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NZLR

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IN THE HIGH COURT OF NEW ZEALAND
ROTORUA REGISTRY

A.202/84

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1457

BETWEEN **TOKOROA BAKERY LIMITED** a duly incorporated company having its registered office at Hamilton, Bread Manufacturers

Plaintiff

A N D **FINDLAYS BAKERY LIMITED** a duly incorporated company having its registered office at Hamilton, Bread Manufacturers

Defendant

Hearing: 20 November 1984

Counsel: W.M. Wilson for Plaintiff
R.L. Young for Defendant

Judgment: 29.11.84

JUDGMENT OF GALLEN J.

This application has its genesis in the fact that three Findlay brothers came to New Zealand in the early part of this century - one started a bakery in Gisborne; another in Hamilton and some time later, the third commenced a bakery business in Auckland.

The Hamilton bakery which commenced towards the end of 1920, operated as Findlays Bakery. It was subsequently incorporated as a limited liability company and was operated as Findlays Breads Limited and Findlays Bakery (Waikato) Limited. It continues to trade and to operate from Hamilton. Clearly it has been a successful business and has gradually acquired other bakeries; first in Frankton, then Hamilton East and Morrinsville. These extensions have also extended the area in which the company has been accustomed to dispose of its bread and this has gradually extended from Hamilton to Huntly, Cambridge, Waihi and Paeroa. Although there is no definite evidence of this, it appears that the company has not traded in the past in the southern Waikato area, including Tokoroa and Taupo.

The Hamilton company has always marketed its bread under the name Findlays. It has developed a prominent and distinctive form of lettering for this word which appears on the packaging of its bread and there are certain other identifying devices, including one which refers to the rising of the sun.

The Gisborne bakery still trades, but its activities are irrelevant to these proceedings.

The Auckland bakery which began in approximately 1926 was eventually known as Findlays Gold Crust Bakeries Limited. This company was sold some years ago to a company entitled

United Bakeries Limited which is effectively a joint venture of Watties Industries and the Goodman Group. It has continued to trade and provides bread under the Findlays name for the greater Auckland area.

Tokoroa Bakery Limited had its origins in a family bakery established in 1956 and operating from premises at Tirau and Tokoroa, selling bread in the Tirau, Putaruru, Tokoroa and Mangakino areas. In 1960 a new bakery was built in Tokoroa and the area now supplied includes - apart from those towns already mentioned - Cambridge, Matamata and Taupo. In 1979 the company became a wholly owned subsidiary of the Goodman Group. In August 1982, Tokoroa Bakery Limited entered into a licensing agreement with United Bakeries Limited to enable it to use the name of Findlays Gold Krust Bakeries Limited.

The scope of this agreement is difficult to determine. It includes provisions for quality control with reference to adherence to a recipe for specification and makes provision for a royalty of 2c. per bag. There is some dispute over the nature and extent of this arrangement. The plaintiff maintains that it enabled it to bake a bread to a specific recipe and market it as Findlays bread. The defendant suggested that it was no more than a right to use the name. Whether this is so or not I cannot determine on the material before me, but after entering into the licensing agreement, Tokoroa Bakeries Limited began to produce a new line of bread products using plastic packaging and using the name Findlays and Findlays

Gold Krust Bakeries Limited. Tokoroa Bakery Limited has been selling bread in this way ever since. Initially the quantity sold was approximately 4,700 loaves per month which was 1.2% of its total monthly sales. By the time of the hearing, the sales had reached approximately 12,500 loaves per month which was about 3.1% of the total monthly sales of that company. Bread sold under the Findlays label by this company is restricted in two ways not applicable to its other bread products. It is sold only Monday to Friday inclusive, not at weekends and it is not sold throughout the whole area in which the plaintiff markets bread. It does not market bread under this label in Cambridge or Matamata because it is stated, the company was aware that in both those towns the defendant marketed bread under this label.

On 22 August 1984, Baldwin Son and Carey, Patent Attorneys in Wellington, wrote to the defendant on behalf of the plaintiff informing the defendant of its practise of marketing bread under the Findlays Gold Crust name and stating that it had come to the plaintiff company's attention that the defendant was contemplating the marketing of bread under the brand name Findlays, in the Tirau, Paeroa, Taupo, Turangi area. The letter indicated that such a marketing would amount to passing-off and proceedings would be issued if it took place. That letter was answered on 27 August 1984 in the following terms:-

> "My company has been trading under the name of 'Findlays' since 1920. The name of 'Findlays' is in no manner unique to your client or for that matter to any other bakery.

