

**IN THE HIGH COURT OF NEW ZEALAND
AUCKLAND REGISTRY**

CIV 2007-404-006681

BETWEEN	DB BREWERIES LTD Plaintiff
AND	LION NATHAN LTD Defendant

Hearing: 8 November 2007

Appearances: Earl Gray and Ben Upton for Plaintiff
Andrew Brown QC and Mark Gavin for Defendant

Judgment: 9 November 2007

JUDGMENT OF HARRISON J

SOLICITORS

Simpson Grierson (Auckland) for Plaintiff
Hudson Gavin Martin (Auckland) for Defendant

COUNSEL

Andrew Brown QC

Introduction

[1] DB Breweries and Lion Nathan dominate the market for sale of beer products in New Zealand. DB has since 1998 produced and marketed Summer Ale. Late last month Lion launched its new product, Mac's Sun Dance Summer Ale. DB immediately responded by applying ex parte for an interim injunction.

[2] DB seeks to restrain Lion from marketing or distributing Mac's Summer Ale until further order. It alleges that, by displaying the words 'Summer Ale' on its packaging and labels, Mac's Sun Dance is held out to be very similar to Monteith's Summer Ale. As a result, DB alleges, the distinctiveness and any goodwill attaching to Monteith's Summer Ale is likely to be irreparably deleted or harmed. It alleges that Lion has committed the tort of passing off or a breach of the Fair Trading Act.

[3] DB's application was heard by Duffy J on a Pickwick basis on 31 October 2007. The Judge dismissed it, expressing her provisional view that the words 'Summer Ale' are generally descriptive of the style of beer rather than of DB's product. Duffy J did not foresee a real risk of confusion or misleading by Lion using these words and causing irreparable damage to Monteith's Summer Ale before a defended hearing of DB's application.

[4] Since then the parties have filed over 30 affidavits for or against the arguments. As I shall explain later, few are of any value. The real issues are of a conceptual or principled nature.

[5] I heard full argument from both counsel yesterday. Given that I have reached a conclusion overnight and given the urgency for both parties, it is preferable that I deliver a judgment orally now. The process of reserving a decision would not be of any real benefit, except to allow for the possibility of a more articulated exposition of my reasons.

Background

[6] DB and Lion's collective dominance of the beer market extends through subsidiary brands, particularly Monteith's and Mac's, to what is known as craft beer. That term refers to a market for small, local or batch brewed products. It is said to be an increasingly important segment of a generally declining beer market. DB says that Monteith's Summer Ale is the key product in its stable; the jewel in its crown.

[7] Monteith's Summer Ale is a seasonal product. It is released once annually, usually in October for the summer market. In terms of turnover, sales of Monteith's Summer Ale represent about 8-9% of the craft beer market which in itself is about 10% of the total beer product market. The beer is sold in packaged form in supermarkets and specialist liquor stores, in off license premises, and on tap in selected bars.

[8] DB says that as a result it has established and owns a valuable reputation and goodwill in the words 'Summer Ale' for beer products; that the phrase is distinctive of and synonymous with the company's seasonal goods; and that the term means predominantly its own product, Monteith's Summer Ale.

[9] DB has applied to the Intellectual Property Office (IPONZ) to register a trademark for the words 'Summer Ale'. When refusing to grant earlier interim relief, Duffy J placed weight on the office's refusal of that application. IPONZ decided that the name was too generic to obtain trademark protection. There was insufficient evidence to show the product had acquired distinctiveness.

[10] It is also relevant that when opening argument yesterday, Mr Earl Gray, DB's counsel, invited me to adopt a pejorative view of Lion's conduct. He called its actions in launching Mac's Sun Dance cynical and calculated. He says the circumstances of its release reflect stealth. I mention this submission only to record my rejection of it. Lion is not guilty of any disqualifying conduct. It is not under any obligation to show its hand to its rival before launching a new product.

