

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

Distilleries Company of Sri Lanka
No. 110, Norris Canal Road
Colombo 10

Plaintiff

SC (CHC) Appeal No. 38/2010

Vs.

Randenigala Distilleries Lanka
(Private) Limited
No. 162, Rajagiriya Road,
Rajagiriya

Defendant

HC (Civil) Case No. 34/2002(03)

AND NOW

In the matter of an appeal in terms of
section 5 and 6 of the High Court of
Provinces (Special Provisions) Act No.10
of 1996 read with Chapter LVIII of the
Civil Procedure Code

Randenigala Distilleries Lanka
(Private) Limited
No. 162, Rajagiriya Road,
Rajagiriya

Defendant-Appellant

Vs

Distilleries Company of Sri Lanka
No. 110, Norris Canal Road
Colombo 10

Plaintiff-Respondent

BEFORE:

Mohan Pieris, PC, CJ
Chandra Ekanayake, J
Rohini Marasinghe, J

COUNSEL: D.P. Kumarasinghe PC with Mahendra Kumarasinghe and
Jayerani Kumarasinghe for the Defendant-Appellant
S.A Parthalingam PC with V.K Choksy for the Plaintiff-
Respondent.

Written Submissions tendered by the Defendant-Appellant on 04.11.2014

Written Submissions tendered by the Plaintiff-Respondent on 29.10.2014

ARGUED ON : 22.09.2014

DECIDED ON: 19.12.2014

MOHAN PIERIS, PC, CJ

This is an appeal from the judgment of the High Court of the Western Province (exercising civil jurisdiction) holden in Colombo (Commercial High Court) dated 31 August 2010. It raises the central question of whether the labels and/or bottles used by the Defendant-Appellant (hereinafter referred to as the “Appellant”) are visually and/or phonetically of sufficient similarity to mislead the consuming public and thereby establish a case of passing off in favour of the Plaintiff-Respondent (hereinafter referred to as the “Respondent”), and/or whether the Appellant is using the labels and/or bottles in a manner that violates Section 142 of the Code of Intellectual Property Act No. 52 of 1979, insofar as it constitutes an act or acts of unfair competition. I do not intend to narrate the facts of this case, as these have been set out clearly in the judgment of the Commercial High Court. Instead, I will shortly turn to the relevant issues that need to be addressed by this court, which has been adverted to above.

At the very outset, this Court feels it pertinent to make two preliminary observations. First, on the question of whether the current action is indirectly a second attempt by the Respondent to obtain exclusivity to the term ‘extra special arrack’. The concept of *res judicata* is a well-established principle of law designed to protect a party from having to entertain repetitive legal attacks on the grounds of an issue that has already been

decided in full and final settlement by a court of law. Attempts of this kind under the smokescreen of being a fresh issue are frowned upon and cannot be entertained by courts, for such actions seek to discredit and abuse the finality of the legal process. Bearing this in mind, it is the view of this court, that the Respondent was entitled to pursue a separate action as they did, because the subject matter (the bottle shape and label), albeit on the same basis for the earlier action (SC (CHC) Appeal 38/1999), changed in substance, *viz.* the bottle and label shape of both parties is different to those in the earlier case. In light of this, this court feels that the foundation on which the Respondent instituted this claim is fundamentally different to the earlier case, since the subject matter in respect of which relief was being sought has since changed. Further, while the Respondent attempted to focus on establishing exclusivity in the term 'extra special arrack' during examination in chief, it was clearly not the focus of this action, and this court observes that the Respondent is free to proceed down any tangent he so wishes in the course of leading evidence since it will only be in vain, as it is clear to this court that the issue to be determined by this court does not relate to the term 'extra special arrack'. It is therefore the view of this court that even if the Respondent was successful in its action, this would relate only to the bottle and/or labels used and not to the use of term 'extra special arrack', as this court is possessed of the fact that this is a pre-determined issue, in respect of which the Respondent is not entitled to gain any circumvented relief.

The second observation is in relation to the trademark infringement alleged by the Respondent. This Court wishes to state with utmost clarity that this matter is *res judicata*, and therefore will not be reopened by this Court.

