

SOUTH AFRICA / JUDGMENT

McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty) Ltd. and Another; McDonald's Corporation v Dax Prop CC and Another; McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty) Ltd. and Another (547/95) [1996] ZASCA 82; 1997 (1) SA 1 (SCA); [1996] 4 All SA 1 (A); (27 August 1996)
[1996] ZASCA 82

COURT

Supreme Court of Appeal

BEFORE

Corbett, E M Grosskopf, Nestadt, Schutz, Plewman

CASE / FILE NUMBER

547/95

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Case No 547/95IN THE SUPREME COURT OF SOUTH AFRICA (APPELLATE DIVISION)

IN THE SUPREME COURT OF SOUTH AFRICA (APPELLATE DIVISION)

In the matters between:

1.

MCDONALD'S CORPORATION

Appellant

and

JOBURGERS DRIVE-INN RESTAURANT (PTY)

LIMITED

First Respondent

THE REGISTRAR OF TRADES MARKS Second Respondent

2.

Appellantand

PAX PROP CC

THE REGISTRAR OF TRADE MARKS Second Respondent

3.

JOBURGERS DRIVE-INN RESTAURANT

(PTY) LIMITED

Second Respondent

CORAM: CORBETT, CJ, E M GROSSKOPF, NESTADT,

SCHUTZ, PLEWMAN, JJA

HEARD: 20 May 1996—22 May 1996DELIVERED: 27 August 1996

—22 May 1996DELIVERED: 27 August 1996

22 May 1996DELIVERED: 27 August 1996

DELIVERED

JUDGMENT E M GROSSKOPF, JA

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This is a dispute about the use and continued

registration of the appellant's trade marks. The appellant, to which I shall refer as McDonald's, is a corporation incorporated in the state of Delaware in the United States of America. It is one of the largest franchisers of fast food restaurants in the world, if not the largest. It first commenced business in the United States of America in 1955 and has carried on business internationally since 1971. It operates its own restaurants and also franchises others to do so. It sells hamburgers and other fast foods. The McDonald's trade mark is widely used in relation to restaurants owned by McDonald's as well as those that are franchised.

McDonald's obtained registration of its trade marks in South Africa in 1968, 1974, 1979, 1980, 1984 and 1985. It is now the registered proprietor of fifty-two marks. Of these, twenty-seven consist of or

3 incorporate the word McDonald or McDonald's. Also used

is the letter M in the form of so-called golden arches,

with or without the word McDonald's. Others consist of

the words Big Mac, Egg McMuffin and McMuffin. There are also two clown devices. The trade marks are registered in respect of goods, mainly in classes 29 and 30, and for services in class 42.

When the present proceedings commenced, McDonald's had not traded in South Africa nor, we may assume for present purposes, had it used any of its trade marks here.

Joburgers Drive-Inn Restaurant (Pty) Limited ("Joburgers") is a South African company with its principal place of business in Johannesburg. Its managing director is Mr George Sombonos. Mr Sombonos has been engaged in the fast food industry since 1968.

In 1979 he registered a company called Golden Fried Chicken (Pty) Limited ("Chicken Licken"). He holds 90% of the shares in the company and is its managing director. In 1979 Chicken Licken applied for the registration of a number of trade marks, including Chicken Licken. Since then it has franchised the Chicken Licken business so that to-day there are more than 177 stores throughout South Africa. Mr Sombonos says that Chicken Licken is the biggest fried chicken fast food franchise chain in the world not having its origins in the United States of America.

During 1992 Mr Sombonos on behalf of Joburgers decided to establish fast food outlets and restaurants using the trade marks McDonald's, Big Mac and the golden arches design. In 1993 Mr Sombonos applied for

the registration of these and some other McDonald's marks. At the same time he applied to the Registrar of Trade Marks in terms of section 36(1) (a) and (b) of the Trade Marks Act, no 62 of 1963 ("the old act") for the expungement of the trade marks which are held by 5 McDonald's. McDonald's opposed these applications and filed its counter-statements in the expungement applications during August 1993. During the same period McDonald's applied again for the registration of all the trade marks in its name.

On 29 August 1993 there appeared an article in the Sunday Times newspaper reading inter alia as follows:

"Big Macs may soon be eaten all over South Africa, but not because American hamburger giant McDonald's is entering the market. Nor will they be on sale before judgment in which could be SA's biggest trade mark battle.

Chicken Licken franchise owner George Sombonos plans to start his own national McDonald's hamburger chain. Sites have been chosen and an advertising campaign is being prepared.

Mr Sombonos's lawyer Shaun Ryan of Ryans Attorneys, says the first restaurant will open in Johannesburg 'as soon as physically possible'.

The chain will serve McMuffins and Big Mac burgers. Restaurants will also be decorated with a large M device similar to two joined arches."

In response to this article McDonald's wrote through its attorneys to Joburgers's attorney inter alia as follows:

"We are instructed that the intended use of McDonald's trademarks [which were listed in an annexure to the letter] constitutes an infringement of our client's trade mark rights. Your client has unequivocally expressed a clear intention to use such trade marks.

We have been instructed to demand as we hereby do that your client unequivocally undertake that it will not use our client's registered trade marks or any other marks which are deceptively or confusingly similar to our client's registered trade marks."

Failing an undertaking as demanded in this letter McDonald's threatened legal proceedings.

Joburgers's reply was uncompromising. It read,
inter alia,

"We are aware that your client is the Registrant for the trade marks listed in the Annexure to your letter. Your client is not the Proprietor of these trade marks. The true proprietor of the subject matter of these registrations is Joburgers Drive-Inn Restaurant (Pty) Limited. You may take it that it is our client's intention to both use and register its trade marks in the Republic of South Africa.... Your client is invited to take legal proceedings as threatened."

On 23 September 1993 McDonald's launched an urgent
7 application against Joburgers in the Transvaal
Provincial Division for relief on the grounds of
infringement of its trade marks, passing off and
unlawful competition. I shall refer to this application
as the Joburgers application. On 28 September 1993
Swart J granted an order by agreement, the relevant
part of which read as follows:

"The respondent undertakes pending the determination of this application and the proposed counter-application, not to infringe the applicant's registered trade marks which undertaking is made an order of court."

It came to Joburgers's notice that there was a fast
food outlet in Durban trading under the name (or names)
Asian Dawn and MacDonalds. MacDonalds, it is pointed
out in passing, is spelt differently from McDonald's.

On 15 October 1993 Mrs A T Bead, a director of
Joburgers, and Mr S F Ryan, Joburgers's attorney,
travelled to Durban from Johannesburg to buy the
outlet. It is not quite clear from the papers who
8 exactly owned the business but the interested parties
were a close corporation called Asian Dawn Investments
CC, its sole member Miss Sajee Bibi Farid Khan and her
brother, Mr Rafique Khan. According to an affidavit by

Mrs Pead she approached Mr Rafique Khan in the shop and offered to buy it as a going concern. She said she wanted it for her son to encourage him not to leave the country. (In fact she was acting for Joburgers and wanted to secure the trade mark for use in the present proceedings.) Mr Khan was prepared to sell if the price was right, but first wanted to speak to his sister as, he said, they were joint owners. Later he informed Mrs Pead that he had spoken to his sister and that they were willing to sell the business as a going concern for R250 000. The Joburgers contingent were not happy with the price, but asked for an option to give them time to think about it. The parties then executed and signed a written option at a price of R250 000. Some 9 days later, after further negotiations, the parties agreed telephonically on a price of R225 000. The Khans' attorney was to draw up a written contract. The contract was not forthcoming. Mrs Pead phoned Mr Khan to find out what was happening. He told her that he had been approached by attorneys acting for McDonald's and that the price he had agreed with Mrs Pead was made to look "not only like peanuts but dried peanuts". He now wanted offers that were "telephone figures". No amount of persuasion could change his attitude, and Joburgers brought an urgent application to restrain Mr and Miss Khan and her close corporation from selling, alienating or otherwise disposing of the business. An order to this effect was granted.

