view) that the action is confined to competitors. Further, to the extent that the second formula presupposed an underlying philosophical basis it was doubly misleading. The third use of the phrase was the most crucial, for it was that meaning upon which the appellant was relying.

The decision in this case involves an emphatic endorsement of the traditional common law doctrinal position on intellectual property rights, summarised by Dixon J (as he then was) in *Victoria Park Racing and Recreation Grounds Co Ltd v Taylor*,<sup>13</sup> where he determined that "the exclusive right to invention, trademarks, designs, trade name and reputation are dealt with in English law as special heads of protected interests and not under a wide generalisation"<sup>14</sup>. In other words, the court has rejected Needham J's earlier call in *Hexagon Pty Ltd v Australian Broadcasting Commission*<sup>15</sup> for a general concept of unfair competition maintaining instead, that "in the absence of rights of patent, trademark or copyright, information and knowledge are not the property of an individual"<sup>16</sup>. The question that arises after this ruling is "what is the status of those authorities which have been seen as representing in embryonic form the tort of unfair competition?"

The relevant authorities in Anglo-Australian law in this area culminated in the 1979 House of Lords decision *Erven Warnink BV v J Townend and Sons (Hull) Ltd*<sup>17</sup> where Lord Diplock listed the elements necessary to create a valid cause of action for passing off but warned against extending it to cover all sharp practice in business.<sup>18</sup> This represented a redrawing of the boundaries of the action of passing off to include, by analogy from the ruling in *JA Bollinger v Costa Brava Wine Co*,<sup>19</sup> that goodwill may be protected if it derives from "a product of a particular character or composition [which] has been marketed under a descriptive name and under that name has gained a public reputation which distinguishes it from competing products of different composition".<sup>20</sup> Limited to these and analogous facts and such situations where deception is used, the law of unfair competition does not extend beyond the confines of the action of passing off. It is clear from Deane J's judgment that he is strictly in accord with Lord Diplock's warning against extension of the action for he openly endorses his Lordship's view that in a competitive market it is inconceivable (not to mention

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12 *Ibid*, at 210.

13 (1937) 58 CLR 479.

14 *Ibid*, at 509.

15 (1975) 47 ALR 233 at 251.

16 *Supra*, at 211.

17 [1979] 2 All ER 927.

18 *Ibid*, at 933.

19 [1960] 1 Ch 262.

20 *Ibid*.

contradictory) to grant protection against the damaging consequences of all inaccurate statements.<sup>21</sup> In another sense, however, he goes further in circumscribing the court's role in developing the law in this area in suggesting that it is Parliament's province alone to determine what is an appropriate balance between competing claims and policies when devising modes of economic regulation. Earlier, Lord Diplock had at least intimated that courts should take cognizance of legislative trends so as to bring the common law into line with statutory developments. Insofar as notions of "fairness" in the sense of "no reaping without sowing" have gradually come to be embraced by the legislation covering categories of intellectual property in this country, the High Court's view here would seem to envisage a somewhat more modest role for it, according to Parliament the responsibility for defining the nature and scope of "fairness". Indeed, this ruling would seem to endorse the statement by Williams J in "*Yanx*" *T.M.*<sup>22</sup> that "[t]o try and register in Australia a word which the applicant to the knowledge of the respondent is using elsewhere on its cigarettes is sharp business practice. But it is not in itself fraudulent or a breach of the law". It would be hard to conclude, however, that the doctrine of passing off has been whittled down in any way by this case, for it was explicitly conceded that it was desirable for it to be flexibly applied to changing fact situations<sup>23</sup>, echoing *Erven Warnink*. It is clear, however, that expansive interpretations of those cases such as that of Cross J's analysis of *Bollinger* in *Vine Products Ltd v Mackenzie and Co Ltd*<sup>24</sup> ("it went beyond the well-trodden paths of passing off") have been significantly curtailed by this judgment. That the tort of unfair competition has generally fallen into judicial disfavour is further exemplified by Beaumont J's curt dismissal of the plaintiff's case in the marginally earlier case of *Peter Isaacson Publications Pty Ltd v Nationwide News Pty Ltd and Another*<sup>25</sup> where he concluded that even if such a tort existed "fraud or 'inequitable conduct'" would need to be established.

This is surely a good thing. "Unfair competition" is one of those concepts of such indeterminate scope that it gives the judiciary considerable legislative power. This is precisely what the US Supreme Court did in *International News Limited v Associated Press*<sup>26</sup> whereby property was deemed co-extensive with the mere material from which the two competing parties are endeavouring to make money. As the American realist Felix Cohen later argued<sup>27</sup> such an argument is viciously circular, for it is the very determination by the court that a particular thing is property and should therefore be protected from interference that makes it valuable. He concluded that

"[t]he theory that judicial decisions in the field of unfair competition law are merely recognitions of a supernatural Something that is imminent in certain trade names and symbols is, of course, one of the numerous progeny of the theory that judges

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21 *Supra*, at 213.

22 1951 82 CLR 199.

23 *Supra*, at 214.

