

IN THE HIGH COURT OF NEW ZEALANDA. 21/84AUCKLAND REGISTRY*Appeal reported***Special
Consideration**

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BETWEENMONTANA WINES LIMITEDPLAINTIFFA N DVILLA MARIA WINES LIMITEDDEFENDANT

Judgment: 23-2-84.
Hearing: 7, 8 February 1984
Counsel: J.G. Miles and B.D. Gray for Plaintiff
T.M. Gault and A.G. Stewart for Defendant

JUDGMENT OF CASEY J.

Montana has issued a writ against Villa Maria seeking an injunction preventing the latter from using in its advertisements or in any other manner its trade marks "Montana", "Blenheimer" and the device of a Wine Press label in respect of which it owns the trade mark. It seeks an interim injunction pending trial of the action. Virtually the whole of each party's case was presented to and argued fully before me.

The facts are relatively straightforward. Montana is a recognised market leader in the wine industry and its products have won many prizes in competitions throughout New Zealand. Villa Maria has a much smaller business but has also won prizes and there is no argument about the quality of its products. The industry as a whole is facing market problems because of the increasing volume of production against a static demand for wine, and the only way sales can be increased is at the expense of some other producer's share of this market. Villa Maria decided late last year on an advertising campaign which I understand had not previously been seen in New Zealand. They published in a number of "up market" magazines three advertisements in which a bottle of their product appears in company with a bottle clearly identified as a Montana wine, showing its name and part of its label, and discussing the

qualities of the two wines in the accompanying text in a way which praises the qualities of both, and suggesting there is nothing between them but the personal preference of the consumer. Nothing in the illustration or the text directly suggests a connection in proprietorship between the two wines, but the Plaintiff contends that the casual reader (and it says most people do not study advertisements of this type closely) would gain the impression from the dominant features of the advertisements that there was some trade relationship between Montana and Villa Maria. A number of the supporting affidavits stress that this novel type of advertising led to an assumption of some tie-up between the two companies for such a campaign to be launched. The National President of the Advertising Institute of New Zealand was personally very critical and considered them not only misleading, but also contrary to the industry's code of ethics for alcoholic beverages. In his view it was an attempt by Villa Maria to associate itself with the prestige and goodwill of Montana and thereby increase its sales by the colloquial method of "boot-strapping".

Although there was an allegation of passing off, Mr Miles did not pursue this, but made it clear that it was not abandoned. The argument turned on the extent of Montana's protection under its trade marks, the words "Montana" and "Blenheimer" being registered under part B of the Trade Marks Act, 1953, and the Wine Press label under part A; and whether its rights had been infringed by the Defendant's campaign. Section 8(1) is the material provision. It follows s.4(1) of the United Kingdom Trade Marks Act, 1938 and its obscurity has been the target of some prime judicial invective. Our section reads:-

"8. Right given by registration in Part A, and infringement thereof - (1) Subject to the provisions of this section, and of sections eleven and twelve of this Act, the registration (whether before or after the commencement of this Act) of a person in Part A of the register as proprietor of a trade mark (other than a certification trade mark) in respect of any goods shall, if valid, give or be deemed to have given to that person the exclusive right to the use of the trade mark in relation to those goods and,

without prejudice to the generality of the foregoing words, that right shall be deemed to be infringed by any person who, not being the proprietor of the trade mark or a registered user thereof using by way of the permitted use, uses a mark identical with it or so nearly resembling it as to be likely to deceive or cause confusion in the course of trade, in relation to any goods in respect of which it is registered, and in such manner as to render the use of the mark likely to be taken either -

- (a) As being use as a trade mark; or
- (b) In a case in which the use is use upon the goods or in physical relation thereto or in an advertising circular or other advertisement issued to the public, as importing a reference to some person having the right either as proprietor or as registered user to use the trade mark or to goods with which such a person as aforesaid is connected in the course of trade."

Section 9 applies the same rights and infringement provisions to marks registered under part B, except that subsection (2) deprives a plaintiff of relief for infringement if the defendant proves that the use complained of is not likely to deceive or cause confusion, or to be taken as indicating a connection in the course of trade between the goods and the person entitled to use the mark.