Let me move now to the substantive questions of law. Turning first to the question of passing off, this Court is well possessed of the general principle applicable to cases of passing off, which was captured by the observations of Lord Kingsdown in *The Leather Cloth Co v The American Cloth Co (1865)* 11 H.L. Cas. 538, which are as follows:

“The fundamental rule is that one man has no right to put off his goods for sale as the goods of a rival trader, and he cannot therefore (in the language of Lord Lansdale in the case of Perry v Truefit (1843) 6 Beav. 66) be allowed to use names, marks, letters, or other indicia, by which he may induce purchasers to believe that the goods which he is selling are the manufacture of another person.”

Accordingly, the important question in this instance is whether the Respondent, has on the evidence produced before court established to the required standard of proof that the labels/bottles and/or get up of the coconut blended arrack sold by the Appellant has resulted in a misappropriation of the goodwill held by the Respondent in the sale of this class of goods with respect to the general consuming public. The prerequisites for an action of passing off, as alluded to by the Appellant in his written submissions, were laid down by Lord Oliver in the House of Lords Case of *Rekitt & Colman v Borden (1990) 1 WLR 491 (Jif Lemon case)* as consisting of the following: (1) The Respondent’s mark has goodwill; (2) The Appellant has made a misrepresentation that is likely to deceive the public; and (3) The said misrepresentation has caused damage.

In light of this, this Court is of the view that it is for the Respondent, being the party prosecuting the claim, to show that they have developed a reputation and understanding with the public sufficient to establish goodwill in the distinguishing mark in respect of which the protection of the law is sought. The importance in proving this goes to the root of passing off, *viz.* that the action is predicated on the misappropriation of goodwill developed amongst the public as a result of a signature mark, and not the misappropriation of the mark itself. This notion was captured by Lewison J in the case of *L’Oreal v Bellure [2006] EWHC 2355 Ch.*, where he stated that:

“The law of passing off is not designed to protect a trader against others selling the same goods or copied goods.”

A consequence of this is that it is only possible to protect features that are distinctive of goods originating from one trader, and accordingly, features that are not directly suggestive of origin cannot be protected by an action in passing off. Mention must be made of the words of Jacob J in *Hodgkinson Corby Limited and Another v Wards Mobility Services Limited* [1995] F.S. 169 at paragraphs 174-175, who expands on this very same point:

“I turn to consider the law and begin by identifying what is not the law. There is no tort of copying. There is no tort of taking a man's market or customers. Neither the market nor the customers are the Respondent's to own. There is no tort of making use of another's goodwill as such. There is no tort of competition. I say this because at times the Respondent-Respondents seemed close to relying on such torts... At the heart of passing off lies deception or its likelihood, deception of the ultimate consumer in particular...Never has the tort shown even a slight tendency to stray beyond cases of deception. Were it to do so it would enter the field of honest competition, declared unlawful for some reason other than deceptiveness. Why there should be any such reason I cannot imagine. It would serve only to stifle competition.”

It is the view of this Court, therefore, in echoing the words of Jacob J, that it must be proven by the Respondent, that by deceiving the public as to the source of the goods they are purchasing, it is the goodwill generated by the labels and/or bottles and/or other distinguishing features of the Respondent's get-up that is being misappropriated by the Appellant. In order to do so, it is fundamental for the Respondent to provide in evidence proof of the goodwill they are seeking to protect, through the calling of witness or any other legal means in order to adduce evidence to this effect.

It is therefore the view of this court, that on the application of the law, it is insufficient to show that the Appellant has copied the goods and/or get up of the Respondent, for that is clearly not what constitutes an action of passing off. With reference to the evidence, the Respondent's witness, when

being cross-examined by Counsel for the Appellant stated, “*after they copied our label and our name they have got very big profits*”. This appears to be the leak in the Respondent’s sinking attempt to allege passing off, since the law is clear; it is the goodwill of Respondent’s mark that may be protected under the law, and not acts of copying.

Notwithstanding the above, the remaining constituents of an action of passing off will also be examined. The second pre-requisite enunciated by Lord Oliver in the *Rekitt* case is that there must have been a misrepresentation by the Appellant as to the source of the goods. In this regard, Walker J identified three points for consideration in the case of *Limited biscuit (UK) Ltd v Asda Stores* (1997). They are as follows: (1) the subjective intentions of the Appellant; (2) the quality of the suggestion (conveyed by the get-up of the Appellants goods) of association or connection with the claimant’s goods; and (3) the degree to which it is necessary for the claimant’s name to be known to the general public as the owner of the business whose goodwill and reputation are threatened by any misrepresentation.