Ultimately, on 22 November 1993, the parties entered into a new contract of sale at a price of R350 000.

In the meantime the proceedings between McDonald's and Joburgers were continuing. On 15 November 1993

10 Joburgers served answering affidavits and a counter-application. The main relief sought in the counter-application was the expungement of the McDonald's trade marks in terms of section 36(1) (a) and (b) of the old act, i e, on the grounds, broadly stated, that the marks were registered without any bona fide intention on the part of McDonald's that they should be used and that they had in fact not been used for the periods required by the section.

Early in 1994 McDonald's became aware that Joburgers was conducting the business in Durban under the name MacDonald's. McDonald's immediately launched proceedings for relief on the grounds that Joburgers was in contempt of court - it was contravening the order granted by consent on 28 September 1993 in terms of which Joburgers undertook (and was ordered) not to infringe the registered McDonald's trade marks. The matter came before Nugent J. On 15 March 1994 he

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declared that Joburgers was in contempt of the earlier order and that all proceedings in respect of its counter-application to expunge the McDonald's trade marks be stayed until it had purged its contempt.

On the very next day Joburgers' s attorney wrote to the attorneys for McDonald's to say that Joburgers had disposed of the business. Requests by McDonald's for further information about the disposal proved fruitless.

In May 1994 it came to the notice of McDonald's that the MacDonald's business in Durban was being conducted by Dax Prop CC ("Dax"). The sole member of Dax is Mr George Charalambous. He has worked as a baker and hotelier. In 1988 he gave up his employment to commence his own business as a franchisee of Chicken Licken. He is now the sole director and shareholder of a company which has six Chicken Licken franchises and a member of a close corporation which also has several

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franchises. These are all in KwaZulu Natal. Mr

Charalambous is responsible for the management of all these businesses.

On 17 May 1994 McDonald's wrote through its attorneys to Dax asking, inter alia, for an undertaking that Dax cease forthwith to use the trade mark MacDonald's or any other trade mark which is deceptively or confusingly similar to McDonald's, failing which proceedings would be instituted.

No such undertaking was given.

On 25 May 1994 Dax applied to register the mark MacDonald's in classes 29, 30, and 42. On 9 August 1994 Dax launched an application, also in the Transvaal Provincial Division, against McDonald's seeking expungement from the register of the trade marks relied upon by McDonald's in its letter of 17 May 1994. Dax also sought some additional relief which need not be set out. McDonald's brought a counter-application for

13 an interdict preventing Dax from infringing its trade marks.

At this stage the position then was that, in the Joburgers application, McDonald's applied against Joburgers for an interdict to restrain trade mark infringement and Joburgers sought, in a counter-application, expungement of the marks, whereas in the Dax application, Dax asked for expungement and McDonald's, in the counter-application, asked for an interdict.

On 1 May 1995 the Trade Marks Act, no 194 of 1993 ("the new act") came into force. Section 35 of the new act provides for the protection of "well-known" trade marks emanating from certain foreign countries. On 20 June 1995 McDonald's brought an application against Joburgers and Dax under sec 35 of the new act. It claimed that all 52 of its trade marks are well-known marks in terms of the section, and sought an order that

14 Joburgers and Dax be interdicted and restrained from imitating, reproducing or transmitting those marks in the Republic of South Africa. I shall call this the "well-known marks application".

Sec 71 of the new act repealed the old act. However, sec 3(2) of the new act provides that all applications and proceedings commenced under the repealed act shall be dealt with in accordance with the provisions of that act as if it had not been repealed. The Joburgers and Dax applications must therefore be dealt with in accordance with the old act. The well-known marks application, on the other hand, must be decided according to the new act.

The three applications were heard together by Southwood J. He found in favour of Joburgers and Dax. Accordingly, in the Joburgers application, the application by McDonald's for an interdict was dismissed and Joburgers's counter-application for

15 expungement granted; in the Dax application, Dax's application for expungement was granted and the counter-application by McDonald's for an interdict refused; and the well-known marks application by

McDonald's was refused. In all cases appropriate costs orders were made.

With the leave of the court a quo McDonald's now appeals against these orders.

At the outset I should deal with an application by McDonald's to adduce further evidence. This application related to two matters which arose after the decision of the court a quo. The first was that both McDonald's and Dax were trading under the name McDonald's or MacDonalds, and were using similar or identical trade marks. This led to litigation between them in which an order was given by consent. The second was that Joburgers had assigned to Dax all its rights in and to the McDonald's trade marks in respect of which

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Joburgers had originally applied for registration. The application to adduce further evidence was opposed, and in any event Joburgers and Dax tendered evidence to explain the new facts relied upon by McDonald's.

The general principle is that, in deciding an

appeal, this Court determines whether the judgment appealed from is right or wrong according to the facts in existence at the time it was given and not according to new circumstances which came into existence afterwards. In principle, therefore, evidence of events subsequent to the judgment under appeal should not be admitted in order to decide the appeal, although there may possibly be exceptions to this rule (see *Weber-Stephen Products Co v Alrite Engineering (Pty) Ltd and Others*[1992] ZASCA 2;1992 (2) SA 489(A) at 507C-E and earlier authorities there quoted). Even assuming that an exception may be possible, I consider that no adequate reason was given why such an exception should be made

[1992] ZASCA 2

1992 (2) SA 489

17 in respect of the evidence relating to the recent business activities of Dax and McDonald's and the resultant litigation between them. Concerning Joburgers's assignment of its rights in or to the McDonald's trade marks, it was contended that the evidence was relevant for the purposes of sec 21A of the Supreme Court Act, 59 of 1959. This section empowers a court of appeal to strike an appeal off the

roll if it is of the opinion that, in the circumstances, a judgment in favour of the appellant will have no practical effect or result. This argument is misconceived. The new evidence does not suggest that a judgment in favour of McDonald's would have no practical effect or result, and the last thing that McDonalds would want is that the appeal be struck off the roll. At most the evidence tends to show that one of the respondents no longer has an interest in the appeal. Sec. 21A of the Supreme Court Act provides no remedy for such a situation. Moreover the new evidence is controverted by further evidence tendered by Joburgers and Dax, The evidence relating to the assignment should accordingly also be refused. It follows that the application to adduce further evidence should be dismissed with costs.

I turn now to the arguments on the merits. For convenience I start with the well-known marks application. Sec 35 of the new act reads as follows:

"(1) References in this Act to a trade mark which is entitled to protection under the Paris Convention as a well-known trade mark, are to a mark which is well known in the Republic as being the mark of -

(a)

a person who is a national of a convention country; or

(b)

a person who is domiciled in, or has a real and effective industrial or commercial establishment in, a convention country,

whether or not such person carries on business, or has any goodwill, in the Republic.

(2)

A reference in this Act to the proprietor of such a mark shall be construed accordingly.

(3)

The proprietor of a trade mark which is entitled to protection under the Paris Convention as a well-known trade mark is entitled to restrain the use in the Republic of a trade mark which

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constitutes, or the essential part of which constitutes, a reproduction, imitation or translation of the well-known trade mark in relation to goods or services which are identical or similar to the goods or services in respect of which the trade mark is well known and where the use is likely to cause deception or confusion."

There was a large area of agreement between the parties about the meaning and application of this section. Thus it was common cause that McDonald's in fact is a person such as is described in paragraphs (a) and (b) of sub-section (1). The parties were also agreed on what it is that has to be "well known" in the Republic. In this regard the court a quo had said:

"... it is not sufficient that the mark simply be well-known in the Republic. It must be established that the mark is well-known as the mark of a person who is (a) a national of, or (b) is domiciled in, or (c) has a real and effective industrial or commercial establishment in, a convention country: i.e. it must also be well-known that there is a connection between the mark and some person falling in categories (a), (b) or (c)."

