



THE SUPREME COURT OF APPEAL OF SOUTH AFRICA
JUDGMENT

Reportable

Case no: 925/2015

In the matter between:

WESTMINSTER TOBACCO CO

(CAPE TOWN AND LONDON) (PTY) LTD

APPELLANT

and

PHILIP MORRIS PRODUCTS S.A.

FIRST RESPONDENT

THE REGISTRAR OF TRADE MARKS

SECOND RESPONDENT

PHILIP MORRIS BRANDS SARL

THIRD RESPONDENT

Neutral citation: *Westminster Tobacco Co v Philip Morris Products SA*
(925/2015) [2017] ZASCA 10 (16 March 2017)

Coram: LEACH, WALLIS, PETSE and ZONDI JJA and MBATHA
AJA

Heard: 23 February 2017

Delivered: 16 March 2017

Summary: Expungement of trade mark for non-use in terms of s 27(1)(b) of the Trade Marks Act 194 of 1993 – test for bona fide use of a trade mark – factual enquiry.

ORDER

On appeal from: Gauteng Division, Pretoria of the High Court (Louw J, sitting as court of first instance):

- 1 The appeal is upheld with costs, such costs to be paid by the first respondent and to include those consequent upon the employment of two counsel.
- 2 The order of the High Court is set aside and replaced by the following:
‘The application is dismissed with costs, such costs to be paid by the first respondent and to include those consequent upon the employment of two counsel.’

JUDGMENT

Wallis JA (Leach, Petse and Zondi JJA and Mbatha AJA concurring)

Introduction

[1] The only issue in this appeal is whether the appellant, Westminster Tobacco Company (Cape Town and London) (Pty) Ltd (Westminster), proved that, during the period of five years prior to and expiring on 22 July 2008, it made bona fide use of the trade mark PARLIAMENT on cigarettes. If it did not do so, the two registered trade marks it held for that mark, being trade mark registration number 1952/00688 PARLIAMENT and trade mark registration 1997/17613 PARLIAMENT

(label), were liable to expungement in terms of s 27(1)(b) of the Trade Marks Act 194 of 1993 (the Act). The challenge to the continued registration of the marks came from the first respondent, Philip Morris Products SA (Philip Morris). It successfully claimed in the High Court¹ (Louw J) that Westminster had not made bona fide use of the marks and obtained an order for their removal from the trade marks register. The appeal is with the leave of the High Court.

[2] Westminster is a wholly owned subsidiary of British American Tobacco South Africa (Pty) Ltd (BATSA), which in turn is a wholly owned subsidiary of British American Tobacco Holdings South Africa (Pty) Ltd. All three are companies in the British American Tobacco group of companies (the BAT group), one of the largest suppliers of cigarette and tobacco related products in the world. The group's trading activities in South Africa are conducted through BATSA and, in dealing with the alleged use of the marks, I will refer to BATSA on the footing that the use it made of the marks was authorised use. Philip Morris is a company in the Philip Morris International group of companies (the PMI group) that, like the BAT group, is a major international manufacturer and supplier of cigarettes and tobacco related products.

[3] The conflict between these two multinational groups arises because the PMI group uses the trade mark PARLIAMENT internationally in respect of one of its premier brands of cigarettes, but is unable to do so in South Africa. In 2006, a company in the PMI group, Philip Morris Brands SÀRL, applied for a trade mark registration under application number

¹ The application was initially before the Registrar of Patents but was referred to the High Court in terms of s 59(2) of the Act.

2006/02685 for the mark PARLIAMENT. It could not obtain registration because Westminster was registered as the proprietor of the two marks in issue. Both registrations were in class 34 in respect of cigarettes and other tobacco related products. On the basis of its application for registration, Philip Morris Brands SÀRL sought and obtained leave to intervene in the appeal as a third respondent, although its intervention did not affect the conduct of the appeal. The Registrar, who was cited as the second respondent, played no part in the proceedings below or in this court.