> I deny that the marketing of my company's product in any area will of itself cause the product 'to be passed off as and for the product of (your) client or its principals'."

The plaintiff company circulates a price list to retailers who market the bread which it bakes and the price list to be effective from 2 September 1984 referred to two bread products with the Findlay identification. These were Findlays Medium Sandwich and Findlays Toast Sandwich. That price list became known to the defendant company and by a letter dated 18 September 1984, the Managing Director stated as follows:-

> "Retailers have recently brought to my attention a price list to be effective from 2/9/84 issued by your Company and covering the areas of Tokoroa, Taupo, Cmabridge, Matamata and Turangi. That price list describes two products namely "Findlays Medium Sandwich" and "Findlays Toast Sandwich" apparently not previously identified on your price lists.
>
> Confusion is caused to the retailers and to the purchasing public in that the products are being marketed under the name of "Findlays". The products are being passed off as the product of my company.
>
> I ask that the price list be immediately modified by deleting the reference to "Findlays" and that the products not be marketed under the name of "Findlays".
>
> Since Baldwin Son & Carey Patent and Trademark Attorneys of Wellington have recently written to me on your behalf in relation to other matters I am forwarding a copy of this letter direct to them."

On receipt of the letter from the defendant company of 18 September 1984, the plaintiff company immediately wrote to the retailers to whom the price list had been sent indicating that the two varieties named, that is Findlays Medium Sandwich and Findlays Toast Sandwich, were not available in the Matamata and Cambridge areas. On the same day, the plaintiff company wrote to the defendant advising that the inclusion of the items concerned on the price list had been an oversight; that there could have been no confusion caused because the products had not and would not, appear for sale in those areas so that there was no reason that the purchasing date might be confused.

During the course of its marketing of the Findlays Gold Krust bread, the plaintiff company advertised in newspapers and on the radio. The amounts expended were not large but as far as the radio was concerned, amounted to approximately 15% of the total advertising undertaken by way of radio and as far as the South Waikato News was concerned, to approximately 32% of the advertising conducted through that medium. In the one case the amount involved was approximately $2,000 and in the other, about $1,760 although it is suggested that the figure could have been a little higher.

In the week commencing 29 October, the defendant company canvassed retailers in Tokoroa requesting orders for bread - 16 retail outlets indicated an interest, but eventually only 10 took delivery and 4 more withdrew after approximately 1 or 2 days of supply. In the first week, 1,922 loaves were sold. As far as Tokoroa is concerned, the defendant says that it marketed 4 Findlays loaves.

The defendant draws attention to distinctions between the wrappers. Many of the containers used by the defendant are in effect wax wrappers, whereas the plaintiff does not use wax wrappers, at least for bread marked as Findlays. It is alleged that only one loaf sold by both parties is similar in size of loaf or bag or even type.

There is a substantial quantity of affidavit evidence. A number of retailers have sworn affidavits indicating that the bread provided by the defendant is cheaper than that provided by the plaintiff and that it is particularly sought after by people who ask for it by name. It is said that there was little recognition of bread marketed by the plaintiff under that name. The defendant maintains that although it has not directly marketed bread in the area which has up until now been the preserve of the plaintiff, its products are known in that area, being generally known in the Waikato because of reputation and that people who had previously lived in Hamilton were accustomed to buying it.

The plaintiff has commenced proceedings against the defendant alleging passing-off and seeks an interim injunction restraining the defendant from marketing bread under the label Findlays, in the area where the plaintiff operates until the substantive proceedings have been dealt with.

The first question for determination is whether the plaintiff is able to satisfy the threshhold test, that it has established there is a serious question to be tried. The action for passing-off was considered in some detail by Lord Diplock in the case of Erven Warnink B.V. v. J. Townend and Sons Limited 1979 A.C. 731. He indicated that in a passing-off action, it was necessary for five elements to be identified. First, that there was a misrepresentation; second that it was made by a trader in the course of trade; third, to prospective customers of his or ultimate consumers of goods or services supplied by him; fourth, calculated to injure the business or goodwill of another trader (in the sense that this is a reasonably foreseeable consequence) and fifth, which causes actual damage to a business or goodwill of the trader by whom the action is brought or will probably do so. Lord Diplock went on to warn that although all these elements must be present before a psssing-off action could succeed, the fact that they were present did not necessarily mean that an action had been established and there are a number of other factors which may vary the rights of the parties in respect of such an action.