This seems to suggest that the section only applies if what is well known is not only the mark

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itself but also the nationality, domicile or place of

business of the mark's owner, and moreover the fact that the relevant country is a convention country. Before us counsel were ad idem that such an interpretation could not be supported. If it were correct the section would be a dead letter. It is difficult to imagine any mark, however well known, in respect of which such further facts would be common knowledge. The parties accordingly accepted (I think correctly) that it would be enough for a plaintiff to prove that the mark is well known as a mark which has its origin in some foreign country, provided that as a fact the proprietor of the mark is a person falling within sub-section (1)(a) or (b).

The essential dispute between the parties was what level of awareness in the public mind is required for a mark to qualify as "well-known" in terms of section 35. In this regard it is useful to look at the

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background to the section.

The Paris Convention, to which reference is made in sec 35, is the Paris Convention on the Protection of Industrial Property of 20 March 1883 as revised or amended from time to time (sec 2 of the Act). For present purposes art 6bis(l) of the Convention is apposite. Its relevant portion reads as follows:

"The countries of the Union undertake, ex officio if their legislation so permits, or at the request of an interested party, to refuse or to cancel the registration, and to prohibit the use, of a trade mark which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well-known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods."

Although art 6bis was inserted into the convention as far back as 1925, neither Britain nor South Africa gave legislative effect to it until recently - South Africa in sec 35 of the new act, and Britain in sec 56 of the Trade Marks Act, 1994 (42 & 43 Elizabeth 2 C. 26). The

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two sections are very similar. Section 35(1) and (2) of the new act, in particular, is, for practical purposes, identical to sec 56(1) of the British Act, save for the substitution of "the Republic" for "the United Kingdom" wherever it appears. The reason why Britain did not legislate earlier was that previously it claimed to be honouring the article by means of its common law of passing off. See Richard C Abnett, AIPPI: Famous Trade Marks Require A New Legal Weapon, Trademark World, Dec 1990/Jan 1991, p 23.

The protection granted to foreign marks by the law of passing off was limited, however, by the requirement that a plaintiff had to establish a goodwill in the country. In a well known passage from *The Commissioners of Inland Revenue v Muller & Co's Margarine Ltd* [1901] [1901]

AC 217(HL) at 223-4 Lord Macnaghten defined goodwill as follows:

"It is a thing very easy to describe, very difficult to define. It is the benefit and

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advantage of the good name, reputation, and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates . . . For my part, I think that if there is one attribute common to all cases of goodwill it is the attribute of locality. For goodwill has no independent existence. It cannot subsist by itself. It must be attached to a business. Destroy the business, and the goodwill perishes with it, though elements remain which may perhaps be gathered up and be revived again." (Emphasis added)

The "attribute of locality" mentioned in this passage led to a result described as follows in Kerly's Law of

Trade Marks and Trade Names, 12th ed (1986) p 358 para

16-18:

"... since an essential ingredient of passing-off is damage ... to goodwill, he [i e, the plaintiff in an action founded on passing-off in the United Kingdom] must show that he had ... in this country not merely a reputation but also a goodwill capable of being damaged. Goodwill, however, is local: it is situated where the business is. Thus a foreign plaintiff may have a reputation in this

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country - from travellers on the one hand, or periodicals of international circulation, for instance, on the other - yet still fail in an action for passing-off because he has here no business and so no goodwill. Such cases have been not uncommon in recent years, and have caused considerable difficulty."

Examples of such cases are *Alain Bernardin et Compagnie*

v Pavilion Properties Ltd [1967] RFC 581 (the "Crazy

Horse" case). *The Athletes Foot Marketing Associates*

Inc v Cobra Sports Ltd and Another [1980] RPC 343 (Ch)

[1980] RPC 343

and *Anheuser-Busch Inc v Budejovicky Budvar HP* (trading

as Budweiser Budvar Brewery) and *Others* [1984] FSR 413

[1984] FSR 413

(CA).

In the *Alain Bernardin* case the plaintiff was the

proprietor and operator of a bar and cabaret in Paris

known as the "Crazy Horse Saloon". The bar had been

continuously and extensively publicised in the United

Kingdom for sixteen years. The defendant commenced a

place of entertainment in London under the name of

"Crazy Horse Saloon" and issued an advertisement

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stating "Crazy Horse Saloon comes to London". The

plaintiff applied for an interlocutory injunction

against the defendant on the grounds of passing off.

The application was refused. The court referred inter

alia to the Muller case (supra) and stated (at 584

lines 30-47)

"... that a trader cannot acquire goodwill in this country without some sort of user in this country. ... I do not think that the mere sending into this country by a foreign trader of advertisements advertising his establishment abroad could fairly be treated as user in this country. ... If that were so, the range of the action of passing off would be extended far beyond anything which has hitherto been treated as its proper scope. That observation applies I think particularly to such establishments as hotels and even more to restaurants. It may well be that the owner of a foreign hotel or restaurant acquires in this country a reputation for the name of his hotel or restaurant in a wide sense, that the travel agents or other persons to whom he sends advertisements know of his establishment. Again he may acquire a reputation in a wide sense in the sense of returning travellers speaking highly of that establishment, but it seems to me that those matters, although they may represent reputation in some wide sense, fall far short of user in this country and are not sufficient to establish reputation in the sense material for the purpose

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of a passing off action. It is very clear that in such circumstances the foreign trader has not acquired anything which in law could be described as goodwill in this country."

In the Athletes Foot case the plaintiffs carried

on in the United states of America and elsewhere, but

not in Great Britain, an extensive business in which

they granted franchises to independent stores to sell

footwear for athletes under the name "The Athlete's

Foot". During 1978 and 1979 they had taken steps to

secure a franchise agreement for the United Kingdom and

a prospective franchisee had gone so far as to order

goods and stationery with a view to establishing a

chain of stores under the name "The Athlete's Foot".

However, no franchise contract had been concluded and

no sales had in fact been made under that name. There

was nevertheless an awareness of the plaintiffs' trade

name and trading activities in a substantial section of the public in England as a result of over-spill publicity through American journals circulating there.

27 An application for injunctive relief against a trader who sought to use the name in England was refused.

After a full review of the earlier cases, the court (Walton J) held as follows at 350, lines 13-20:

"... as a matter of principle, no trader can complain of passing off against him in any territory ... in which he has no customers, nobody who is in a trade relation with him. This will normally shortly be expressed by saying that he does not carry on any trade in that particular country . . . but the inwardness of it will be that he has no customers in that country: no people who buy his goods or make use of his services (as the case may be) there."

In the Anheuser-Busch case the plaintiffs and their predecessors were brewers of beer in the United States of America. Their beer had been sold since 1875 under the "Budweiser" trade mark. The first defendants were from 1895 brewers of beer in Ceske Budejovice, a town in Czechoslovakia formerly known by its German name of Budweis. In sales in Europe the first defendants used the word "Budweiser" in relation to their beer.

Before 1973, when the first defendants first sold

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a significant quantity of beer in the United Kingdom, the plaintiffs exported no beer to the United Kingdom for normal commercial sale and domestic consumption. Between 1974 and 1979, when action was taken against the first defendants, the plaintiffs' sales in the United Kingdom were minimal, failing to exceed 240 000 cans a year, the principal outlets for which were American-style restaurants and clubs. However, from the years 1962 to 1973, an annual average of more than 5 million cans of their beer were imported for use and sale in United States military and diplomatic establishments in England. These cans were available for purchase, duty free, by serving Americans and by British employees of American service establishments, but were not available for general purchase.

In 1973 the first defendants actively entered the United Kingdom market, and by 1980 their sales amounted to some 300 000 bottles per annum.

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In 1979 the plaintiffs issued a writ by which they sought, inter alia, by injunction to prevent the first defendants from selling or dealing in any beer by the name of "Budweiser" except for the plaintiffs' own beer. By counterclaim the defendants sought by injunction to prevent the plaintiffs from selling or dealing in any "Budweiser" beer unless it was brewed by the first defendants or otherwise originated from the town of Budweis. Whitford J in the Chancery Division refused both the claim and the counterclaim. He held that neither brewery could be disentitled to use the word "Budweiser" since neither was employing it improperly and neither was making a misrepresentation, notwithstanding the fact that some degree of public confusion was apparent. The plaintiffs appealed.

