

IN THE SUPREME COURT OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

In the matter of an Application for Special Leave to Appeal under and in terms Article 128 (2) of the Constitution

**Daintee Limited,
No. 72C, Kandawala Road,
Ratmalana**

Plaintiff

SC Appeal 163/2017

SC SPL LA 95/2016

CA Appeal 545/97 (F)

DC Colombo Case No. 3822/SPL

Vs,

**Uswatte Confectionery Works Limited
No.437, Galle Road,
Ratmalana**

Defendant

And

**Uswatte Confectionery Works Limited
No.437, Galle Road,
Ratmalana**

Defendant-Appellant

Vs.

**Daintee Limited,
No. 72C, Kandawala Road,
Ratmalana**

Plaintiff-Respondent

And Now Between**Uswatte Confectionery Works Limited****No.437, Galle Road,****Ratmalana****Defendant-Appellant-Appellant****Vs,****Daintee Limited,****No. 72C, Kandawala Road,****Ratmalana****Plaintiff-Respondent-Respondent**

Before: Justice Sisira J. de Abrew,
Justice Vijith K. Malalgoda, PC
Justice P. Padman Surasena

Counsel: Geethaka Goonewardena PC with Chanaka Weerasekera instructed by Julius and Creasy
for Defendant-Appellant-Appellant
Basheer Ahamed with Lakshman Jayakumar for Plaintiff-Respondent-Respondent

Argued on: 03.03.2020

Judgment on: **26.06.2020**

Vijith K. Malalgoda PC J

The Defendant-Appellant-Appellant (hereinafter referred to as the Defendant-Appellant) had challenged the decision of the Court of Appeal, dated 28. 04. 2016, by way of a Special Leave to

Appeal application filed before the Supreme Court. This court by its order dated 26. 01. 2017 granted Special Leave on the following questions of Law contained in sub paragraphs (v), (vi), (vii) and (x) of Paragraph 12 of the Petition dated 07. 06. 2016.

1. Did the Court of Appeal err by failing to take cognizance of the fact that the dominant feature of the Petitioner's wrappers was the name "Uswatte" which was the registered trade mark and the distinctive of the Petitioner, while the dominant feature of the Respondent's wrappers was the word "Daintee" which was its name?
2. Did the Court of Appeal err by failing to consider the material question of whether the wrappers of the Petitioner were, visually, entirely different to the wrappers of the Respondent and failed to realize that the word "Uswatte" on the Petitioner's wrappers was both visually and phonetically entirely different to the word "Daintee" of the Respondent's said wrappers?
3. Did the Court of Appeal err in affirming the finding of the learned District Judge that, the evidence of the Respondent in respect of damages was undisputed and unchallenged, when the evidence was to the contrary?
4. Did the Court of Appeal err in its failure to arrive at the finding that, in any event, the damages awarded to the Respondent was excessive in the light of the evidence?

As revealed before us, the Plaintiff-Respondent-Respondent (hereinafter referred to as the Plaintiff-Respondent) a manufacturer of sweets under the brand names 'DAINTEE' and 'CHIX' since 1992 filed an action against the Defendant-Appellant another manufacturer of sweets and confectionary before the District Court of Colombo on the basis of unfair competition namely under Section 142 of the Code of Intellectual property Act No 52 of 1979. In the said plaint which was filed before the District Court of Colombo on the 4th October 1993 the Plaintiff-Respondent had alleged that,

- a) The Plaintiff-Respondent had been manufacturing and selling confectionary such as sweets and toffees since 1985 under the brand names 'DAINTEE' and 'CHIX'
- b) The Plaintiff-Respondent had employed designer artist and designed new wrappers to be used to sell its sweets and toffees and commenced using these newly design wrappers in various colours in January, 1992 (P-10, P-11, P-17 and P-18)
- c) The Defendant-Appellant is an established company and a major manufacturer of sweets and confectionary, and in this trade for many years under the brand name USWATTE, even prior to the Plaintiff-Respondent commenced its operations in the year 1985.
- d) The Defendant-Appellant observing the market, that the Respondent's sweets with its newly designed wrappers were selling fast, had imitated the design of those wrappers and started using the new wrappers with the Plaintiff-Respondent's design in September 1993.
- e) The Plaintiff-Respondent by letter of demand dated 20th September informed the Defendant-Appellant to cease and desist selling the Defendant-Appellant's sweets imitating and using the Plaintiff-Respondent's design

As referred to above the action before the District Court was based on Section 142 (1) and 2 (a) of the Code of Intellectual Property Act No 52 of 1979 which reads as follows;

- 142 (1)** Any act of competition contrary to honest practices in Industrial or Commercial matters shall constitute an act of unfair competition
- (2)** Act of unfair competition shall include the following
- (a)** All acts of such nature as to create confusion by any means whatever with the establishment, the goods, services or the Industrial or Commercial activities of a competitor.