24 [1969] RPC 1 at 23.

25 (1985) 56 ALR 595 at 607.

26 (1918) 248 US 215.

27 Felix Cohen, "Transcendental Nonsense and the Functional Approach", (1933) 33 Col L R 809.

have nothing to do with making the law, but merely recognize pre-existing truths not made by mortal men. The effect of this theory, in the law of unfair competition as elsewhere, is to dull lay understanding and criticism of what courts do in fact".<sup>28</sup>

Deane J's criticism of the majority's reasoning in *International News Service* as giving free rein to "judicial indulgence of idiosyncratic notions of what is fair in the market"<sup>29</sup> emphatically reiterates this point. In particular the safeguarding of potentially profitable aspects of an item of property, or in Dixon J's terms, throwing "the protection of an injunction around all the intangible elements of value, that is, value in exchange, which may flow from the exercise of an individual of his powers or resources"<sup>30</sup> embodies the theory and practice of free market liberalism which from the time of Locke has insisted that exclusive and universal property rights are essential conditions of an efficient use of resources<sup>31</sup>. Clearly this highly controversial concept of "fairness" or "economic prejudice masquerading in the cloak of legal logic"<sup>32</sup> is more properly the subject of legislative determination. Indeed, his Honour noted that US courts have themselves subsequently accepted this, imposing significant limits on the generality and applicability of this doctrine. It might be added that such a concept is inherently conservative not only because it was used in the US to declare unconstitutional regulatory legislation but also, more generally because it assimilates public benefit with the sum of various private benefits. By its very nature, therefore, it is incapable of taking seriously any notion of the public interest.<sup>33</sup>

Interestingly, in contrast to his analysis of confidential information, his Honour was prepared to see this aspect of the action as involving a genuine proprietary remedy. However, it is far from clear why this should be any different in conceptual terms from confidential information, in particular due to the fact that the lack of deception here on the part of the respondents was fatal to the appellant's case. Given that unfair competition is now no more than a (misleading) term of art, the protection given by *Erven Warnink's* extended formulation of passing off confers just as much an *in personam* right, for it requires deception or confusion on the part of the defendant in much the same way that a confidential information action requires the defendant to commit an unconscionable breach of confidence.

As for questions of substantive justice, it is hard to see the result as anything but fair. The appellants had done nothing to build up a reputation in this country, their outlay being no more than some preliminary business discussions. If the court had held otherwise, the establishment of rights in one country would give businesses a head start

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28 Ibid, at 816.

29 Supra, at 214.

30 Supra, at 508.

31 See, for example, John Locke, *Two Treatises of Government: A Critical Edition with an Introduction and Apparatus Criticus* by Peter Laslett (Cambridge UP revised ed 1964) Second Treatise, Ch V; and Richard Posner, *Economic Analysis of Law* (Little Brown, second ed. 1977).

32 Cohen, supra, at 817.

33 For a thoroughgoing critique of the free market liberalism position, see Mark Kelman, "Consumption Theory, Production Theory and Ideology in the Coase Theorem" (1979) 52 Southern California Law Review 669.

internationally. This would have worked to the disadvantage of the respondents who had, in fact, engaged in marketing their product here.

It is one thing to assert that a tort of unfair competition needs to be developed to protect business people who have built up a reputation in the market on the basis of trading, investment and by means of a special image. This situation, however, is considerably different from one where traders attempt to prevent others from entering a market merely because they are the first ones in. It is difficult to justify the establishment of such monopolies on the grounds of social utility or "fairness" however conceived. In this case, the appellant clearly wanted such a broad definition of the tort to encompass both these situations. But the "unfairness" alleged did not in any way extend to restricting Moorgate's capacity to compete in the market since it was only prevented from using this particular mark. There was no question of Moorgate's being excluded from the low tar and low nicotine market, or, indeed, from employing an equally sanitised (and therefore misleading) trade mark. In resolving any of these questions, there are two interests to be borne in mind, the private and the public. As far as the former is concerned, abuse of inequalities of power, fraud and deception must be paramount considerations. In the absence of such, why should business equals not draft and enforce their own code of ethics? The latter, however, raises quite a different set of values and considerations, in particular the social effects and consequences of such competition on the general public. If ever "unfairness" in competition were adequately considered it would have to take this into account. However this tort, proposed as it is in the context of inter-business competition, cannot address the public question precisely because "public" equities are never raised by "private" parties — particularly when they are businesses pursuing private profit.<sup>34</sup> This point casts another light on the prize contested in this case, for it shows how trade marks, historically devised for the purposes of protecting reputation earned by a particular product, can be used deceptively to separate that product from the form in which it is presented. Is it "fair" for the public to be misled by a trade mark promoting an image of health, freshness and vigour while the commodity itself produces the opposite? Surely, such an unhealthy state of affairs is a matter for the legislature.

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<sup>34</sup> For an example of this see *Interstate Parcel Express Co Pty Ltd v Time-Life International (Netherlands) BV and Another* (1977) 15 ALR 353, at 374-5 per Murphy J.