On appeal it was accepted that the plaintiffs' Budweiser beer enjoyed a significant reputation among members of the public in the United Kingdom as a result

30 of visits to the United states and spill-over

advertising. Such reputation was, however, not enough.

What was required was a goodwill in the United Kingdom,

which could not exist without a business there. This

was expressed by Oliver L J as follows (p 470):

"Mr Kentridge argues that once a goodwill exists it is for the owner of the goodwill to choose when and how he will go into the market with his product. But this, with respect, begs the question, because it assumes the existence of the goodwill apart from the market, and that, as it seems to me, is to confuse goodwill, which cannot exist in a vacuum, with mere reputation which may, no doubt, and frequently does, exist without any supporting local business, but which does not by itself constitute a property which the law protects."

And O'Connor L J said (at p 471)

"As a result of the plaintiffs' enormous business in the U.S.A. expanded by ever increasing advertising, I am in no doubt that the evidence showed that ... the plaintiffs' Budweiser beer enjoyed a significant reputation among members of the public in this country. That is not sufficient to found an action for passing off. It is the goodwill of a business carried on in this country that can be protected, not the reputation -goodwill if you like - of a business carried on in another country."

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On the facts the Court of Appeal held that the

activities of the plaintiffs in the United Kingdom did not amount to the carrying on of a business there.

Also in South Africa it has been held that a goodwill existing within the country is necessary to found a claim in respect of passing off. See, for instance, *Slenderella Systems Inc of America v Hawkins and Another* 1959 (1) SA 519(W) at 521A to 522B, *Lorimar Productions Inc and Others v Sterling Clothing Manufacturers (Pty) Ltd* 1981 (3) SA 1129(T) at 1138H to 1140A and *Tie Rack plc v Tie Rack Stores (Pty) Ltd and Another* 1989 (4) SA 427(T) at 442G to 445D. In the last mentioned case the applicant conducted in the United Kingdom and elsewhere, but not in South Africa, either by itself or through franchisees, a number of shops under the name "Tie Rack". It sought to interdict the respondents from doing likewise in this country. This attempt failed. The basic reason was stated by

1959 (1) SA 519

1981 (3) SA 1129

1989 (4) SA 427

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Kriegler J as follows (at 445C-D:

"The simple truth is that the applicant has no goodwill, no attractive force in this country. The fact that people in this country

- and accepting that there may be many - know of applicant's business abroad and may be misled into believing first respondent's shops are in some way associated therewith, does not afford applicant a proprietary right in this country. Put differently, applicant has no business of any kind in South Africa and nothing first respondent has done can or is likely to do any harm to applicant in the patrimonial sense in this country."

For present purposes it is not necessary to

determine whether these cases were correctly decided

either in the United Kingdom or in South Africa. In

Australia, for instance, the Federal Court went the

other way. See *Conagra Inc v McCain Foods (Aust) Pty*

Ltd [1992] FCA 159; 23 IPR 193. However, whether the above cases were

[1992] FCA 159

23 IPR 193.

right or wrong, they demonstrate that the courts in

this country and the United Kingdom have in fact not

protected the owners of foreign trade marks who did not

have a goodwill within the country. To that extent the

common law of passing off has not been sufficient to

33 constitute compliance with art 6bis of the Paris

Convention.

It seems clear that sec 35 of the new act and the

corresponding provision in the United Kingdom were

intended to remedy this lack. Thus sec 35(1)

pertinently extends protection to the owner of a

foreign mark "whether or not such person carries on

business, or has any goodwill, in the Republic". And

the type of protection which is granted by sub-sec (3)

is typical of that which is available under the common

law of passing off: a prohibition on the use of the

mark in relation to goods or services in respect of which the mark is well known and where the use is likely to cause deception or confusion.

It is against this background that the expressions "well-known trade mark" and "well known in the Republic" must be interpreted. Counsel for McDonald's contended that the legislature intended to impose no 34 more than the ordinary requirement for passing off actions, namely that the reputation must extend to a substantial number of members of the public or persons in the trade in question. See Webster and Page, South African Law of Trade Marks, 3 ed, 417; Kerly's Law of Trade Marks and Trade Names, *supra*, para 16-10; John Craig (Pty) Ltd v Dupa Clothing Industries (Pty) Ltd 1977 (3) SA 144(T) at 150 in fin and the Conagra case, 1977 (3) SA 144 *supra*, at 237 lines 14 to 37.

Of course, the mere fact that the legislature intended to provide some protection for a foreign trader who does not have a goodwill or a business inside the country does not necessarily mean that such protection must be coterminous with that afforded to local businessmen. It is accordingly conceivable that, in order to receive protection, the foreigner might have to prove a greater public awareness of his mark than is required of a local businessman claiming a 35

remedy against passing off. And, indeed, the

respondents argued that the legislature in giving protection only to well-known marks, did impose a higher standard. On the ordinary meaning of language, so the argument went, a mark is well known in the Republic only when known to a large part of the population as a whole.

This argument raises two questions, namely

must the mark be well-known to all sectors of the population; and

whatever the relevant sector of the population may be, what degree of awareness within that sector is required before a mark can properly be described as well-known.

The answer to question (a) is, I think, clear. Section 35 of the new act was intended to provide a practical solution to the problems of foreign businessmen whose marks were known in South Africa but

36 who did not have a business here. The South African population is a diverse one in many respects. There are wide differences in income, education, cultural values, interests, tastes, personal life styles, recreational activities, etc. This was obviously known to the legislature when it passed the new act. If protection is granted only to marks which are known (not to say well-known) to every segment of the population (or even to most segments of the population) there must be very few marks, if any, which could pass the test. The legislation would therefore not achieve its desired purpose. Moreover, there would not appear to be any point in imposing such a rigorous requirement. In argument we were referred as an example to a mark which might be very well known to all persons interested in golf. Why should it be relevant, when deciding whether or not to protect such a mark, that non-golfers might never have heard of it? I consider therefore that a

37 mark is well-known in the Republic if it is well-known to persons interested in the goods or services to which

the mark relates.

The next question then is: how well should it be known to such persons? (question (b) above). On behalf of McDonald's it was argued that the test in this regard is a qualitative and not a quantitative one. The question is not, it was argued, how many of the relevant persons know the mark, but how profound the knowledge of the mark is among those who do know it. In my view this argument is untenable. I suppose that knowledge of a mark could be so vague or superficial as hardly to count as knowledge at all, but apart from that I would not have thought that there would normally be great differences in the degree of knowledge of the mark by members of the public, or that such differences, if they existed, would be of any relevance. In the present context the important practical question is not whether a few people know the mark well but rather whether sufficient persons know it well enough to entitle it to protection against deception or confusion.

How many people are sufficient? The only guideline provided by the legislature lies in the expression "well-known". This is in itself so vague as hardly to provide any assistance at all. It is certainly capable of bearing the meaning urged upon us by counsel for McDonald's, namely a substantial number as used in the law of passing off generally. In this regard the judge *a quo* commented that if it was the object of the sub-section to require knowledge only of a substantial number of persons, "it is strange that this was not simply stated to be the requirement instead of merely adopting the terminology of section (sic) 6bis (1) of the Paris Convention". With respect, I do not agree. The purpose of the legislature clearly was to give

legislative force to article 6bis of the Paris Convention. To this end it was natural to repeat the language of the Convention, leaving it to the courts to give practical effect to the vague expressions used.

On behalf of the respondents it was contended that a greater extent of public knowledge is required. The difficulty here is one of definition and practical application. If a substantial number is not sufficient, what is? To require one hundred percent would clearly be excessive, but how much less would suffice? Seventy-five percent, fifty percent? What logical basis is there for laying down any such requirement? And how does one prove any such arbitrary percentage?