Products

[11] Monteith's Summer Ale is sold in a narrow dark brown 330 ml bottle. The words 'Summer Ale' appear in large stylised yellow type slightly diagonally across the face of the label, below the capitalised brand name 'Monteith's' in white. The label itself is orange, and describes the product as an 'enlivening honey spiced original crafted seasonal release'. The words 'West Coast' also feature, along with the date of Monteith's formation.

[12] Mac's Sun Dance is also marketed in a dark brown 330 ml bottle but it is of a more squat nature. It is also intended to be a seasonal or limited release product. The label is white. The words 'Mac's Brewery' are in small capitals across the top beside the reference to 330 ml. Most prominence (by my rough calculation, about one half of the label) is accorded to the name 'Sun' – it appears in bold orange capitals. Below it, also in bold capitals but of a smaller size, is the word 'Dance'. It is also orange in colour.

[13] Prominence is given on the Mac's label to the fact that the bottle's content is 5% alcohol by volume and is naturally brewed. The words 'Summer Ale' are in blue capital letters but in much smaller print than 'Sun Dance', and appear at the bottom of the label. I trust that its promoter will forgive my observation that the label presents as more basic and less sophisticated than Monteith's Summer Ale, in fact distinctively so.

[14] The packaging of both products differs. Monteith's Summer Ale is in a carry pack. It has a distinctive handle with the tops of the bottles protruding visibly through the top half of the pack. By contrast, Mac's Sun Dance is packaged in an enclosed six-pack, where the words 'Sun Dance' are prominently displayed.

Serious Question

(1) *Legal Principles*

[15] The threshold question for determination in this inquiry is whether or not there is a serious question for trial, either for passing off or for breach of the Fair Trading Act.

[16] I agree with Mr Andrew Brown QC for Lion. The merits of DB's case are relevant at this preliminary stage. In a claim for passing off, where the consequences of granting an interim injunction may be permanent and extreme, the strength of the applicant's case must weigh heavily. Experience shows that the interim result in this area is often the end result. It has the effect of forcing the enjoined party to withdraw its product from the market and cease trading. For commercial reasons that party often focuses its attentions elsewhere rather than pursuing the battle. Consequently, the underlying merits are relegated to academic importance.

[17] In my judgment, in a case like this, it is not enough simply to satisfy the requirements of bare arguability. To the extent that this observation reflects a departure from the *American Cyanamid* test (*American Cyanamid Co v Ethicon Ltd* [1975] AC 396), recent authorities in this area have signalled a tendency back towards evaluating the merits, whether that factor is taken into account at the threshold stage of identifying a serious question or subsequently in evaluating the balance of convenience: see *Cayne v Global Natural Resources Plc* [1984] 1 All ER 225 (CA) at 234-235; *Meat Services Ltd v Moses* (1983) 1 TCLR 94; *Newsweek Inc v British Broadcasting Corporation* (1979) RPC 441; *Parness/Pelli Ltd v Hodges* (1982) Fleet Street Reports 329.

[18] The tort of passing off is designed to protect a trader's proprietary rights in goods. It was originally limited to protection of a trade name or trademark, where one trader sought to leave customers with the belief that its goods were those of the other. But by the early 20th century the scope of this tort was extended to a trader's property in business or goodwill likely to be injured by a misrepresentation. That interest was the benefit and advantage of the trader's good name, reputation and its connection with the business – compositely, the force which attracts custom: see *Warnink v Townend & Sons Ltd* [1979] AC 731 per Lord Diplock at 740-742.

[19] The five indicia or characteristics required to create a valid cause of action for passing off are: *Warnink* per Lord Diplock at 742:

- (1) a misrepresentation;
- (2) made by a trader in the course of trade;
- (3) to prospective customers of his or ultimate consumers of goods or services supplied by him;
- (4) which is calculated to injure the business or goodwill of another trader (in the sense that this is a reasonably foreseeable consequence); and
- (5) which causes actual damage to a business or goodwill of the trader by whom the action is brought or (in a quia timet action) will probably do so.