Based on the above provision the Plaintiff-Respondent had further submitted that the said imitation of the design used by the Plaintiff-Respondent by the Defendant-Appellant created a confusion among the buyers and thereby causing irreparable loss and damage to the business and good will of the Plaintiff-Respondent.

However whilst denying that the Defendant-Appellant had not imitated the design used by the Plaintiff-Respondent, the Defendant-Appellant had further taken up the position that he too had employed a third party when developing the new designs to their wrappers and that the said wrappers do not resemble the designs used by the Respondents. The Appellant being one of the leading manufactures of confectionary since 1962, it is the owner of the Trade Mark "USWATTE" which is the main feature of their sweets.

The trial before the District Court proceeded with eleven issues raised on behalf of the Plaintiff-Respondent and seven on behalf of the Defendant-Appellant. At the conclusion of the said trial, the learned Additional District Judge Colombo had entered the judgment in favour of the Plaintiff-Respondent. Being dissatisfied with the said judgment, the Defendant-Appellant appealed to the Court of Appeal, but the said appeal too was dismissed by the Court of Appeal by its judgment dated 28. 04. 2016.

As observed by this court, the Defendant-Appellant's appeal before this court is based on two grounds. Firstly the Defendant-Appellant relied on the ground that both the learned District Judge as well as their lordships of the Court of Appeal err in law when they conclude that there was sufficient evidence before the District Court to conclude that there was unfair competition within the meaning of Section 142 of the Code of Intellectual property Act No 52 of 1979.

The next ground the Defendant-Appellant relied before this court was based on “damages” awarded by the District Court.

With regard to the first ground of appeal, the Defendant-Appellant whilst denying that the conduct referred to in the plaint amounts to unfair competition, took up the position that it was healthy competition between two rivals, which is an essential practice in the market.

In this regard the Defendant-Appellant heavily relied on the decision by this court in the case of *Distiller’s Company of Sri Lanka V. Randenigala Distillers Company (pvt) Limited SC (CHC) Appeal 38/2010* SC minute dated 19. 12. 2014.

One of the central issues that was to be resolved in the said case was whether the labels and/or bottle used by the Appellant’s were, misleading the consuming public and thereby violates Section 142 of the Code of Intellectual property Act No 52 of 1979, insofar as it constitutes an act or act of unfair competition.

In the said judgment court considered the term ‘confusion’ in the light of healthy and fair competition as against unfair competition as follows;

“The difficulty for this court is that the breadth of this provision needs to be balanced, against the commercial interests of healthy and fair competition. The wide parameters in which this definition is couched is not designed for the purposes of this section being used and manipulated for the commercial benefit of excluding competition and securing monopolistic interests. Therefore, the scope of acts that cause ‘confusion’ must be carefully considered. It must be noted that copying simpliciter does not prevent freedom of competition. Only when there is undue advantage gained as the result of the act of copying, will a party be entitled to the relief on the premise of unfair competition. It is not designed to protect a parties market

position, nor is it designed to regulate market affairs. It is simply a means of ensuring that there is a fairness in the market place. It is therefore the view of this court upon the reflection of the comparison made above between the physical appearances of the goods of the Appellant and the Respondent, that the Respondents have failed to establish that the Appellant engaged in unfair trade practices for the purposes of *section 142 of the Code of Intellectual property Act No 52 of 1979.*"

When observing the above, the Court had gone into the facts and circumstances of the said case and as observed by me, the Plaintiff in the said case was one of the market leaders in the respective industry where as the Defendant was almost a newcomer. The Court having observed several differences mainly in the labels of the product in question (page 07 of the Judgment) was of the view that there was an attempt to monopolize the market in the name of unfair competition under Section 142 of the Code of Intellectual Property Act No. 52 of 1979.

