

SOUTH AFRICA / JUDGMENT

**AM Moolla Group Ltd. and Others v Gap
(543/2003) [2004] ZASCA 112; [2005] 3
All SA 101 (SCA); 2005 (2) SA 412 (SCA);
2004 BIP 173 (SCA) (30 November 2004)
[2004] ZASCA 112**

COURT

Supreme Court of Appeal

BEFORE

Harms, Streicher, Farlam, Cloete, Ponnann

CASE / FILE NUMBER

543/2003

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THE SUPREME COURT OF APPEAL OF SOUTH AFRICA

Reportable

Case No 543/03

In the matter between: A M MOOLLA GROUP LIMITED First Appellant
A M MOOLLA CLOTHING (PTY) LTD Second Appellant
SALT OF THE EARTH CREATIONS (PTY) LTD Third Appellant
KINGSGATE CLOTHING MANUFACTURERS (PTY) LTD Fourth Appellant
MAJESTIC CLOTHING MANUFACTURING (PTY) LTD Fifth Appellant
STAR SHIRT AND CLOTHING (PTY) LTD Sixth Appellant
RICKEMP (PTY) LTD Seventh Appellant and

THE GAP, INC First Respondent

GAP (APPAREL) INC Second Respondent
GAP (ITM) INC Third Respondent
GAP INTERNATIONAL SOURCING (PTY) LTD Fourth Respondent

Coram: HARMS, STREICHER, FARLAM, CLOETE JJA and PONNAN AJA
Heard: 23 NOVEMBER 2004
Delivered: 30 NOVEMBER 2004
Subject: Counterfeit Goods Act 37 of 1997 – whether goods in transit or transhipped through South Africa subject to provisions of Act

HARMS JA/

HARMS JA[1] This appeal concerns the interpretation of some provisions of the Counterfeit Goods Act 37 of 1997 ('the Act'). The factual background is simple. The trade mark GAP is registered in 110 countries in the name of one or more of the respondents (a group of affiliated companies to whom I shall refer in the singular since their individual corporate identities are not

relevant). In South Africa the respondent holds registrations for the mark in classes 3 and 30 while the marks THE GAP, THE GAP device and GAP device are registered in the name of the third appellant in class 25 in respect of clothing. In related litigation the TPD has expunged the third appellant's trade marks and simultaneously dismissed an application for expunging the respondent's marks. That judgment is presently on appeal and for present purposes it will be assumed that the registrations in the name of the third appellant are valid. [2] The respondent sources clothing carrying the GAP trade mark in Lesotho, Swaziland, Zimbabwe, Mauritius and Madagascar (countries where it holds registrations for the mark) destined for marketing in other countries where it also holds registrations. In other words, the source and destination of the goods are countries where the goods are genuine and not counterfeit (ie fraudulent imitations). The goods from Mauritius and Madagascar have to be transhipped via South African harbours and goods from the landlocked countries mentioned have to be transported through South Africa to a harbour. Relying on the third appellant's registered trade marks, the appellants (a group of related companies) have used, attempted to use and threatened to use the provisions of the Act to have the goods in transit impounded by the SA Police Services or the Commissioner of Customs and Excise. To prevent further interference with these 'transhipments', the respondent sought and obtained an order from the Durban High Court (Magid J) declaring that it is not unlawful under the Act (or the Trade Marks Act 194 of 1993) for the respondent to export through or to import through (ie, tranship through) the Republic goods bearing the GAP marks in circumstances where such marks are placed on the goods outside of the Republic and where such goods are not for sale in the Republic.

- [3] The appellants allege that transhipment (by which I include the transportation of goods in transit) is hit by the provisions of s 2(1)(f) of the Act which provide that goods that are 'counterfeit goods' may not be imported into or through or exported from or through the Republic except if so imported or exported for the private and domestic use of the importer or exporter, respectively.[1] (The exception is not applicable and will be ignored in the discussion that follows.) A person who performs or engages in such an act is guilty of an offence if certain requirements are present.[2] The respondent, on the other hand, submits that its actions are not hit by these provisions.[4] Before entering into a detailed analysis of the relevant provisions of the Act, it is necessary to say something about its background and genesis. Counterfeiting of trade marks has, historically and imperfectly, been dealt with by different Merchandise Marks Acts.[3] Piracy, which concerns copyright infringement committed knowingly, was criminalised by Copyright Acts and still is.[4] International concern about counterfeiting and piracy led to certain provisions in the TRIPs agreement,[5] the preamble of which speaks of the desire of member states – 'to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.' The agreement requires of member states to provide certain minimum measures for the protection of intellectual property rights but leaves it to them to grant more should they wish to do so.[6] As far as border measures are concerned, art 51 is of

significance for present purposes: 'Members shall, in conformity with the provisions set out below, adopt procedures to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods. . . . Members may also provide for corresponding procedures concerning the suspension by the customs authorities of the release of infringing goods destined for exportation from their territories.' (My underlining.) [5] In footnote 14, the terms 'counterfeit trademark goods' and 'pirated copyright goods' are defined in these terms:

'For the purposes of this Agreement:

- (a) "counterfeit trademark goods" shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation;
- (b) "pirated copyright goods" shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.'