Mr Miles' first submission concentrated on the words in the earlier part of s.8(1) to the effect that registration in respect of any goods gives the proprietor "the exclusive right to the use of the trade mark in relation to those goods." He said that if someone else uses the mark in relation to wine, it is an infringement and nothing else needs to be proved. He then dealt with the specific examples of infringement mentioned in the remainder of the subsection, passing over (a) (but not abandoning it) to s.8(1)(b), and submitted that Villa Maria infringes if it uses the Plaintiff's mark in referring to it or to its goods. He said this must be the case here, because the Defendant has reproduced the words "Blenheimer" and "Montana" on the bottles in the illustrations and has referred to them in its script. It has also shown part of the Wine Press label. Finally, he submitted that the

onus is on the Defendant to establish the matters mentioned in s.9(2) by way of defence (i.e. not likely to deceive, or cause confusion, or to be taken as indicating a connection in the course of trade), and that the cases suggest this is not an easy task.

The United Kingdom Act introducing s.4 was passed in 1938 and replaced simpler provisions dealing with rights and infringement. Its effect was first considered by the English Court of Appeal in Bismag Ltd. v. Amblins (Chemist) Ltd. (1940) 1 Ch. 667. The defendant manufactured a large range of patent medicines and in an advertising brochure set out the composition and price of its own products and made a comparison between them and the products of competing manufacturers, describing that of the plaintiff's by its registered trade mark of "Bisurated" as applied to Bisurated Magnesia. The defendant's product was sold as "Bismuthated Magnesia". There was no suggestion that the defendant was attempting to appropriate the plaintiff's products as its own; indeed, it sold them through its retail outlets as well.

Sir Wilfrid Greene M.R. and Clauson L.J. (MacKinnon L.J. dissenting) allowed the appeal against the decision of Simonds J. (as he then was) and held there had been an infringement. The former attempted a penetrating analysis of the ambiguities in the newly enacted section, and in particular the effect of subsection 1(b). He thought that were it not for the latter, the earlier parts of subsection 1, down to and including (a), could not be regarded as altering the previous understanding of trade mark use, which was a use indicating the origin of the goods it related to. Consequently there could be no infringement by a person using the mark in a way which made it quite clear that the goods were those of its proprietor. This was the conclusion reached in Irvings Yeast-Vite Ltd. v. Horsenail (1934) 103 LJ (Ch). 106, decided of course before the 1938 legislation and taken to be the reason for the present form of s.4 and our s.8. However, Sir Wilfrid Greene concluded that subsection (b) effected a

fundamental change by extending the meaning of the concept of use in relation to goods to:-

"a type of use which is not a use indicating the origin of the goods in the infringer. Moreover, as this type of use is a use 'in relation to' the goods of the infringer, it follows that the words 'use in relation to' in both parts of the definition cannot be confined to a use in relation to those goods for the purpose of indicating their origin in the infringer." (p.681).

Further down that page he says this:-

"I have already expressed the view that according to the ordinary meaning of the words apart from any special context, the respondents' use of the trade mark 'Bisurated' which is complained of is a use 'in relation to' the respondents' own goods. It is for the purpose of describing the virtues of those goods that the mark is used. The public is invited to compare 'Bisurated' goods with 'Bismuthated' goods and is told that the latter are identical with the former save in the matter of price."

He therefore concluded that there was an infringement of both subsection 1(a) and 1(b), the respondents' use going beyond the mere description of the goods as those of Bismag Limited, and amounting to a use of the appellant's trade mark "bisurated" for the purpose of compendiously describing the merits of their own preparation. Clauson L.J. reached the same conclusion, finding that s.4(1)(b) governed the situation. On the other hand, MacKinnon L.J. delivered a strong dissenting judgment in which he found it impossible to accept that the legislature had intended to change what has been the fundamental concept of trade mark law by language of such obscurity. However, to adopt such a view means depriving subsection (b) of any meaning beyond that already embraced in the earlier parts of s.8(1), and, with respect, this clearly cannot be correct.