[20] The existence of a misrepresentation is the foundation of a claim in passing off. It is normally of an indirect nature, and is based upon the existence of two underlying factors: (1) a mark or get-up distinctive of the applicant's goods exclusively; and (2) the defendant's use of that mark or get-up or an imitation so close as to be likely to deceive. Inherent in this concept of misrepresentation is the probable consequence of confusion between the goods of the two parties: *Klissers Farmhouse Bakeries Ltd v Harvest Bakeries Ltd (No.2)* [1985] 2 NZLR 143, Davison CJ at 147.

[21] There are material distinctions between the tort of passing off and a claim for breach of s 9 Fair Trading Act. Most significantly, the latter does not require proof of a misrepresentation which is calculated to injure goodwill or business. Also, while both causes of action require proof of a misrepresentation, s 9 is satisfied by the existence of a representation likely to mislead or deceive; in other words, proof of an actual misleading or deceit is unnecessary. But, I emphasise, the core concepts are the same, and in the context of this case neither counsel has suggested a material difference: *Hornsby Building Information Centre Pty Ltd v Sydney Building Information Centre Ltd* (1978) 140 CLR 216, Stephen J at 229-230.

(2) *DB's Pleaded Claim*

[22] Against that brief summary of the principles, I come to the pleadings and evidence. DB's statement of claim was prepared under constraints of urgency. It alleges that Lion's conduct in producing Mac's Sun Dance amounts to a false representation or a misrepresentation which is calculated to mislead and is likely to lead members of the public to believe that, first, Mac's Sun Dance is supplied by or has the approval and endorsement of or affiliation with Monteith's Summer Ale; second, there is some arrangement or connection between the parties or their products; and/or, third, Mac's Sun Dance is authorised by Monteith's; and/or, fourth, Lion is authorised by DB to use the name 'Summer Ale' in packaging Mac's Sun Dance. DB alleges that Lion's conduct will pass off and/or attempt to pass off its products as DB's goods. The same conduct is said to constitute a breach of the Fair Trading Act.

[23] In argument yesterday Mr Gray conceded that the packaging of the two products is objectively different. Nevertheless, he maintains an argument that the labelling suggests a number of strikingly similar features. In particular, Mr Gray refers to Mac's prominent use of the colour orange, the use of a sun ray effect, the words 'limited release' on the box packaging, and the promotional literature emphasising Mac's Sun Dance's 'refreshing' qualities.

[24] I have had the obvious benefit of reviewing the packaging and labels carefully. There was some discussion in argument about the standard of appraisal which I am to apply. I do not think anything turns on that point. But, in case it is relevant in another forum, I confirm that I have placed myself into the straightjacket of a beer drinking customer of an average degree of education and intelligence, taking into account all the circumstances likely to influence my purchasing decisions.

[25] In this respect the impressions created by the packaging or labels are central; in my judgment it is unarguable that Lion represents either Mac's Sun Dance as Monteith's Summer Ale or the existence of any outward association or relationship between the two brands.

[26] DB's managing director, Mr Brian Blake, has postulated three different ways in which potential customers might be misled – first, where a customer asks for 'Summer Ale', meaning Monteith's product, at a bar and is supplied with Mac's Sun Dance; second, where a customer asks for Summer Ale, again meaning Monteith's, at a supermarket and is directed to Mac's Sun Dance; and, third, where a liquor retailer places an order for Summer Ale, again meaning Monteith's, and is supplied with Mac's Sun Dance.

[27] I accept the existence of these possibilities but I regard them as relatively minor and the argument which underlies them as strained. Moreover, while I accept Mr Blake's knowledge of and experience in the market, his possibilities are unrelated to any striking similarity between the packaging and labelling of the two products. Instead they owe their genesis to the common use of the words 'Summer Ale' and are a result of DB's election to choose a descriptive name – ale for consumption in summer – rather than a fancy name for its product: *McCain International Ltd v Country Fair Foods Ltd* [1981] RPC 69 (CA) per Templeman LJ at 72.

[28] Also, Mr Blake's argument, because that is what it is, is itself conceptually confused. It tends to put the cart of confusion before the horse of misrepresentation. The reverse must apply; without the foundation of a misrepresentation, there can be no resulting confusion.