It seems to me that McDonald's's contention must be sustained. The legislature intended to extend the protection of a passing off action to foreign businessmen who did not have a business or enjoy a goodwill inside the country provided their marks were

40 well-known in the Republic. It seems logical to accept

that the degree of knowledge of the marks that is

required would be similar to that protected in the

existing law of passing off. The concept of a

substantial number of persons is well established. It

provides a practical and flexible criterion which is

consistent with the terms of the statute. No feasible

alternative has been suggested.

In coming to a different conclusion the court a

quo relied heavily on the Canadian case of Robert C

Wian Enterprises, Inc v Mady (1965) 49 D L R (2d)65.

65.

Sec 16 of the Canadian Trade Marks Act provided inter

alia:

"Any applicant ... for registration of a trade mark that is registrable and that he or his predecessor in title has used in Canada or made known in Canada in association with wares or services is entitled to secure its registration in respect of such wares and services, unless at the date on which he or his predecessor in title first so used it or made it known it was confusing with

(a) a trade mark that had been previously

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used in Canada or made known in Canada by any other person;"

The expression "made known in Canada" was defined in

sec 5, which, in so far as relevant, read as follows:

"A trade mark is deemed to be made known in Canada by a person only if it is used by such person in a country of the Union, other than Canada, in association with wares or services, and

- (b) such wares or services are advertised in association with it in
- (i) any printed publication circulated in Canada in the ordinary course of commerce among potential dealers in or users of such wares or services, or (ii) radio broadcasts, as defined in the Radio Act ..., ordinarily received in Canada by potential dealers in or users of such wares or services,

and it has become well known in Canada by reason

of such ... advertising."

The court had to decide *inter alia* whether the plaintiff's trade mark had become "well known in Canada" by reason of radio advertising. For the purpose of establishing this, the plaintiff tendered affidavits of 54 persons residing in Windsor, Ontario. The court analysed these affidavits and found them to be of

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insufficient weight. It therefore held (at p 81) that

the plaintiff had failed to establish that its trade

marks were "well known in Canada" by reason of radio

advertising.

Despite having decided the matter in issue, the

court proceeded to state the following in a passage (at

p 81) relied upon by the court *a quo*:

"Furthermore, I think I should say that there was really no attempt, in my view, to show that the plaintiff's trade marks were 'well known in Canada'. All that was attempted was to show that they were well known in Windsor, Ontario and surrounding territory. It was argued that, if they were well known in any part of Canada, they were 'well known in Canada' within s. 5 of the Trade Marks Act. I cannot accept this view. A thing

may be regarded as known in Canada if it is known only in some part of Canada but, in my view, it is not 'well known' in Canada unless knowledge of it pervades the country to a substantial extent.... I do not think a trade mark can be regarded as 'well known in Canada' when knowledge of it is restricted to a local area in Canada. In my view it must be 'well known' across Canada 'among potential dealers in or users of the wares or services with which it is associated.'"

It should be noted that the court in the *Wian* case

43 was faced with different problems from those arising in

our case. In the Canadian legislation there was no uncertainty about the class of persons to whom the trade mark had to be well known. Section 5(b) (ii) of the Act in effect defined the class as being "potential dealers in or users of such wares and services" (i e, the wares or services in association with which the trade mark was used by the plaintiff). The further question, i e, when a mark must be regarded as well known to such a class, also did not arise in the Wian case. The only matter dealt with in the above passage was the geographical area within which the mark had to be well known. This is not a question which arises in the present case. Moreover, the court's views in this regard were based on the Canadian legislation which differs from ours. In all these circumstances I do not find the Wian case of any assistance. I may note in passing that the reasoning in the above passage has in 44 any event not been accepted unreservedly in Canada. See *Valle's Steak House v Tessier et al.* (1974) 49 CPR (2d) 218 at 226.

I turn now to the evidence concerning the extent to which the McDonald's trade marks are known in the Republic. As I have stated earlier, McDonald's is one of the largest, if not the largest, franchiser of fast food restaurants in the world. At the end of 1993 there were 13 993 McDonald's restaurants spread over 70 countries. The annual turnover of McDonald's restaurants amounts to some \$23 587 million. McDonald's

trade marks are used extensively in relation to its own restaurants as well as to those that are franchised. The level of advertising and promotion which has been carried out by McDonald's, its subsidiaries, affiliates and franchisees in relation to McDonald's restaurants exceeds the sum of \$900 million annually. Their international marketing campaigns have included 45 sponsorship of the 1984 Los Angeles and 1992 Barcelona Olympics. McDonald's has also been a sponsor of the 1990 soccer World Cup Tournament in Italy and the 1994 World Cup Soccer Tournament in the United States of America. Mr Paul R Duncan, the vice president and general counsel of McDonald's, stated on affidavit that, in view of the vast scale of his organisation's operations, the McDonald's trade marks are in all probability some of the best known trade marks in the world. This was not denied. Although there was no evidence on the extent to which the advertising outside South Africa spilled over into this country through printed publications and television, it must, in all probability, be quite extensive. In addition the McDonald's trade marks would be known to many South Africans who have travelled abroad. This again would not be an insignificant number. Spontaneous acts by South Africans have confirmed 46 that there is a general level of knowledge in this country about the operations of McDonald's. Thus McDonald's disclosed that, between 1975 and 1993 it

received 242 requests from South Africans to conclude franchising agreements. Some of these applicants were prominent companies. For reasons which are not relevant at present, none of these applications were acceded to.

The conduct of Joburgers and Dax in the present case confirms the reputation attaching to the McDonald's marks. Intrinsically the word McDonald has no attractive force. It is a fairly common surname. Had it not been for the reputation it has acquired over the years nobody would wish to appropriate it. It is therefore significant that Joburgers and Dax have gone to considerable trouble and expense to obtain control over the McDonald's marks. Joburgers announced its intention of operating under the name McDonald's in a provocative manner through an article in the Sunday Times which was bound to stimulate legal action against it. It may be noted in passing that the article in the Sunday Times, which is quoted above, itself clearly presupposes that its readers would be aware of McDonald's, its business, products and marks. After an interdict was obtained against Joburgers, it purchased the business of MacDonalds in Durban. I have already referred to the litigation between Joburgers and the Khans arising out of that purchase. In her affidavit in those proceedings Mrs Pead, who, it will be recalled, is a director of Joburgers, made it quite clear what the purpose of the transaction was.

She said:

"[Joburgers] wishes to secure the goodwill built up through the eighteen years use of the MacDonalds trade mark for itself. should [Joburgers] not be able to do so its position in regard to the proceedings with McDonalds Corporation ... will be severely prejudiced."

When the court held that Joburgers was in breach of the
interdict by conducting the MacDonalds business in

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Durban, the business was sold to Dax, a business

associate of Joburgers. Both Joburgers and Dax have applied for the registration of McDonald's marks or similar ones, and have applied for the expungement of these marks in the name of McDonald's.

Quite obviously Joburgers and Dax both consider that the McDonald's mark is a valuable asset, worth a great deal of trouble, expense and risk to secure. They have not given any explanation for this attitude. If one assumes that they intend to trade under the name McDonald's or MacDonalds, there is only one possible explanation, namely that in their view the McDonald's marks enjoy a high reputation in this country.

An affidavit was filed by Mr M J Collins. He is the managing director of a company which inter alia advises franchisers and franchisees on all aspects of franchising. He served as Vice Chairman, and later as Chairman, of the South African Franchising Association

49 from 1983 to 1992. He has addressed numerous meetings,

conferences and seminars on various aspects of

franchising. During such addresses he has on numerous

occasions held up the business format adopted by

McDonald's as the model for efficient franchising.