These questions were discussed and analysed by Somers J. in the case of The New Zealand Farmers' Co-operative Association of Canterbury Limited v. Farmers Trading Company Limited and Calder Mackay Company Limited, unreported judgment, Christchurch Registry A.496/78, judgment delivered October 1979.

He drew attention as a starting point, to the observations of Lord Morris of Borth-y-Gest in Parker-Knoll Limited v. Knoll International Limited 1962 R.P.C. 265 that in solving problems between competing rights to trade there has been:-

> "......no need to resort to any abstruse principles but rather......to the straightforward principle that trading must not even unintentionally be unfair."

He also referred to the comments of Romer J. in Joseph Rodgers and Sons Limited v. W.N. Rodgers and Company (1924) 41 R.P.C. 277. That case has a particular relevance to this because the comments of the learned Judge indicated that there were two propositions - the first, that no man was entitled to carry on his business in such a way as to represent that it was the business of another and the second, that no man was entitled to describe or mark his goods to represent that the goods were the goods of another. He expressed the view that there was one exception to the first principle - that a person might use his own name in carrying on business, but that this exception did not extend to a passing-off of goods. Although there is some authority to suggest that the exception may apply in such case, see the observations of Lord Denning in the Parker-Knoll case (supra), Somers J. came to the conclusion tht following authority there was no exception in a case of the passing-off of goods.

In this case, the plaintiff company alleges that under the licensing rights it has obtained by contract, it has established within a defined area, the right to identify certain kinds of bread by reference to the name Findlays and that if the defendant uses a similar identification within that area, it is passing-off. The defendant on the other hand, says that it is merely using its own name to which it is genuinely entitled and that is a form of identification which it has used since 1920.

There is no question of it having adopted the name in order to obtain an advantage by so doing, which is a feature of some of the cases in this area of the law. Nevertheless, I think following the observations of Romer J. and Somers J. referred to above, the plaintiff is entitled to assert that the defendant cannot use as a justification for what would otherwise be passing-off, the act that it uses its own name, a name under which it has been accustomed to trade elsewhere.

Whether or not there has been any element of passing-off without reference to that, is a matter which would need to be determined in the substantive proceedings. Mr Young argued strenuously that there is insufficient factual material in this case to even suggest the possibility that the plaintiff might succeed. While it is a commonplace in motions for interlocutory injunctions that determinations of disputed fact cannot be made, it being quite inappropriate to do so on the basis of affidavit evidence untested by cross-examination, Mr Young contends that on the affidavits themselves there is insufficient to justify the plaintiff's contention.

For this view he relies substantially upon submissions which relate to the scale of the operation. He says that the quantity of loaves sold by the plaintiff under the name Findlays, is too small to establish grounds for a passing-off action. In putting forward this submission, he relies substantially on references to percentage and emphasises that the plaintiff's evidence itself only puts forward that sales under the Findlays name were of a maximum of 3.2% of the plaintiff's overall sales. He also says that the level of advertising was so small that it could not seriously be put forward in support of the proposition that the plaintiff had taken steps to establish a business or any real degree of goodwill in relation to the particular brand identification.

I accept that it is conceivable that a case could come before the Courts on an application for an interim injunction where the exent and degree of the interest sought to be protected was so small that it would not justify intervention, but I do not think that this case falls into such a category. The plaintiff has given evidence that it is at present selling 12,500 loaves a month and even if this is a small percentage of its overall sales, it is I think sufficiently significant to at least form the base for an argument that a sufficient interest has been established to justify protection.

The advertising argument is also not one which could at this stage of the proceedings, succeed since it is impossible to tell except by comparison which I cannot carry out because of the absence of other material, as to how significant or insignificant this advertising was. I do not overlook that the defendant would have considered very substantially greater advertising appropriate but the plaintiff has an established market in the area and in the absence of direct competition, may not have needed to do more to bring the particular aspect of its wares to the attention of the public. I simply do not know and do not have sufficient information to say other than the possibility exists.

There was little argument before me on the affidavits as to the effect of the representations under consideration. This would in any event need to be considered in relation to the particular product and the attitude of the public towards it. I think it must be accepted that most people purchase bread on a very regular basis and that being so, they are unlikely to scrutinise carefully that material which identifies the particular manufacturer as distinct from the type of bread. The authorities refer to the identifying characteristics of members of the public whose views may be regarded as sufficiently representative for the purposes of determining whether or not the public are likely to be deceived by the particular identification in dispute. This I think will vary according to the product. Obviously there will be different considerations in respect of esoteric electronic equipment to those which apply in the case of an every day commodity such as bread, although I do accept that in the case of very special varieties of bread, a special approach may have some relevance. That is not the case here. In my view, at least at this stage of the proceedings, it is unlikely that members of the public who identify particular varieties of bread by reference to the name of the manufacturer, would be sufficiently concerned or perceptive to note differences in style of packaging, lettering or matters of that kind.