[29] I accept for these purposes Mr Gray's submission that DB has acquired goodwill in the name 'Monteith's Summer Ale'. He may be correct that its value arises by virtue of the association of the brand name 'Monteith's' with the name of the product. He relies on evidence of market surveys to mount an argument that the name 'Summer Ale' is recognised by the public as distinctive of DB's product.

[30] For example, a marketer commissioned by Lion has concluded following 519 telephone interviews that from the total sample, somewhere between 21 and 23% said they associated Summer Ale with Monteith's. Another marketer is of the opinion that this brand association is with what he calls a statistically significant size of the general population – that is, large enough not to have been obtained purely by

chance. Of course, it does follow that a significant group do not associate the term with any brand but with a style of drink, a lifestyle or context. It follows also that another significant and perhaps greater group do not associate the phrase with anything.

[31] In my judgment, however, this type of evidence is of little, if any, assistance to DB's case. I accept, of course, its admissibility: see *Klissers* at 132-133. But its utility lies in claims based upon confusion arising from similarity of packing or get-up, which is not arguable here.

(3) *DB's Amended Case*

[32] In recognition of the weakness in DB's primary proposition of confusion, Mr Gray's oral argument evolved into a different proposition from that pleaded. When pressed to articulate its principled basis, Mr Gray described it as arising from the 'subtle rapier of suggestion': *Hogan v Koala Dundee Pty Ltd* (1988) 12 IPR 508 (the 'Crocodile Dundee' case). It was to the effect that, by using the name 'Summer Ale' on its labels and on its packaging, Lion was appropriating – taking the benefit or advantage of – or trading off Monteith's goodwill in the words 'Summer Ale'.

[33] This argument is, I repeat, for the existence of goodwill arising from a combination of a brand name and a product description. The words 'Summer Ale' describe the goods. The phrase did not originate with DB or Monteith's. It is a generic term applied to a sweet refreshing type of beer which is specially batch brewed for summer. It first became popular in the United Kingdom and was adopted by Monteith's in 1998.

[34] Mr Brown emphasises Mr Blake's inevitable concession that DB could not complain if Lion had used the phrase 'Summer Beer' instead of 'Summer Ale'. The public use the words 'beer' and 'ale' interchangeably. Mr Brown explained the original distinction emanating from the absence of hops when brewing ale; now all beers are brewed with hops. Accordingly, there is no longer a technical brewing distinction between the two words. While some may impute a slight degree of

sophistication to the word 'ale', it is not in common parlance materially different from beer. Importantly, both phrases are descriptive.

[35] Lion's witnesses give examples of the descriptive nature of the phrase 'Summer Ale'. Its generic nature is emphasised by the fact that the 2007 New Zealand International Beer Awards included an 'English style summer ale category'. One large retailer in Wellington supplies five brands of what he regards generically as a summer ale. He describes it as 'generally light in colour and fermented with an ale yeast and having a refreshing taste'. A number of small breweries in New Zealand actually market their product as summer ale. DB deposes to sending cease and desist letters to some. The results, however, appear problematic.

(4) *Conclusion*

[36] In my judgment a descriptive or generic name does not indicate the source but only the nature of goods. I agree with Mr Brown; a claim for passing off cannot be sustained solely upon a descriptive or generic term where there is no proof of, first, an exclusive or secondary reputation and, second, a misrepresentation arising from labelling or packaging get-up. The phrase 'Summer Ale' does not of itself suggest or convey that all summer ale emanates from the same source – namely, Monteith's. Instead the name 'Monteith's' identifies the brand; the words 'Summer Ale' connote the product: *McCain* at 73-74.

[37] In my judgment also there is no justification in policy or principle for providing DB with what is in effect a monopolistic or quasi monopolistic right, equivalent to the protection of a trademark, to a descriptive or generic name. To the contrary, such a result would be inimical to commercial freedom and competition, and could only ever be rationalised if DB was able to show the words 'Summer Ale' have acquired a secondary meaning, connoting a degree of exclusivity, as denoting its goods. There is no evidential foundation for that argument here.