During seminars he was questioned about McDonald's and

its business system. Moreover, since becoming Vice

Chairman of the South African Franchise Association, he

says, he has received "numerous requests, too numerous

even to have counted" from prospective franchisees and

ordinary members of the public for advice as to how to

become a McDonald's franchisee. He also notes that the

South African press regards McDonald's as newsworthy. Thus coverage was for instance given when McDonald's opened its first outlets in Russia and continental China. Objection was taken to the admissibility of Mr Collins's affidavit, but at least the items of evidence mentioned above must be admissible. I discuss their 50 weight later.

Finally there was evidence about two market surveys. A great deal of argument was addressed to us about the admissibility and weight of such evidence. Before going into such matters it is necessary first to set out the nature and content of the evidence.

Mr C K Corder is the Chairman and Managing Director of Market Research Africa (Pty) Ltd. It is not disputed that he is an expert on market researching. In his affidavit he sets out first the theoretical principles involved. The basic theory of market research is that from a given representative sample of the consumer public it is possible to project, by means of acceptable mathematical methods, results of such sampling to a general population or "universe" within certain statistical limits. In other words, the researcher first determines the class of persons (or universe) which is sought to be tested, and then

51 questions individuals from that universe. The confidence that one has in a projection from the samples to the universe varies according to the number of persons interviewed in the survey, the sampling technique used and the level of response. Statisticians commonly use the term "inference" to denote the process of generalising sample evidence to the universe from which the sample is selected. The basis of inferential statistics is probability theory. A theorem in probability theory, namely the Central Limit Theorem, which applies in this case, states that if a large number of independent samples are drawn from a universe, the individual results will be different, but that they will have a "normal" distribution around the

real value being measured in the universe. Based on this theorem, and standard and accepted statistical tables in relation to normal distribution, one can calculate the probability of the real value in the

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universe being within a specific interval or variation, which Mr Corder referred to as the confidence level.

During September 1993 Mr Corder was instructed to conduct a market survey on behalf of McDonald's. He was informed that the objectives of the study were to establish awareness of the name McDonald's, to measure recognition of the McDonald's trade marks, to ascertain the association of McDonald's with certain products or types of business undertakings, and to establish the awareness of McDonald's hamburgers. The method used by him was the conducting of personal interviews using a structured questionnaire and interviewing aids. The interviewing aids consisted of two text show cards and one colour picture show card featuring the main McDonald's trade marks. Copies of the questionnaires and show cards were before the court.

The universe for the survey was defined as white adult males and females, aged 16 years and over, living

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in houses in higher income suburbs of Pretoria, Verwoerdburg, Johannesburg, Bedfordview, Randburg and Sandton. A sample of 202 persons was taken. Mr Corder gave details about the manner in which the sample was selected. I need not repeat them - there is no suggestion that the sampling was not scientifically correct. The fieldwork was conducted from 7 December to 24 December 1993 by trained interviewers under the supervision of field supervisors. Twenty-one percent of the interviews were back checked in order to ensure reliability. Affidavits of supervisors and interviewers were filed to confirm their actions. Mr Corder, who was in overall control, also confirmed that the survey was

properly conducted.

The relevant conclusions were set out as follows:

"A large majority of respondents were aware of the name McDonald's, and/or the McDonald's logos/trademarks (77%). More than half had heard of both McDonald's, and knew the logos/trademarks too (57%).

both

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Most respondents spontaneously associated McDonald's with hamburgers, or knew of 'McDonald's Hamburgers' (80%).

The results indicate that the majority of white adults, aged 16 and over, living in households in higher income suburbs of Johannesburg and Pretoria are aware of the McDonald's brand name, and associate McDonald's with hamburgers".

During January and February 1995 a similar survey

was conducted among white males and females, aged 16

years and over, living in selected higher income

suburbs of Durban. The conclusions were stated as

follows.

"A large majority of respondents were aware of the name McDonald's, and/or the McDonald's logos/trade marks (90%). More than half had heard of both McDonald's, and also knew the logos/trade marks (52%).

and/or

Most respondents spontaneously associated McDonald's with hamburgers, or knew of McDonald's Hamburgers (87%).

The results indicate that the majority of white adults, aged 16 and over, living in the higher

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income Durban suburbs of Broadway, Essenwood, Morningside and Musgrave are aware of the McDonald's brand name, and associate McDonald's with hamburgers."

This survey evidence raises two questions, viz, whether it is admissible, and what weight should be attached to it. To a certain extent these questions are interrelated, as will be seen.

I deal first with admissibility. The basis upon which the admissibility of market survey evidence has been questioned in the past is that it is of a hearsay nature. See *Hoechst Pharmaceuticals (Pty) Ltd v The Beauty Box (Pty) Ltd (In Liquidation) and Another* 1987 (2) SA 600(A) at 6161 to 617D, and authorities there quoted, particularly *Die Bergkelder v Delheim Wines (Pty) Ltd* 1980 (3) SA 1171(C) at 1180A to 1182E. See also A Paizes, *Public-Opinion Polls and the Borders of Hearsay* (1983) 100 SALJ 71.

1987 (2) SA 600

1980 (3) SA 1171

(1983) 100 SALJ 71.

The matter of hearsay evidence is now governed by statute. Sec 3 of the Law of Evidence Amendment Act 45

56 of 1988 provides that hearsay evidence is inadmissible,

subject to certain exceptions. Sec 3 (4) defines

"hearsay evidence" as

"evidence, whether oral or in writing, the probative value of which depends upon the credibility of any person other than the person giving such evidence."

In the present case, evidence was given by Mr

Corder as well as by the supervisors and interviewers.

The only people involved in the survey who did not

testify were the interviewees. The question then is:

does the probative value of the evidence depend on the

credibility of the interviewees? On behalf of

McDonald's it was contended that it did not. The

evidence should be admitted, it was argued, because it

is opinion evidence of a scientific nature, or,

alternatively, that it relates to a state of mind. In

support of the latter proposition reliance was placed

on *Hollywood Curl (Pty) Ltd and Another v Twins*

Products (Pty) Ltd (1) 1989 (1) SA 236(A) at 251J to

1989 (1) SA 236

57 252G.

I doubt whether either leg of this argument is correct. It is true that an expert may sometimes refer to hearsay sources in support of his views. However, if his views are entirely based on assertions which he obtained from somebody else, it is difficult to contend that the probative value of his evidence does not depend on the credibility of such other person. And in so far as the evidence is said to relate to a state of mind, this may be true in respect of some of the replies. It may be that in some cases the mere fact that an interviewee made a certain utterance may be relevant as indicating his state of knowledge (e g by his associating McDonald's with hamburgers). In some other cases it does seem to me, however, that it is the assumed truth of what is said by the interviewees which is ultimately reflected in the results of the survey.

It is not necessary, however, to pursue this

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matter any further since I consider that, even if it is hearsay, the evidence should have been admitted under one of the exceptions provided in the statute. Sec 3(1)(c) allows hearsay evidence to be admitted if

"the court, having regard to -

- (i) the nature of the proceedings; (ii) the nature of the evidence; (iii) the purpose for which the evidence is tendered;

(iv) the probative value of the evidence; (v) the reason why the evidence is not given by the person upon whose credibility the probative value of such evidence depends; (vi) any prejudice to a party which the admission of such evidence might entail; and (vii) any other factor which should in the opinion of the court be taken into account, is of the opinion that such evidence should be admitted in the interests of justice."

In the present case the evidence is tendered, broadly speaking, to show the extent to which the name McDonald's and its trade marks are known amongst the public. In theory the best way of doing this would probably be by calling a representative sample of the public as witnesses. Expert evidence would explain how 59 the sample was selected and what conclusions could be drawn from the results. This would, however, not be a practical course to follow. First, it would require the evidence of a large number of people. Second, the persons comprising such a sample should of course have no interest in the outcome of the proceedings. It is consequently unlikely that such persons, or most of them, would be prepared to become involved in the litigation. A properly conducted market survey places the replies of such people before the court without requiring affidavits from them. No substantial disadvantage flows from this course. It seems most unlikely that any interviewee would lie in a matter such as his or her knowledge of McDonald's, and in any event the theories underlying such surveys make allowances for a certain margin of error. There can be no prejudice to the other parties. They are given a full opportunity to check the results of the survey. In

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fact in the present case Joburgers and Dax did not

seriously contend that the results of the surveys were unreliable. Their main contention was that these results had no probative value as being limited to too small a universe. This was also the view of the court a quo. Since, as will be seen, I disagree with this view, I consider that the evidence should have been admitted.