[6] As indicated, the Act prohibits certain acts in relation to 'counterfeit goods' but, although it to some extent follows the wording of footnote 14, it does not distinguish clearly between piracy and counterfeiting in the technical sense. Instead, both are referred to as counterfeiting. In the definition of 'counterfeiting' the Act has also changed the wording of the footnote in such a manner as to make the definition unintelligible. The definition of 'counterfeiting', to the extent that it deals with the counterfeiting of trade marks, reads as follows: 'Counterfeiting . . . means, without the authority of the owner of any intellectual property right [meaning, for present purposes, the rights in respect of a trade mark conferred by the Trade Marks Act] subsisting in the Republic in respect of protected goods [meaning, if one paraphrases, goods bearing a trade mark registered under the Trade Marks Act], manufacturing, producing or making, or applying to goods, whether in the Republic or elsewhere, the subject matter of that intellectual property right, or a colourable imitation thereof so that the other goods are calculated to be confused with or to be taken as being the protected goods of the said owner or any goods manufactured, produced or made under his or her licence . . . However, the relevant act of counterfeiting must also have infringed the intellectual property right in question.' [7] There are serious shortcomings in the definition. First, the definition tends to equate trade mark infringement with counterfeiting, something contrary to TRIPs and something completely unnecessary. [7] Counterfeiting, as mentioned, is a fraudulent imitation. The use of the term 'calculated' is especially confusing in this context because it has a special meaning in trademark law, meaning 'likely'. [8] Why a

developing country such as ours should give greater trademark protection via criminal sanctions than, for instance, the European Community, is not readily apparent. The greater problem though, which is not a matter of policy but one of interpretation, is the meaning of the proviso. What TRIPs did was to define counterfeit trademark goods (I paraphrase) as goods with marks identical to registered trade marks and which cannot be distinguished from the original and 'thereby' infringe a trade mark. The definition in the Act, on the other hand, by means of the proviso, does not draw a conclusion of infringement but adds an additional requirement of infringement (by the use of 'however' and 'also'). To explain by way of an example: the Trade Marks Act (s 34(10)) requires, for infringement, use in the course of trade, obviously in this country since trade marks are territorial. Must that, too, be established in addition to the acts proscribed in s 2(1) of the Act under consideration? If it must, it would mean that transshipment would not amount to a prohibited act because the goods would then not be the result of 'counterfeiting'. On the other hand, why list the proscribed acts in s 2(1), many of which duplicate the requirement of 'use in the course of trade'? What then is the sense of the definition in covering goods manufactured 'elsewhere' (ie not in this country)? The problems accumulate if one attempts to harmonise the definition with the infringement provisions of s 23 of the Copyright Act.[8] In the light of the conclusion I have reached it is not necessary to try to solve these problems. Reverting then to s 2(1)(f), it may be useful to quote the salient wording again: 'goods that are counterfeit goods, may not be imported into or through or exported from or through the Republic . . .'. For purposes of the present debate it will be assumed that should the respondent, for instance, import GAP clothing into this country, it would amount to a contravention of the provision. The first question is whether 'transshipment' is included in the words 'imported into' the Republic. Transshipment (also spelt transshipment) is a concept well known to the legislature and in ordinary legislative language a distinction is drawn between the two concepts.[9] Interpreting a 1918 statutory provision requiring that a person who 'imports' wheat flour into the country must submit immediately 'after the importation' certain returns and mix it with other flour, our courts have held that the intention of the legislature could not have been to include flour in transit to another country to fall under 'import'. [10] Magid J relied on these judgments to conclude that the same applied in this case. This court, too, has held that goods in transit are not 'imported' into the country for purposes of the Customs and Excise Act 91 of 1963.[11] [9] Although TRIPs does not require countries to provide for impounding counterfeit goods in transit, the European Community does. The rationale, the European Court of Justice held, was that - 'the external transit of non-Community goods is not completely devoid of effect on the internal market. It is, in fact, based on a legal fiction. Goods placed under this procedure are subject neither to the corresponding import duties nor to the other measures of commercial policy; it is as if they had not entered Community territory. In reality, they are imported from a non-member country and pass through one or more Member States before being exported to another non-member country. This operation is all the more liable to have a direct effect on the internal market as there is a risk that counterfeit goods placed under the external transit procedure may be fraudulently brought on to the Community market . . .'. [12] [10] In a local context