In 1945 the House of Lords criticised the majority view in Bismag, in Aristoc Ltd. v. Rysta Ltd. (1945) AC 68, although it dealt with the entirely different question of

whether a mark attached to goods by a repairer could be registered as a trade mark. Lord McMillan said he preferred the dissenting judgments of Simonds J. and MacKinnon L.J., while Lord Maughan (with whom Lord Wright agreed) thought that the 1938 Act had not altered the view that the essential function of a trade mark is to indicate the origin of goods and he cited extracts from the judgment of Clauson L.J. supporting this. Mr Gault submitted that the authority of the Bismag case had been seriously weakened, accepting of course that these remarks were obiter. Notwithstanding the respect owed to them, it must be remembered that their Lordships were dealing with a definition of a trade mark and it is not surprising that the question of the origin of the goods was uppermost. They were not considering the application of s.4(1)(b). Nor, accepting their view of the essential purpose of trade mark law, were they considering whether this subsection might extend the proprietor's protection beyond preserving the integrity of the goods' origin. I consider the views of Greene M.R. and Clauson L.J. must be correct, and that it was enacted to extend in some way the recognised ambit of protection afforded by the earlier parts of the section. Logically, I cannot take the further step with the Master of the Rolls and say that because of the meaning to be attributed to the words in the latter subsection, the earlier parts of subsection 8(1) must have the same extended meaning. This does not appear to follow of necessity, and I believe any expansion of the infringement provisions previously understood must be confined to the wording of s.8(1)(b) itself. This effectively answers Mr Miles' first contention that the "exclusive" use conferred in s.8(1) automatically forbids the use by Villa Maria in this way.

In spite of the criticism by the House of Lords, Bismag Ltd. v. Amblins (Chemist) Ltd. has stood for over 40 years and was applied by Megarry J. in British Northrop Ltd. v. Texteam Blackburn Ltd. (1974) RPC 57. It was also accepted in the Irish case of Gallagher (Dublin) Ltd. v. The Health Education Bureau (1982) 8 FSR 464 and in my view recognises a legitimate commercial expectation of protection for the quality

and reputation which have come to be associated with goods originating in the proprietor of the trade mark. With respect I cannot share the cynical - if entertaining - view of MacKinnon L.J. in his suggested pre-amble to an Act of Parliament having the consequences accepted by Sir Wilfrid Greene in the Bismag case:-

"Whereas the business of the proprietors of quack medicines in fleecing the public has been unduly hampered by the decision in the Yeast-Vite case, and whereas it is in the national interest that this obstacle shall be removed." (ibid. p.689).

I believe that in the 1938 legislation the United Kingdom Parliament was directing its mind to more serious commercial matters. In the present case I am satisfied that Villa Maria is trying to sell its wines by appropriating to them the quality and reputation attaching to wines sold under the Plaintiff's mark. Following the reason of the majority in the Bismag case, they have infringed s.8(1)(b) of our Trade Marks Act, 1953 by using in the course of trade (i.e. in selling its own goods) the Plaintiff's mark in an advertisement issued to the public, and which is likely to be taken as importing a reference to goods with which the Plaintiff is connected in the course of trade as the proprietor of the mark.

Mr Gault submitted that the case was covered by s.8(3)(a) of the Act the relevant parts of which read as follows:-

"The right to the use of a trade mark given by registration...shall not be deemed to be infringed by the use of any such mark as aforesaid by any person -

(a) In relation to goods connected in the course of trade with the proprietor...if, as to those goods ...the proprietor...has applied the trade mark and has not subsequently removed or obliterated it..."

This, of course, is the section which enables retailers to advertise goods under their trade mark description. It is

aimed at the use of the mark in relation to goods connected in the course of trade with the proprietor; but what Villa Maria has done here is used the Plaintiff's mark in relation to its own goods, and in doing so has imported the references forbidden by s.8(1)(b). As Sir Wilfrid Greene pointed out in the Bismag case, the purpose of the subsection is to exclude from the category of infringing acts the use of a trade mark upon the proprietor's goods with his consent express or implied. There could be no objection to such a use to sell his own goods. But he described the use complained of by Bismag as "entirely different in character and purpose". Similarly, Megarry J. had no hesitation in finding that the defendant's infringement of s.4(1)(b) was not saved by the provisions corresponding to our s.8(3)(b) in the British Northrop Ltd. case.