[38] The policy underlying this strict approach was explained by Lord Shand in *Cellular Clothing Co Ltd v Maxton Murray* [1899] AC 326 at 329 as follows:

If a person employing a word or term of well known signification and in ordinary use is yet able to acquire the right to appropriate a word or term in ordinary use in the English language to describe his goods and to shut out others from the use of this descriptive term, he would rarely acquire a right much more valuable than either a patent or a trademark for he and his successors in business would gain the exclusive right, not for a limited time as in the case of a patent but for all time coming, to use the words as applicable to goods which others may be desirous of manufacturing and are entitled to manufacture and sell as much as he is. That being so it appears to me that the utmost difficulty should be put in the way of anyone who seeks to adopt and use exclusively as his own a merely descriptive term.

[39] Ultimately all roads in this case lead back to the same block. Even if DB was able to show a legal or evidential basis for acquisition of a secondary meaning in the words ‘Summer Ale’, it must still establish a foundation for an argument of misrepresentation. I need not repeat the basis for my view that Lion’s get-up and packaging do not misrepresent Mac’s Sun Dance as Monteith’s Summer Ale. Instead it represents an article of a very different nature.

[40] All DB can expect the law to protect is that Lion distinguishes its product by the appropriate means, as it has here, in making it clear that its beer is produced by Mac’s: *McCain* at 76. But Lion has gone further here. In contrast to DB, which seeks to incorporate or link its Monteith’s brand compositely with the generic product description, Lion’s article is expressly branded by a combination of its Mac’s name and the fancy name – Sun Dance. The descriptive phrase, Summer Ale, carries much less prominence.

[41] In summary, the right to injunctive relief in a case like this is not directed towards protecting property in a word or a name but in the trade or goodwill which will be injured by its use. An injunction can only be justified on the ground that the use of the phrase, Summer Ale, is itself a misrepresentation likely to deceive or confuse and cause loss: *Burberrys v Cording* (1909) 26 RPC 693 at 701.

[42] DB has no right to exclusive protection of the use of a generic or descriptive phrase unless there is or could be deception. Without an evidential basis for that linkage, its claim could never be arguable. I cannot see any basis for saying that DB’s property in the trade or goodwill of Monteith’s product, which does not extend

to property in the phrase ‘Summer Ale’, might possibly be injured by Mac’s use of that descriptive term.

[43] Thus, in this more fully reasoned way, I respectfully endorse Duffy J’s initial decision, delivered admirably if I may respectfully say so against a tight time constraint, that DB has no property in words generally descriptive of a style of beer rather than its own product.

Balance of Convenience

[44] I add that even if DB had been able to show an arguable case, the merits and its relevant weakness would have been decisive at the second stage of considering the balance of convenience.

[45] The other relevant question at this subsidiary stage of the inquiry is the adequacy of damages. It is neutral but, if anything, might favour Lion. I accept that DB would have difficulty in proving losses attributable not to brand confusion but to the erosion of its goodwill in the property in the generic or descriptive name if it is able to succeed with that argument at trial. However, as a matter of impression, such losses are unlikely to be great.

[46] On the other side of the equation, Lion if injuncted will lose its expenditure incurred to date. While, of course, DB is good for any such liability, Lion would suffer the additional and tangible loss of damage to its own goodwill in the market if it was forced wrongly as proven later to withdraw the product. That type of reputational loss is difficult, if not impossible, to quantify.

Result

[47] Accordingly, I dismiss DB’s application.

Costs

[48] Costs must follow the event. Lion is entitled to judgment for its costs and disbursements. I am satisfied that the circumstances of this case, particularly its urgency, complexity and importance for the parties, required engagement of counsel of specialist skill and experience. An award of costs should recognise that factor as well as the resources and commitment necessary in preparing argument on both sides at short notice. I fix costs according to category 3C for two counsel together with reasonable disbursements.

Confidentiality

[49] Mr Upton has applied for confidentiality orders to protect Mr Blake's affidavit against public search. I am not satisfied that the first and third affidavits contain confidential information but I accept that the second does. An order is made accordingly.

Rhys Harrison J