The subjective intentions of the Appellant in this case appear to be innocent. That being said, whether or not it was is purely a peripheral matter, since ultimately the intentions behind the act are irrelevant, although they may still be taken into consideration. Turning to the likelihood of confusion, or deception, as both words can seemingly be used interchangeably in this context; since the Appellant’s mark is not identical to that of the Respondent, what must be put into focus is whether it is *too* similar; in other words, whether the similarities between the get-up of the Appellant’s goods and that of the Respondent are close enough to confuse or deceive a customer as to the source of the goods they are about to purchase. When deciding whether there is such a likelihood of confusion, Aldous L.J at paragraph 31 of *Thomson Holidays v Norwegian Cruise Line* [2002] IP&T 299 rightly suggests that the court is to adopt the attitude of the average reasonably well informed consumer of the products, who I also add, is

reasonably observant and circumspect. Therefore the question posed before me is the extent of an impact the Appellant's mark is likely to have on objective consumers of the aforementioned characteristics, given the expectations they already have and the amount of attention they will most likely pay. If the impact is that the customer will be deceived as to the source of the goods, then this would amount to a misrepresentation. In this respect, it is fundamental in a claim for passing off, for a simple comparison to be made by placing side by side the mark of the Respondent and that of the Appellant, in order to establish whether there is a likelihood of confusion. The Learned High Court Judge having recited the law failed to give her conscious mind to the physical features in ascertaining whether the get-up of the two products were similar or dissimilar so as to be satisfied that a case of passing off can be made out, other than a cursory reference to what a witness narrated. It is clear to me, that there is no such likelihood of confusion, and further, in applying the objective test adhered to above, the impact on a reasonably well informed consumer of coconut blended arrack will be both low, and unlikely. Looking at the physical characteristics of the labels and bottles of the two parties through a lens of objectivity, and placing ourselves in the shoes of reasonably well informed consumer, it is clear to this Court that looking at the overall characteristics of the two products, they are sufficiently distinct from each other to satisfy ourselves that the likelihood of confusion will be low. I reiterate briefly the distinctions that exist between the products to the naked eye.

- i. The labels of the two products slant in opposite directions.
- ii. The Appellant's label is one piece covering two thirds of the bottle, whereas the Respondent's label is in two parts with a discernible gap with a discernible shape in the middle.
- iii. In the Appellant's label, there is a wide green strip played obliquely at the bottom whereas with the Respondents the strip at the bottom is yellow and much wider
- iv. The Appellant's label has the phrase "*Gone free extra strong*" written in red against a yellow background, whereas the Respondent's label does not.

- v. The Appellant's label has “අති විශේෂ” written in large bold lettering at the top of the label whereas the Respondent's label does not.

The next question is the extent to which it is necessary for the Respondent's name to be known to the general public in the context of this claim. Seeing that the product in question is not intrinsically unique, it is logical to infer that one method by which the public is capable of distinguishing between the Respondent's product and those of competitors is with reference to the name of the supplier. If this were the primary means by which the public would differentiate the Respondent's goods, then the scenario would be much simpler; in that the appearance of the goods would be less significant. However, this court is possessed of the fact that the public may, more often than not, distinguish the Respondent's goods by reason of the external appearance of the Respondent's goods. This is buttressed by the oral submissions made by Counsel for the Respondent to the effect that in a number of the wine stores in which both the Respondent's and Appellant's goods are sold, they are displayed on a shelf away and behind a counter from which the customers are served. The salesman then passes the selected purchase to the customer who then proceeds to complete the purchase. It is observed that there is an absence of evidence to establish the likelihood of the customer being given the Appellant's brand under the pretense of it being the Respondent's or that of a customer complaining of being deceived to fall within this limb of passing off.