However, as observed by me the circumstances under which the Plaintiff-Respondent had come before the District Court are quite different in the instant case. As evident before the District Court, the Plaintiff-Respondent having commenced its operations in the year 1985, designed new wrappers in a colourful design, to be used to sell its sweets and toffees and commenced using them in January 1992. The Defendant-Appellant being one of the leading manufacturer of sweets and confectionary since 1962 and the owner of the trade mark "USWATTE" claimed that, the main feature of their sweets is their Trade Mark even though they too have introduced wrappers in a colourful design almost similar to the Plaintiff-Respondent's products having their trade name "USWATTE" printed on the wrapper instead of 'DAINTEE' and 'CHIX' printed on Plaintiff-Respondent's wrappers. It is common ground that these toffees are sold mainly to small children and they are stored in bottles.

It is the colourful design which is the prominent feature in these sweets when they are sold to children and not the trade mark or the name printed on it.

The importance of the ultimate consumer or the purchasers was discussed by Narayanan as follows;

“In deciding the similarity, the ultimate purchasers of the goods are more important than the manufacturers or traders. But it is not a person who carefully looks at the mark who is to be regarded. It is a person who only looks at it in the ordinary way who has to be considered.”

(Narayanan on Law of Trade Marks and Passing-off 5th Edition para 17.72)

This position was considered by *Fernando (J)* in the case of ***Society Des Products Nestle S.A Vs, Multitech Lanka (pvt) LTD (1999) 2 Sri LR 302*** as follows;

“A case of this sort cannot be decided by simple totting up and weighing resemblances and dissimilarities, upon a side- by-side comparison; the issue is a person who one in the absence in the other and who has in his mind’s eye only recollection of the other, would think two were the same.”

The learned Trial Judge was mindful of the above when he was analyzing the evidence placed before him. Appellate Courts are always reluctant to interfere with the findings of trial court unless there is good reason to do it. In this regard I am mindful of the decision in ***Alwis vs. Piyasena Fernando (1993) 1 SLR 120 at 122*** where *G.P.S. de Silva CJ* had observed that,

“It is well established that findings of primary facts by a trial judge who hears and sees witnesses are not to be lightly disturbed on appeal”

The learned District Judge in his Judgment concluded that,

“The Managing Director estimated his Company’s damages as Rupees 5 Million and Stated how he claimed the amount. Evidence in respect of his claim remains unchallenged and uncontradicted.”

Whilst affirming the judgment of the District Court the Judges of the Court of Appeal in their judgment had also observed that,

“The volume of sales of the Respondent was not challenged by the Appellant. Therefore, it is not necessary for the Respondent to prove the volume of sales. The damages claimed was decided on the volume of sales. The District Judge has analyzed the evidence correctly when arriving at the quantum of damages.

On perusal of the judgment it could be said that the evidence placed before the District Judge had been carefully analyzed. The District Judge has said the damages claimed went undisputed and unchallenged, after hearing and observing the witnesses and perusing the documents marked before him.”

I have referred above, are two paragraphs one from the judgment of the District Court and the other from the judgment of the Court of Appeal, and as observed by me the latter is the full analysis by the Court of Appeal with regard to the decision of the District Court awarding damages to the Plaintiff-Respondent. In the said analysis there is reference to the District Judge carefully analyzing the evidence placed before him when granting damages.

I too have carefully gone through the Judgment of the Learned District Judge and observed that he had carefully analyzed the evidence led at the trial with regard to the question of unfair competition

but when it comes to the awarding of damages, except for the paragraph I have already referred to above, I only found him referred to the volume of sale after introducing the new wrappers in the following manner (page 5 of the Judgment)

“He gave the sales of his company’s sweets with wrappers from January 1992 to August 1993 as Rs. 63,965,817.50 and the break down for it.”

As revealed from the evidence led before the District Court, the Defendant-Respondent had started the using of the imitated wrappers in September 1993 and a letter of demand was sent on 20th September 1993. By 4th October 1993 the plaint was filed before the District Court of Colombo and an interim injunction too was obtained preventing the sale of sweets using new wrappers.

In these circumstances two distinct positions were taken by the parties with regard to the awarding of damages in the instant case.

As submitted by the Plaintiff-Respondent, he claimed estimated damages in the instant case. The learned District Judge as well as the Judges of the Court of Appeal upheld the said claim as justifiable, awarded estimated damages for a sum of Rs. 5 Million. Whilst challenging the award of Rs. 5 Million as estimated damages, the Defendant-Appellant took up the position that there is nothing called estimated damages but the only damages the court could grant is either nominal damages or actual damages.

When considering the plaint filed before the District Court, this court has already observed that the said plaint was filed under the repealed law, i.e. under the provisions of Code of Intellectual Property Act No.52 of 1979 and not under the new law, which is under the Code of Intellectual Property Act No. 36 of 2003.