It was contended that the court a quo exercised a discretion in refusing to allow the evidence under sec 3 of the Act, and that its decision in this regard may be set aside only if the court of appeal considers that the discretion was not judicially exercised. I do not agree. A decision on the admissibility of evidence is, in general, one of law, not discretion, and this court is fully entitled to overrule such a decision by a lower court if this court considers it wrong. There is in my view nothing in sec 3 of the Act which changes

61 this situation.

I turn now to the effect to be given to the

evidence. The approach of the court a quo was to

analyse each item of evidence and to show that, by

itself, it has little or no probative value. In my view

this is a wrong approach. We are dealing here with

circumstantial evidence. In the well known case of R v

De Villiers^{1944 AD 493} Davis AJA, dealing with a

1944 AD 493

similar argument in a criminal case, said (at 508-9):

"The Court must not take each circumstance separately and give the accused the benefit of any reasonable doubt as to the inference to be drawn from each one so taken. It must carefully weigh the cumulative effect of all of them together, and it is only after it has done so that the accused is entitled to the benefit of any reasonable doubt which it may have as to whether the inference of guilt is the only inference which can reasonably be drawn. To put the matter in another way; the Crown must satisfy the Court, not that each separate fact is inconsistent with the innocence of the accused, but that the evidence as a whole is beyond reasonable doubt inconsistent with such innocence."

Apart from the nature of the onus, the same rules apply

62 of course in civil cases.

As I have said above, I consider that it would be

enough for McDonald's to show that its marks are known to a substantial number of persons who are interested in the goods or services provided by it. On behalf of McDonald's it was contended, correctly in my view, that there are two categories of such persons - potential customers and potential franchisees. Potential customers would cover a wide field. It would include all persons who like fast food of this type and have the money to buy it. Since the cost is not high there would be many such people. Potential franchisees would be a smaller group, namely persons who can finance and run a McDonald's franchise, or consider that they can. The evidence adduced by McDonald's leads, in my view, to the inference that its marks, and particularly the mark McDonald's, are well known amongst the more affluent people in the country. People who travel, 63 watch television, and who read local and foreign publications, are likely to know about it. They would have seen McDonald's outlets in other countries, and seen or heard its advertisements there or its spillover here in foreign journals, television shows, etc. Although the extent of such spillover has not been quantified it must be substantial. Moreover, as has been shown, McDonald's has also received publicity in the local media. The market survey evidence specifically related to two groups of adult white persons living in relatively affluent suburbs of Gauteng and KwaZulu Natal. It is reasonable to suppose

that much the same results would be achieved elsewhere among persons of all races who have a similar financial and social background. These are also the type of people who would have heard about McDonald's and its marks from Collins, or who would have discussed these matters with him, or would have written to McDonald's 64 to solicit a franchise agreement.

By the same token, people who are poor, do not travel abroad, do not read foreign publications or, possibly, do not read at all, and are not exposed to television, are likely not to have heard of McDonald's or its marks. It is accordingly not surprising that market surveys commissioned by Joburgers and Dax showed a low awareness of McDonald's and its marks among black persons generally.

These conclusions must be applied to the relevant categories among the public. Potential franchisees, I consider, would be the type of persons who would almost without exception have heard of McDonald's and know its marks. Among potential customers the level of awareness would be lower. Many people who would be interested in buying a hamburger would not have heard of McDonald's. However, a certain degree of financial well-being is required for the purchase of prepared food. Extremely

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poor people are not likely to patronise McDonald's

establishments. Of the persons who are likely to do so, at least a substantial portion must be of the category who would probably have heard of McDonald's and know its marks, or some of them. This inference is supported by the zeal shown by Joburgers and Dax to appropriate these marks for themselves.

I consider therefore that at least a substantial portion of persons who would be interested in the goods or services provided by McDonald's know its name, which is also its principal trade mark. At least this mark is in my view well-known for the purposes of sec 35 of the new act. Since McDonald's has not in fact carried on business in South Africa, people who know its mark will also know it as a foreign (and, more particularly, American) business. It almost goes without saying that if the McDonald's mark is used as contemplated by Joburgers and Dax in relation to the same type of fast

66 food business as that conducted by McDonald's, it would

cause deception or confusion within the meaning of sec 35 (3) of the new act. In the result McDonald's has in my view satisfied all the requirements of this sub-section.

On behalf of Dax it was contended that its use of the mark MacDonalds in respect of its Durban business was nevertheless permitted by sec 36(2) of the new act, which reads as follows:

"Nothing in this Act shall allow the proprietor of a trade mark entitled to the protection of such mark under the Paris Convention as a well-known trade mark, to interfere with or restrain the use by any person of a trade mark which constitutes, or the essential parts of which constitute, a reproduction, imitation or translation of the well-known trade mark in relation to goods or services in respect of which that person or a predecessor in title has made continuous and bona fide use of the trade mark [from a date which is not now relevant] ..."

The question then is whether Dax and its predecessors in title have used the mark MacDonalds continuously and bona fide. There is considerable

67 evidence about the name under which the business was

carried on in Durban before Joburgers bought it. Much

of it is contested. I do not think it is necessary to

traverse it. In my view this point may be decided

simply on the requirements of bona fide use. The

meaning of this concept was considered by Trollip J in

Gulf Oil Corporation v Rembrandt Fabrikante en

Handelaars (Edms) Bpk1963 (2) SA 10(T). He was

1963 (2) SA 10

dealing with sec 136 of the Patents, Designs, Trade

Marks, and Copyright Act, 9 of 1916. That section read

in part:

"A registered trade mark may, on application to the court of any person aggrieved, be taken off the register in respect of any of the goods for which it is registered ... on the ground that there has been no bona fide user of such trade mark in connection with such goods during the five years immediately preceding the application ...".

At p 23H to 24E Trollip J said:

"... 'bona fide' must be given some effective meaning. In my view it cannot be confined to meaning merely real or genuine as opposed to fictitious or simulated, or honest as contrasted

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with dishonest, because it is difficult to conceive how a user, in the sense of the exercise of a right, can be said to be fictitious, simulated or dishonest, and in any event, a fictitious, simulated or dishonest user would not in law be a user at all, and the addition of the qualification 'bona fide' would therefore have been totally unnecessary. The words were obviously inserted to give a particular quality to the user which it was intended should defeat an aggrieved person's application.... The expression obviously relates to the proprietor's state of mind in using his trade mark and therefore his object or intention in using it. Kerly on Trade Marks, 8th ed. at p. 218, says that in the corresponding section in the U.K. Act

' the expression 'bona fide' is also used where the contrast seems to be, not between honesty and dishonesty, but rather between what is genuine and what is a mere device to secure some ulterior object'.

Now the system of registering trade marks is designed to protect, facilitate and further the trading in the particular goods in respect of which the trade mark is registered. The very name, 'trade mark', connotes that, and the definition thereof in sec 96 of the Act confirms it. I would therefore say that 'bona fide user' in sec 136 means a user by the proprietor of his registered trade mark in connection with the particular goods in respect of which it is registered with the object or intention primarily of protecting, facilitating, and furthering his trading in such goods, and not for some other, ulterior object."

69 The Gulf Oil case went on appeal (Rembrandt

Fabrikante en Handelaars (Edms) Bpk v Gulf Oil

Corporation 1963 (3) SA 341(A). At p 351 E-F Steyn CJ,

1963 (3) SA 341

who delivered the judgment of the court, stated that he did not propose to attempt a comprehensive definition of what the expression "no bona fide user" meant. He then added:

"Whatever the full meaning of the phrase may be, it seems clear that user for an ulterior purpose, unassociated with a genuine intention of pursuing the object for which the Act allows the registration of a trade mark and protects its use, cannot pass as a bona fide user."