I am satisfied that the Plaintiff has established infringement in terms of s.8(1)(b), and now turn to a consideration of s.9(2), the relevant parts of which read:-

"(2) In any action for infringement of the right to the use of a trade mark given by registration as aforesaid in Part B of the register...no injunction or other relief shall be granted to the plaintiff if the defendant establishes to the satisfaction of the Court that the use of which the plaintiff complains is not likely to deceive or cause confusion or to be taken as indicating a connection in the course of trade between the goods and some person having the right either as proprietor or as registered user to the trade mark."

The words "Montana" and "Blenheimer" are registered in part B and it is in respect of them that the more serious infringements are alleged. Only a small piece of the part A Wine Press label appears on the bottle in one of the illustrations. Mr Miles pointed to a number of the affidavits which gave rise to a suggestion of deceit or confusion among members of the trade particularly. I think it might be fairly said that the advertisement asking in large capitals "Which wine maker has won the most medals so far this year?" may be only just on the right side of misleading; the reader has to get virtually to the end of the small print to be informed that "Montana, by far

the country's largest wine producer, has won even more" than Villa Maria's creditable 60. In fact, for the year in question (presumably 1983) Mr White says in para.6 of his affidavit that Montana won 121 medals and Villa Maria 56. Mr Rugg's initial response was one of surprise that the Defendant had toppled the Plaintiff and won more medals. He said it was only when he went back to the advertisement and read it very carefully that he realised this impression was incorrect. Coming from the National President of the Advertising Institute of New Zealand, this reaction strongly supports the Plaintiff's submissions about the effect of this advertisement.

However, I adopt the view of Ungoed-Thomas J. in Unic S.A. v. Lyndeau Products Ltd. (Everglide Trade Mark) (1964) RPC 37, 44, where he held that the deception or confusion with which this section is concerned is not deception or confusion in general, but only in relation to trade mark. There can be no suggestion of that here; the advertising makes a clear distinction between the Villa Maria and the Montana wines. I note the doubts expressed at p.262 of the Eleventh Edition of Kerly's Law of Trade Marks and Trade Names about the decision on this point, but the comments of Ungoed-Thomas J. to which I have just referred seem more in line with the fundamental concern of trade mark law to protect the origin of goods. This is also the attitude Graham J. appears to have taken in Broad & Co. Ltd. v. Graham Building Supplies Ltd. (No. 1) (1969) RPC 286, 293.

The remaining question under s.9(2) is "Can the Defendant establish to the satisfaction of the Court that the use of which the Plaintiff complains is not likely to be taken as indicating a connection in the course of trade between Defendant's goods and the Plaintiff company?" I refer again to the judgment of Graham J. above in adopting the view that "goods" in this passage means the defendant's goods, and "some person" is the proprietor of the marks - i.e. the plaintiff. He thought that if the defendant used the plaintiff's mark in reference to his own goods, then he cannot escape.

"In other words, if he is using the mark to describe his goods and is, in effect, 'cashing in' on the plaintiff's goodwill in order to sell his goods, it is right that he should be guilty of infringement of a mark registered in Part B." (p.293).

While acknowledging the point was not an easy one, he felt this to be the intention of the section (our s.9(2)) fairly read, and that it should be so construed.

I confess to some difficulty in following this reasoning. As Mr Gault points-out, the closing words of s.9(2) incorporate the words used in the definition of a trade mark in s.2(1) of the Act. In Aristoc v. Rysta (supra) the House of Lords was dealing with the definition of a trade mark. Lord MacMillan thought (p.97) that the expression "a connection in the course of trade etc." means an association of the proprietor with the goods in the course of their production and preparation for the market. Lord Wright dealt at p.102 with the point in a more general way, after emphasising (as did the other members) the basic function of a trade mark to indicate the origin of the goods. In his view the expression denoted at least that they are issued:-

"as vendible goods under the aegis of the proprietor of the trade mark, who thus assumes responsibility for them, even though the responsibility is limited to selection.... By putting them on the market under his trade mark he vouched his responsibility.... The proprietor is required to be a trader who places the goods before the public as being his goods. That is the vital connexion, not some later partial and ephemeral attribution to someone else."