Section 179 of the Code of Intellectual Property Act No. 52 of 1979 provides for damages as “May award damages and such other relief as the Court appears just and appropriate.” However, the new Act which came to operate in the year 2003 provides for two types damages under Section 170 (10) of the said Act which reads as follows;

“Any owner of the rights protected under this Act may, notwithstanding any provision in the Act relating to the award of damages, elect at any time before final judgment to recover, instead of proved actual damages, an award of statutory damages for any infringement involved in the action a sum not less than Rs. 50,000/- and not more than Rs. 1,000,000/- as the Court may consider appropriate adjust. “

When considering the new regime introduced by the Act introduced in the year 2003, it is clear that the Act has clearly identified two regimes in awarding damages. The party comes before court has a duty to prove actual damages, if the party intends claiming actual damages. Otherwise the party can elect to receive statutory damages, but the amount that can be awarded is restricted between Rs. 50,000/- and Rs. 1000,000/-. The new Act does not identify the award of estimated damages to any party.

However, in the absence of specific reference to any kind of damages, under section 179, question arises as to whether the District Court is empowered to grant such damages to a victimized party.

In this regard the Plaintiff-Respondent relied on the decision in ***Sumeet Research and Holdings Limited Vs. Elite Radio and Engineering Co. Limited [1997] 2 Sri LR 394*** where Fernando (J)'s observation with regard to unfair competition;

“..... this branch of law.....originated in the conscience, justice and equity of common law judges.....it is a persuasive example of the law’s capacity for growth in response to the

ethical, as well as in economic needs of society. As a result of this background, the legal concept of unfair competition has evolved as a broad and flexible doctrine with a capacity for future growth to meet changing condition.”

and argued that in the said context damages cannot be confined to proved damages but it can be estimated damages as well.

However, I cannot agree with the said argument of the Plaintiff-Respondent for the simple reason that the legislature whilst identifying unfair competition in the new version of the Code of Intellectual Property Act, had restricted the damages to proved damages and statutory damages.

The need to establish the damages before the District Court was considered in the case of ***Distilleries Company of Sri Lanka Vs. Randenigala Distilleries Lanka (pvt) Limited SC (CHC) Appeal 38/2010 SC*** minute dated 19. 12. 2014 by this court as follows;

“This court is of the view there are several ways in which the Respondent may have sought to prove the damage sustained in an action of this nature, which will be briefly expanded on below for the sake of completeness. In this instance, both parties operate in a common field of activity, namely, the supply of distilled coconut blended arrack. One type of evidence of damage would be proof of the diversion of sales. This, in the court’s view, may be illustrated by way of evidence to show a drop in sales of the Respondent’s goods and a corresponding increase in the sales of the Appellant’s goods. This would have gone to show that the Appellant’s misrepresentation induced the public to buy the Appellant’s products instead of purchasing the Respondent’s as they usually would. It appears from the evidence before court that the Respondent has traversed only part of the distance in establishing damages in this manner. It would appear that the Respondent was relying purely on the increase in the

volume of sales of the Appellant's products as evidence of damage. This is observed in the oral evidence given by the Respondent's sole witness during cross examination; stating that the claim is hinged on the fact that the Appellant has experienced higher sales. I am of the view that this evidence simpliciter is insufficient without more, since an increase in sales of the Appellant's products can be attributed to a whole range of other factors. There needs to be a linkage established by cogent evidence between the increase in sales of the Appellant's goods and the decrease in sales of the Respondent's goods in order to show with reasonable certainty that there has been a drop in the volume of sales of the Respondent's product which is attributed to the Appellant having passed off his goods as those of the Respondent. It would have been, therefore, an indispensable adjunct, to place the sales record of the Respondent for the consideration of the court. It is the view of this court that the failure to place such evidence must necessarily place the Respondent at a disadvantage...."

As observed by this court the only evidence placed by the Plaintiff-Respondent with regard to the damage caused to him was that;

Q: what is the damage caused to you?

A: we have estimated as Rs. 5 Million

Q: how do you say that?

A: because they have copied our wrappers and we have lost the market that will come to us and we got a bad name because they used an inferior toffee

(under cross examination)

Q: you say you have suffered damages in Rs. 5 Million?

A: we have estimated the damages

Q: you have not produced any books in this case?

A: I can produce my books

Q: you are a chartered Accountant and you have not brought any books to prove the alleged damage?