there may be good reason to wish to provide for remedies to impound counterfeit goods in transit as there would be to impound illegal drugs or weapons in transit. On the other hand, is there any reason to impound goods, which are not in the ordinary sense of the word 'counterfeit', that have to be transhipped through this country from island and landlocked countries, especially if no local rights holder is thereby affected and no intellectual property right infringed? Counsel could not suggest any and I cannot conceive of any. One has to assume that this country would not wish to interfere with the legitimate trade of countries that, due to their particular geographical location, are dependent for access and egress on this country. In the light of the preamble of TRIPs quoted above, it is not lightly to be presumed that legislation based on it would 'become barriers to legitimate trade'.^[11] The Act is intended to criminalise a particular species of fraud. What the respondent does can by no stretch of the imagination be considered as fraudulent. Would the Act then wish to criminalise its actions? Since this Act is a penal statute it must be interpreted restrictively without doing violence to the wording.^[13] Where, as indicated, the word 'import' need not include transshipment, as the cases referred to indicate, I do not believe that the interpretation contended for by the appellants should prevail. I am mindful of the fact that the position is different in the European Community and that the respondents' interpretation would mean that truly counterfeit goods might be transhipped through this country without hindrance. However, if the legislature wishes to have our law conform to the European model it should do so in clear language.^[12] The appellants relied additionally on the phrase 'be imported . . . through . . . or . . . exported through the Republic' in s 2(1)(f), but immediately conceded that it has no discernable meaning. The respondent suggested that it might refer to a case where the goods are landed in, say, Durban to be cleared by customs at City Deep, Johannesburg; in such a case there would be a reason to criminalise the importation through the country en route to City Deep. Whether that is the meaning we need not to decide. What we have to is whether the respondent imports 'through' this country. It does not and, once again, if the legislature intended otherwise it was obliged to make its intention clear.^[13] The judge below was consequently correct in his finding and the following order is made: The appeal is dismissed with costs, including the costs of two counsel.

_____ L T C HARMS JUDGE OF APPEAL

AGREE: STREICHER JAFARLAM JACLOETE JAPONNAN AJA

[1] The full text of s 2(1) reads: '(1) Goods that are counterfeit goods, may not— (a) be in the possession or under the control of any person in the course of business for the purpose of dealing in those goods; (b) be manufactured, produced or made except for the private and domestic use of the person by whom the goods were manufactured, produced or made; (c) be sold, hired out, bartered or exchanged, or be offered or exposed for sale hiring out, barter or exchange; (d) be exhibited in public for purposes of trade; (e) be distributed— (i) for purposes of trade; or (ii) for any other purpose to such an extent that the owner of an intellectual property right in respect of any particular protected goods suffers prejudice; (f)

be imported into or through or exported from or through the Republic except if so imported or exported for the private and domestic use of the importer or exporter, respectively; (g) in any other manner be disposed of in the course of trade.’[2] Section 2(2): ‘A person who performs or engages in any act or conduct prohibited by subsection (1), will be guilty of an offence if— (a) at the time of the act or conduct, the person knew or had reason to suspect that the goods to which the act or conduct relates, were counterfeit goods; or (b) the person failed to take all reasonable steps in order to avoid any act or conduct of the nature contemplated in subsection

- (1) from being performed or engaged in with reference to the counterfeit goods.’[3] The Merchandise Marks Act 12 of 1888 (C); Merchandise Marks Law 22 of 1888 (N); Merchandise Marks Ordinance 47 of 1903 (T). These were replaced by the Merchandise Marks Act 17 of 1941 which is, partly, still in force.[4] Copyright Act 98 of 1978 s 27.[5] The GATT agreement on Trade-Related Aspects of Intellectual Property Rights.[6] Art 1.1: ‘Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice’[7] Cf Kitchin et al Kerley’s Law of Trade Marks and Trade Names 13 ed p734.[8] American Chewing Products Corp v American Chicle Co 1948 (2) SA 736 (A).[9] Eg Liquor Act 27 of 1989 s 136(1)(a), Explosives Act 15 of 2003 s 33(1)(h), Medicines and Related Substances Control Act 101 of 1965 s 35(1)(xix); Drugs and Drug Trafficking Act 140 of 1992 s 1.[10] Beckett & Co Ltd v Union Government 1919 TPD 6 and on appeal 1921 TPD 142.[11] Tieber v Commissioner for Customs and Excise [1992] ZASCA 183; 1992 (4) SA 844 (A). Cf Capri Oro (Pty) Ltd v Commissioner for Customs and Excise 2001 (4) SA 1212 (SCA).[12] The Polo/Lauren Co LP v PT Dwidua Langgeng Pramata International Freight Forwarders [2000] ETMR 535 (ECJ), [2000] EUE CJ 383 para 35. [13] Steyn Uitleg van Wette 5 ed p111-113 and cases there quoted.

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