See also Oude Meester Groep Bpk and Another v S.A. Breweries Ltd; S.A. Breweries Ltd and Another v Distillers Corporation (S.A.) Ltd. and Another 1973 (4) SA 145(W) at 150G to 151C.

1973 (4) SA 145

Now in the present case sec 36(2) of the new act does not refer specifically to the bona fide use of a registered mark, and the context in which the expression is used is somewhat different from that

70 considered in the above quoted cases. Nevertheless I

consider the reasoning to be entirely applicable. A

"trade mark" is defined in sec 2 of the new act as

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

Bona fide use of a trade mark within the meaning of sec 36(2) must therefore be use for the purpose of distinguishing the, goods or services provided under that mark from the same kind of goods and services connected in the course of trade with any other person.

In the instant case Joburgers was the immediate predecessor in title to Dax. I have already set out the circumstances in which Joburgers acquired the MacDonalds business in Durban. Briefly, Joburgers was interdicted from using the McDonald's trade marks. It then bought the MacDonalds business and traded under 71 that name in breach of the interdict. Its purpose in using the trade mark MacDonalds was not to distinguish its business from that of others, but rather the converse: to use a mark confusingly similar to that of McDonalds. This is clearly an ulterior purpose in the sense discussed in the above cases. Joburgers continued to trade in this way until it was declared to be in contempt of court. It then promptly disposed of the business to Dax. On behalf of McDonald's an attack was

launched on Dax's good faith in acquiring the business.

In my view it is not necessary to consider this argument. Once it is found that Dax's predecessor in title, Joburgers, did not use the mark MacDonald's bona fide, it follows that sec 36(2) cannot provide any defence to a claim under sec 35(3).

I consider therefore that the well-known marks application should have succeeded in the court a quo, at least in respect of the mark McDonald's. McDonald's

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applications based on passing-off and unlawful competition have therefore become moot and need not be considered further.

I now turn to the Joburgers application and the Dax application. As stated above, these applications have to be decided in accordance with the terms of the old act.

It will be recalled that each of these matters involved an application for the removal from the register of the McDonald's trade marks and an application by McDonald's for an interdict restraining the use of its marks. It was common cause that the decisive issue related to removal - if the applications for removal were granted, the applications for interdicts would fall away. Per contra, if removal was refused, the interdicts had to be granted.

The applications for removal from the register were brought under section 36(1) of the old act. This

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sub-section provides inter alia:

"... a registered trade mark may, on application to the court ...by any person aggrieved, be taken off the register in respect of any of the goods or services in respect of which it is registered, on the ground either -

that the trade mark was registered without any bona fide intention on the part of the applicant for registration that it should be used in relation to those goods or services by him, and that there has in fact been no bona fide use of the trade mark in relation to those goods or services by any proprietor thereof for the time being up to the date one month before the date of the application; or

that up to the date one month before the date of the application a continuous period of five years or longer elapsed during which the trade mark was a registered trade mark and during which there was no bona fide use thereof in relation to those goods or services by any proprietor thereof for the time being;"

A. great deal of evidence and argument was presented to us on whether Joburgers and Dax have established a case for removal under these provisions, and, if they have, whether McDonald's has succeeded in showing that, as far as the application under section 36(1)(b) was concerned, its non-use of the marks was excusable as being "due to special circumstances in the trade" for the purposes of sec 36(2). In my view it is not necessary to consider these aspects. The position now is that the well-known marks application has succeeded, at least as far as the mark "McDonald's" is concerned. Although, as stated above, there are some McDonald's marks which do not incorporate the name McDonald's, we were assured that the marks were all in some way associated with one another. Moreover, the case was fought on a winner take all principle. It was not suggested by Joburgers or Dax that, even if the marks containing the name McDonald's were well known, they would still be entitled to use, say, the clown device. The prize at issue is the mark McDonald's. The well-known marks application has effectively awarded it to McDonald's.

In these circumstances it seems anomalous and even

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futile to proceed with the applications for removal

from the register. Even if these applications succeeded it would not benefit Joburgers or Dax. They would still be interdicted from using the mark McDonald's.

It has been held that, because section 36(1) states that a registered trade mark "may" be removed from the register in the circumstances specified therein, the tribunal has a general discretion to refuse expungement in addition to the specific terms of the section. See Webster and Page, *op cit*, at 371 to 372 and authorities there cited. As far as this court is concerned, the matter is, however, still open. See *Distillers Corporation (S A) Ltd v S A Breweries Ltd and Another; Oude Meester Groep Bpk and Another v S A Breweries Ltd* 1976 (3) SA 514(A) at 540C. The parties before us, and the court *a quo*, accepted that such a discretion exists. The circumstances of the present case show, in my view, how desirable it is, from a

1976 (3) SA 514

76 practical point of view, that such a discretion should exist. The use of the word "may" in the section appears to grant a discretion. The weight of authority, as discussed in Webster and Page, *supra*, is in favour of its existence. We should therefore now hold, I consider, that the court retains a general or residual discretion to refuse to remove a trade mark from the register even where sec 36(1)(a) or (b) is applicable.

It goes without saying that a party who has shown himself entitled to relief under the section will not be deprived of such relief by the exercise of a general discretion unless the circumstances are exceptional. In my view the present circumstances are indeed exceptional.

It was argued on behalf of Joburgers and Dax that the court was not entitled to have regard to the success of the well-known marks application when deciding the applications for removal from the 77 register. The latter applications, it was contended, fell to be decided under the old act. Reference to the

new act was accordingly not permitted.

This argument, I consider, betrays some confusion of thought. It is true that the applications have to be decided under the old act (see sec 3(2) of the new act) . The old act empowers the court to refuse the applications in the exercise of a general discretion. In deciding whether to exercise this discretion, the court must have regard to all relevant facts and circumstances. In this case it is a relevant circumstance that it would serve no purpose to allow the applications because Joburgers and Dax are in any event not entitled to use the relevant marks by reason of legislation other than the old act. In making use of this circumstance the court is not deciding the removal applications according to any statute other than the old act. It is merely applying the principles of the

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old act to the facts and circumstances relevant to the exercise of its discretion.

Then it was argued that the court a quo declined to exercise its discretion in favour of McDonald's, and that this court should not interfere with that decision unless the discretion was not properly and judicially exercised. Although there was some argument on the merits of the court's decision, I do not consider it necessary to decide whether the court a quo, on the facts considered by it, should have exercised its discretion against ordering removal of the marks from the register. The position was entirely changed by the conclusion that the well-known marks application should have succeeded. This conclusion means that, in my view, the court a quo exercised its discretion on a basis that was fundamentally wrong. Clearly this court is at large to express its own view on the matter. And, for the reasons I have given, I consider that we should

79 refuse the applications for removal.

In the result the following order is made.

(A)

McDonald's application to adduce further evidence is dismissed with costs, including the costs of two counsel.

(B)

The appeals in all three matters are allowed with costs, including the costs of two counsel. The orders of the court a quo are set aside and the following substituted:

(1) In the well-known marks application

(case number 11700/95):

The First and Second Respondents are hereby interdicted and restrained, with costs, from imitating, reproducing or translating in the Republic of South Africa any of the Applicant's trade marks in which the word McDonald or McDonald's appears.

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In the Joburgers application (case number 19719/93):

An order is granted in terms of prayers 5.1 and 6 of the Notice of Motion.

The counter-application is dismissed with costs.

In the Dax application (case number 16493/94):

The application is dismissed with costs.

An order is granted in terms of paragraphs 119.2.1 and 119.2.2 of the counter-application set out in the document headed "First Respondent's Founding Affidavit".

81 (4) All costs orders are to include the costs of two counsel.

E M GROSSKOPF, JA

CORBETT, CJ) NESTADT, JA) SCHUTZ, JA) Concur PLEWMAN, AJA)

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