A: I can produce

but no books or documents were produced to show as to how the estimates were done. In this regard both the District Court as well as the Court of Appeal observed the failure by the Defendant-Appellant to challenge the above evidence. However, in the cross examination it was questioned with regard to the documentary proof to establish the alleged damage, but no documents had been produced by the Plaintiff-Respondent even though the witness had said that he can produce relevant books. In the absence of such material before the District Court, the only evidence placed before the District Court was the sales revenue for the period between January 1992 to August 1993 a period of 18 months.

If the actual damages caused to the Plaintiff-Respondent for the period the Defendant-Appellant used the alleged imitated wrappers were to calculate, the actual sales for the said period (most probably for the months of September and October 1993) will have to be considered as against the sales prior to the said period. In fact, the actual damage is the sales that were fraudulently taken over by the Defendant-Appellant and that can either be calculated by the loss of sales during the time in question or the additional sales acquired by the Defendant-Appellant during the same period. If the estimated damage is calculated by only considering the previous sales of the Plaintiff-

Respondent, the said calculation cannot be accurate, since the actual loss is not shown in the previous sales. On this basis the Plaintiff-Respondent is not entitled to claim as estimated damages, the sales to persons who have not been misled, since the Plaintiff-Respondent has suffered no loss in respect of those sales. If he were to recover such amounts as “estimated damage” he would be over-compensated.

Even though the learned District Judge had failed to indicate as to how the said damages were calculated, the Court of Appeal while affirming the damages granted by the District Court had said, “The damages claimed was decided on the volume of sales. The District Judge has analyzed the evidence correctly when arriving at the question of damages.” (page 6 of the Judgment)

In these circumstances, it is observed that the District Court as well as the Court of Appeal err when awarding Rs. 5 Million as estimated damages to the Plaintiff-Respondent.

As already discussed in this judgment, Section 179 of the Code of Intellectual Property Act No. 52 of 1979 permitted awarding damages, but was not specific on the requirements in granting such damages. However, it is the duty of court to satisfy when granting such damages since the purpose of awarding damages is to compensate the victim in an unfair competition practice. However, it is the duty of court, when granting such damages, not to over compensate him.

Whilst referring to Section 170 (10) of the Code of Intellectual Property Act No. 36 of 2003 the Defendant-Appellant argued that the maximum amount that could be awarded by the District Court was an amount between Rs. 50,000/- and 1,000,000/- in the absence of any proof of actual damages before court. The Counsel further argued that even though the new Act has no binding effect on the provisions of the old Act, it is nothing wrong to consider the statutory damages as “nominal

damages” that can only be granted in the absence of specific evidence with regard to “actual damages.”

However as already observed by me the District Court had awarded damages after going through the entirety of the case before the District Court. Section 170 (10) of the Code of Intellectual Property Act No. 36 of 2003 provides to grant statutory damages as referred to above, if the parties elect at any time before the final judgment.

In these circumstances’ provisions of the Code of Intellectual Property Act No. 36 of 2003 cannot bind this court when deciding the damages that has to be awarded in the instant case but, certainly the court can be guided by them.

With regard to awarding damages “Kerly” states,

“Where the claimant fails to clear this low threshold, the court may award nominal damages or fix a sum without ordering an account or an inquiry as to damages. In exceptional circumstances that course may be followed if the evidence of damage is not sufficient to justify the cost of an inquiry.”

[*Kerly’s Law of Trade Marks and Trade Names*, James Mellor Sweet & Maxwell, 15th Edition (2011)]

For the reason given in my judgment I answer the questions of law before this court as follows;

- 1) No
- 2) No
- 3) Yes
- 4) Yes

I affirm both, the Judgment dated 31. 01. 1997 by the Additional District Judge, Colombo and the Court of Appeal dated 28. 04. 2016 subject to the variation of the damages awarded by the learned District Judge. I make order directing the Defendant-Appellant to pay as damages Rs. 2 Million to the Plaintiff-Respondent from the date of the District Court Judgment i.e. 31. 01. 1997. The Plaintiff-Respondent is entitled to receive legal interest for the said damages and cost, fixed at Rs. 50,000/-.

District Judge, Colombo is directed to enter the Judgment accordingly.

Appeal partly allowed.

Judge of the Supreme Court

Justice Sisira J. de Abrew

I agree,

Judge of the Supreme Court

Justice P. Padman Surasena

I agree,

Judge of the Supreme Court