Turning to the final pre-requisite in an action of passing off, it is for the Respondent to show that the misrepresentation by the Appellant caused damage to his identifiable goodwill, or that damage to the Respondent's goodwill is reasonably foreseeable, in which case the necessary safeguards need to be taken in a preventative form to shelter against the misappropriation of the Appellant's goodwill. The burden in showing this is on the Respondent, and the onus is therefore on them to adduce evidence to such an effect. This Court cannot ignore the fact that there appears to be a paucity of evidence in respect of this.

This court is of the view that 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 product 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 attributable 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 records 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. The public interest consequences in allowing a claim to be based on an assessment of damages structured only on a bare reference to an increase in the sales of competitors would, in my view, be inadequate.

Another head of damage under which the Respondent may have sought to rely on is the possibility of their goodwill being eroded by reason of the Appellant infringing their exclusivity of the association of the name, mark or get-up with the Respondent. Therefore, evidence to show an erosion of the distinctiveness of the Respondent's mark would also have been helpful. Learned President's Counsel for the Respondent, in his oral submissions, strenuously sought to canvas this point in the context of the evidence in the case, which did not lend him the support he would have liked to have had. I reiterate that this Court is of the view that the get up of the Respondent's goods and those of the Appellant are distinct enough on a simple comparison, which makes it clear that an average consumer will not be confused. Alternatively, as was held in the case of *Lego System v Lego M. Lemelstrich* [1983] F.S.R. 155, a properly conducted opinion survey could have been used by the Respondent in this case as evidence that the public is or is likely to get confused between the goods of the Respondent or those of the Appellant due to the alleged similarities in their get-up.

It is therefore clear to this Court that notwithstanding the several avenues that the Respondent could have placed before the Court to establish damage in an action of passing off, the qualitative nature of the evidence that was placed before the Court was inadequate in an action of this nature. The Respondent has couched their claim on the basis of there being a misappropriation, and not a misappropriation by misrepresentation, which is an integral ingredient of passing off. Further, the Respondent's reliance purely on the increase in sales of the Appellant's products, in the eyes of this court, is wholly insufficient. It therefore appears to this Court that the Respondent has failed to adduce adequate evidence to satisfy the third prerequisite identified by Lord Oliver in the deliberation of the judgment in the *Rekitt* case, and therefore the case of the Respondent fails to satisfy the third criterion adumbrated by Lord Oliver for the claim of passing off to succeed. It must be observed that the underlying rationale in the aforementioned cases were not considered by the Learned High Court Judge

when deciding this case in the Commercial High Court. For the above reasons, this Court holds that the Respondents have not made out a case for passing off against the Appellants to a sufficient standard on a balance of probability.

Turning now to the question of unfair competition, while it is true that the ambit of the protection afforded under the mantle of unfair competition by Section 142 of the Code of Intellectual Property Act No. 52 of 1979 is wider than that of passing off, both actions stem from common principles in intellectual property law. They are bred for the same purpose; to promote healthy market growth and to allow for the limited curtailment of undesirable practices that go to undermine and inhibit such growth. Further it must be noted that unfair competition does not confer exclusive rights, it is designed only to protect parties against the unfair behaviour of competitors in the market.

The Respondent has submitted that the labels and/or bottles used by the Appellant constitute a breach of Section 142 of the Code of Intellectual Property Act No. 52 of 1979, which states, “*any act of competition contrary to honest practices in industrial or commercial matters shall constitute an act of unfair competition.*” For the purposes of appreciating the full import of this section it must be broken down into two core components. The first component is that there must be an act of competition; whilst the second component is that such an act is contrary to the honest practices in industrial or commercial matters. In an attempt to shed light on the meaning of “honest practices in industrial or commercial matters”, reference is made to the observations of the Supreme Court in *Sumeet Research and Holdings Ltd v Elite Radio and Engineering Co. Ltd* [1997] 2 SLR 393 at 402:

“what is meant by ‘contrary to honest practices in industrial or commercial matters’? If this includes only conduct contrary to obligations imposed by statute law (criminal or civil) or common law (especially the law of delict), section 142 would seem to be superfluous - because anyway such conduct is prohibited by law. It seems arguable,

therefore, that section 142 mandates higher standards of conduct - some norms of business ethics - and does not merely restate existing legal obligations. If so, what those standards of conduct are would be a matter for determination by the trial Judge. It is also arguable that the prohibition against unfair competition in section 142(2) must be interpreted not only in the context of protecting intellectual property rights, but also of safeguarding the rights and interests of consumers - by enabling consumers to know what exactly they are getting, without, for instance, being deceived, confused or misled as to the manufacturer, the source, the origin, and the quality of goods or services.”