Mr Gault relies on these and similar statements to submit that "a connection in the course of trade" in the context of s.9(2) is in essence an indication that the goods are the goods of the proprietor of the mark. With respect, I think this is too narrow a view. It must be remembered - in this branch of the law particularly - that judgments are directed at the special circumstances of each case and in Aristoc, the House of Lords was dealing with the ability of a repairer of

stockings already bearing a trade mark to register a mark for application to them following his repair work. Their Lordships were obviously concerned with preserving the distinctive position of the "originator" of the stockings under his own trade mark; even then, Lord Wright goes beyond Mr Gault's contention that the expression means only an indication that the goods are those of the proprietor, although Lord MacMillan's comments could be regarded as supporting this more restricted interpretation. However, as stated in Kerly (11th Edition) at p.14:-

"a proprietor of a mark who does not himself manufacture the marked goods nor apply the mark, but who retains for himself either the power to control the activities of the trader who actually applies the mark (as where that trader is a subsidiary company of the proprietor), or the power to ensure compliance with manufacturing specifications or standards of quality that he lays down, is sufficiently connected in the course of trade with the goods to which the mark is applied to be properly registered." (emphasis added).

A number of authorities in support of this proposition are cited and I see no need to repeat them here.

Affidavits have been filed on each side dealing with any association between Villa Maria's products and the Plaintiff thought to be indicated by the advertisements. On the Plaintiff's side they came from people in or associated with the wine industry and their general tenor is that such advertising - new in this country - would only have taken place with the Plaintiff's co-operation and approval. The Defendant filed affidavits from a similar range of people who said they were left in no doubt that these were Villa Maria advertisements, and while they referred to the Montana products in laudatory terms, the readers gained no impression that the Plaintiff was associated with or had approved of them or the Defendant's products. Indeed, a number of them recognised it as a good example of "comparative" advertising - no doubt along the lines of similar local campaigns, but going a step further and actually naming the competitor.

I gain the overall impression from the Plaintiff's affidavits that the principal factor leading to the belief that Montana was in some way associated with this advertising (and thereby impliedly endorsing the Defendant's wine) is its complete novelty in New Zealand, coupled with the belief held by some that it would never be undertaken by any reputable agency unless there was some approval or tie-up between the companies concerned. The deponents were in a situation of being able to make enquiries of Montana and readily learnt the true position. But by far the bulk of the material in the affidavits dealt with the effect of the campaign on the Plaintiff's market position, on the integrity of its marks and on the image which it carefully fostered for certain varieties of its wine. While this is clearly relevant to any question of damages, it has no bearing on the issue of a trade connection.

I am satisfied that the merits are with the Plaintiff on the issue of infringement; but there is certainly a conflict of evidence on the application of the "defence" accorded for the part B registrations by the final provision of s.9(2), in which the onus is on the defendant to prove as a question of fact that there is no likelihood of the use being taken as indicating a connection in the course of trade. Although the evidence has not been tested by cross-examination, I would be surprised if that would make any real difference to its effect on either side. The deponents describe their subjective impressions and beliefs and their standing suggests there would be no question of credibility. On the face of it, there is accordingly a body of reputable evidence for the Plaintiff indicating a trade connection between it and Villa Maria's wines, by reason of the impressions of consent to the campaign and implied approval of its products, which the deponents gained from the advertisements and which led some of them to believe there was a tie-up or association between the two companies. This is a very different situation from the usual examples of comparative advertising encountered in New Zealand in which one trader asserts the superiority of his goods over those of named rivals. Nobody could draw any

inference of a trade connection in those cases. Having regard to the onus placed on the Defendant to establish the "defence" provided by s.9(2), I think in this area also the Plaintiff is in a strong position on the merits.