I therefore conclude that there is at least an arguable case that the identification by means of the word "Findlays", is likely to confuse and therefore to amount to a misrepresentation even if there were no ulterior motives in the use of the name.

Mr Young further says that there is really no evidence to establish that there is a sufficient business or goodwill which might be injured. This is a matter for the substantive proceedings. There is some evidence before me to suggest that there has been an effect on retailers - indeed the affidavits filed on behalf of the defendant go some distance towards establishing that a preference has been expressed for the defendant's products and there is the evidence of a contractor who sees his delivery business being affected. Whether this could be established in a fully defended hearing is of course not the question.

The final question is whether actual damage has been or will probably be caused and I think there is sufficient to raise this possibility on the same grounds as those just discussed. All this leads me to the conclusion that the plaintiff has succeeded in crossing the threshhold and establishing that there is a serious question to be tried. That brings me to the second aspect of the proceedings that accumulation of factors considered as relating to the balance of convenience.

Mr Young maintained that there was one factor of great significance in this regard, that if an interim injunction were granted, the difficulty in obtaining fixtures in this Registry for resolution of the substantive case would mean that effectively the defendant would have to abandon the matter since it could not wait until resolution of the substantive case before marketing its products and would have to do so in some other fashion which did not cause any confusion as to identity; that therefore even if ultimately it succeeded in the substantive case, this would be a hollow victory because at the expiration of one or two years, it would be impractical for reasons of expense and for reasons relating to a goodwill which by then would have been established, to return to the name it now seeks to operate under. While there are merits in this argument, they tend in some respects at least to strengthen the plaintiff's case because they put an emphasis on the advantages of the name and identity. I think that it is important that the plaintiff has been marketing some of its varieties of bread under that name for some 2 years without complaint by the defendant in an area in which the defendant has not been accustomed. There is nothing to stop the defendant from creating a demand for its product under some other name and while this would involve a degree of expense, that expense should be readily quantifiable, both in terms of actual expense during any intervening period and in a calculation of forseeable loss from the date of any successful determination of the proceedings.

This has a bearing on the second question as to the adequacy or otherwise of an award of damages in disposing of the matter in issue. The defendant's loss in such case would be I think, readily calculable - the plaintiff's very difficult to ascertain. It would be almost impossible to tell to what extent the plaintiff had lost sales because bread was available under a confusing name. It would certainly not be at least at first sight, an adequate method to simply calculate on the basis of the defendant's sales in such a case because it would not be possible to tell to what extent these had resulted from advertising promotion or from a misidentification of what might have been thought to be the plaintiff's products.

There has been as is not uncommon in these cases, an argument based on the preservation of the status quo. What constitutes the status quo depends frequently on the point of view which is adopted. In this case, it must be the existing area and outlets, rather than the existing use of names in other areas. The plaintiff and the defendant have succeeded in co-existing over a considerable period and I think this is the status quo which should be preserved in terms of the balance of convenience.

Some arguments were addressed to me as to the relative strength of the cases. In view of my conclusions on the foregoing, I do not think that it is appropriate to make any assessment of relative strength and certainly not to do so on any basis which could be regarded as decisive.

Having regard to all the circumstances, I think the plaintiff is entitled to the relief which it seeks and I accordingly order that pending the hearing of this action an interim injunction is to issue restraining the defendant by itself or by its directors, officers, servants or agents or any of them or otherwise howsoever from passing off the defendant's bread in the Tokoroa, Taupo, Turangi, Tirau and Putaruru areas as being the bread of the plaintiff by distributing, selling or otherwise providing to wholesalers, retailers or the public in those areas, bread in any packaging or wrapping labelled with the name "Findlays" or any name confusingly similar thereto and by distributing written material or otherwise advertising its bread in those areas using the name "Findlays" or any name confusingly similar thereto.

R G Gallen J

Solicitors for Applicant: Messrs Bell, Gully, Buddle, Weir, Wellington

Solicitors for Respondent: Messrs McCaw, Lewis, Jecks, Hamilton