It appears to this Court, therefore, that there are certain overlapping elements between the operation of Section 142 of the Code of Intellectual Property Act No. 52 of 1979 on the one hand, and the tort of passing off on the other. In this respect, the Court in the case of *Hexagon Pvt Ltd. v Australian Broadcasting Commission* (1975) 7 ALR 233 13 expressed the following view:

“... unfair competition' is an extension of the doctrine of passing off, or, possibly, is a new and independent cause of action. It consists of misappropriation of what equitably belongs to a competitor ... in all these cases, English and American, the Court has found an element of fraud or inequitable conduct on the part of the defendant. The very description of the tort "unfair competition" leads one to a conclusion that there must be something underhand or sharp in the conduct of the defendant.”

The above quotation touches on the possibility of unfair competition being regarded as its own cause of action. The question before this court today is whether, in the absence of a successful claim for relief, the provisions of Section 142 have a residual capacity; *viz.* whether it can be invoked in situations where the action of passing off fails. This court recognises that in theory, Section 142 of the Code of Intellectual Property Act No. 52 of 1979 is capable of being its own cause of action, for otherwise, its existence would

be unavailing. However, it is clear from the definition and the non-exhaustive list of examples of acts of unfair competition provided in the said Section, that the scope of unfair competition superimposes itself on to other causes of actions, such as passing off, in which case it would seem equally futile to allow relief to be granted under the guise of unfair competition, when such relief would not be available under the pre-existing legal principles governing the law of passing off.

Keeping the above in mind, allusion is made to the first in the list of acts of unfair competition prescribed in Section 142 of the Code of Intellectual Property Act No. 52 of 1979:

“All acts of such a nature as to create confusion by any means whatsoever with the establishment, the goods, services or the industrial or commercial actives of a competitor” [emphasis added]

The inescapably wide ambit of this statement distinguishes itself from the tort of passing off, in that it indicates that the confusion created, need not be in relation to the source of the goods, but can be confusion as to the goods themselves. 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 purpose 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 a 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 fairness in the market place. It is therefore the view of this Court upon the reflection of the comparison made above between the physical appearance 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.

The issues that materialised in this case touch on important chords in the development of Intellectual Property Law in Sri Lanka. This Court feels it pertinent, therefore, to reiterate the sentiments expressed by Professor Cornish in his book, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (4th ed., 1999) at p. 15, in the following passage:

“One of the most fundamental assumptions about a competitive economy has been that once a product enters a market, exactly that type of imitation needs to be present, at least as a potentiality. For no other mechanism will so efficiently secure the welfare of consumers as the prospect of such competition. The intellectual property rights in ideas (patents, copyrights, etc.) exist by way of limited exception in order to encourage the mental effort and productive investment which will procure new products and services. To add to their scope by a right against misappropriation or unfair imitation is to place an amorphous impediment in the way of competition by imitation and that is an inherently controversial step”. [Emphasis added]

Having looked at the entirety of the evidence in this case, and in light of the reasons described above, this Court is of the view that the Respondent does not fall within this limited exception, as it has failed to establish a case against the Appellant under either of the causes of actions identified above, primarily due to the key common denominator in the Respondent’s action, *viz.* the unlikelihood of confusion between the goods of the Appellant and Respondent companies in the minds of the consuming public. Further, this Court is strongly of the view that the Respondent is not entitled to use the law as a shield against competitors. In reference to Professor Cornish’s statement above, competition of this kind is the best way in which to further the interests of the consuming public. A Court must therefore be slow to interfere with such market competition, for to do otherwise could well result in prejudice to the public interest.

For the reasons set out above, this appeal is allowed. I therefore make order setting aside the Judgment of the Commercial High Court dated 31.08.2010, and dismiss the Plaintiff's action with costs in a sum of Rs. 50,000/-.

CHIEF JUSTICE

EKANAYAKE, J

I agree.

JUDGE OF THE SUPREME COURT

MARASINGHE, J.

I agree.

JUDGE OF THE SUPREME COURT