Mr Gault submitted that my decision on this application is likely to dispose of the matter and accordingly invited me to deal with it on the substantive merits at this stage, citing N.W.L. Limited v. Woods (1979) 3 All E.R. 614, and Newsweek Inc. v. British Broadcasting Corporation (1979) RPC 441 where Lord Denning said at p.448:-

"This is a typical case which we should decide today and not send to trial. It is one of the cases which we had in mind in Fellowes & Son v. Fisher (1976) 1 Q.B. 122. In passing off cases and the like the practice has always been to decide them on motion. We look to see whether the plaintiffs have or have not a strong, prima facie case and whether there is a reasonably good answer to it on the defendants' side, and then decide what is to be done."

Our own Court of Appeal in Consolidated Traders Ltd. v. Downes (1981) 2 NZLR 247 has accepted that the two major matters to be considered on these applications are whether there is a serious question to be tried, and the balance of convenience. Cooke J. said they are not the only ones but they are important, and referred to Eng Mee Wong v. Letchumanan (1980) A.C. 331, 337 in which Lord Diplock said the balance of convenience was the guiding principal. In the N.W.L. Ltd. v. Woods case, the latter and Lord Fraser of Tullybelton thought the strength of the parties' case was an element to be considered in weighing up the balance of convenience, while Lord Scarman thought it was a separate factor, the relative weight of which might vary with the circumstances of each case. There is probably not a great deal of difference in the two approaches.

In this case I feel that Mr Gault's invitation to dispose of the action on the merits now may have been prompted by his belief that the Plaintiff could not establish an infringement. I have ruled otherwise, and it might not be

doing his client justice to hold at this stage that the Plaintiff must also inevitably succeed on the special "defence" available to the Defendant in s.9(2). I therefore move on to consider the question of relative damage in accordance with the principles discussed in American Cyanamid v. Ethicon Ltd. (1975) A.C. 396. In spite of Mr Gault's submissions and the views expressed in some of the Defendant's affidavits, I am satisfied that the Plaintiff's position in the market is threatened by the Defendant's campaign. Its selection of Montana as market leader not only enables Villa Maria to bask in its reputation, but also places fairly and squarely before the public the implication that one wine is as good as the other, and it is simply a matter of personal preference. The message is clear. While they may have favoured Montana, they might now consider changing to Villa Maria. Any other view of the advertisements strikes me as commercially naive. If, as the Defendant suggests, its design is to make inroads only at the expense of the other wine makers, it would have been a simple matter to display their products as well in the advertisements. In fact, a similar Australian example put in as an exhibit shows two competing brands, very much in the background. I also accept there is substance in the other complaints Montana makes about the effect on the impact of its own advertising and attempts to position its products in the market. It would be impossible to calculate Montana's loss from such a campaign with any degree of accuracy if the injunction were not granted at this stage and it succeeded at the trial.

Conversely, if the injunction is granted now, I accept that Villa Maria may have to re-think its campaign and perhaps abandon it altogether. Its losses to date would be quantifiable and it may have benefitted already from the impact of the advertising. Mr Fistonich said in his affidavit that the advertisements over the next twelve months will not have the same intensity as in the earlier months of the campaign, which began just before Christmas 1983. If there has been a discernible rise in sales it may give some guide to assessing the loss of earnings which could have been expected had the

advertising continued. And Villa Maria may decide to embark on a similar campaign if it succeeds at the substantive hearing. However, there is certainly a question mark over this aspect of its loss if the present campaign is stopped. I therefore move on to consider the balance of convenience, and I believe it comes down in the Plaintiff's favour. The preservation of the status quo prior to the alleged infringement seems a desirable course in trade mark disputes, and moreover the Defendant and its advisors must have known it was embarking on a completely new type of advertising for New Zealand, and that a strong reaction by the Plaintiff was inevitable. The latter lost no time in protesting and in instituting these proceedings. But I think the principal factor in assessing the balance of convenience is the strength of the Plaintiff's case, bringing the scales firmly down on its side. There will be orders in terms of the notice of motion for interim injunction. The Plaintiff's costs of the hearing are fixed at \$1,500 as costs in the cause.

Mr. Casey

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