[4] On 22 October 2008 Philip Morris brought its application in terms of s 27(1)(b) of the Act for the rectification of the register by the removal of Westminster's two marks on the grounds of non-use. Under the section the marks were liable to be removed from the register if, for a continuous period of five years prior to and expiring on 22 July 2008, there was no bona fide use thereof in relation to the goods or services in respect of which they were registered.² The onus of proof of bona fide use rested upon Westminster in terms of s 27(3) of the Act.

The law

[5] The concept of bona fide use of a mark has received the attention of our courts on various occasions. There is no need to rehearse the

² The section reads in material part:

‘... a registered trade mark may, on application to the court, ... by any interested person, be removed from the register in respect of any of the goods or services in respect of which it is registered, on the ground either—

(a)...

(b) that up to the date three months before the date of the application, a continuous period of five years or longer has elapsed from the date of issue of the certificate of registration during which the trade mark was registered and during which there was no bona fide use thereof in relation to those goods or services by any proprietor thereof or any person permitted to use the trade mark as contemplated in section 38 during the period concerned;’

jurisprudence in this regard. It suffices to cite the following passage from the judgment in *A M Moolla Group v The Gap*:³

“The concept of *bona fide* use has been the subject of a number of judgments, also of this Court, and the area need not be traversed again. For present purposes, it suffices to say that “*bona fide* user”:

“ 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”⁴

This test is similar to that proposed in an opinion by the Advocate General in the European Court of Justice in the *Ansul* case:

“When assessing whether use of the trade mark is genuine, regard must be had to all the facts and circumstances relevant to establishing whether the commercial exploitation of the mark is real, particularly whether such use is viewed as warranted in the economic sector concerned to maintain or create a share in the market for the goods or services protected by the mark, the nature of those goods or services, the characteristics of the market and the scale and frequency of use of the mark.”

[6] I add one further quotation from the decision in *Ansul*:⁵

“Genuine use” must therefore be understood to denote use that is not merely token, serving solely to preserve the rights conferred by the mark. Such use must be consistent with the essential function of a trade mark, which is to guarantee the identity of the origin of goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the product or service from others which have another origin.

³ *A M Moolla Group Ltd and Others v The Gap Inc and Others* 2005 (6) SA 568 (SCA) para 42. There is a full collection of the authorities in *Arjo Wiggins Ltd v Idem (Pty) Ltd and Another* 2002 (1) SA 591 (SCA) para 6 and see *The Gap Inc v Salt of the Earth Creations (Pty) Ltd and Others* 2012 (5) SA 259 (SCA) paras 3 - 7.

⁴ The quotation is from the judgment of Trollip J in *Gulf Oil Corporation v Rembrandt Fabrikante en Handelaars (Edms) Bpk* 1963 (2) SA 10 (T) 27G-H.

⁵ *Ansul BV v Ajax Brandbeveiliging BV* 2003 (RPC) C-40/01 paras 36 and 37

... Use of the mark must therefore relate to goods or services already marketed or about to be marketed and for which preparations by the undertaking to secure customers are underway, particularly in the form of advertising campaigns.'

[7] In summary, bona fide use is use of the trade mark in relation to goods of the type in respect of which the mark is registered. The use must be use as a trade mark, for the commercial purposes that trade mark registration exists to protect. It must be use in the course of trade and for the purpose of establishing, creating or promoting trade in the goods to which the mark is attached. The use does not have to be extensive, but it must be genuine.⁶ Genuineness is to be contrasted with use that is merely token, but the line is a fine one, because the use may be minimal.⁷ It may in part be prompted by the fear of removal from the register and be directed at protecting the proprietor's trade generally or preventing the mark from falling into the hands of a competitor. Provided, however, the use is bona fide and genuine and principally directed at promoting trade in goods bearing the mark, these further purposes however important, are irrelevant.⁸ What is impermissible is:

'... 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 ...',⁹

Whether use of the mark was bona fide is a question to be determined on the facts of the particular case.

⁶ *The Gap* supra paras 5-7.

⁷ *La Mer Technology Inc v Laboratoires Goëmar SA* [2004] FSR 38; *Laboratoires Goëmar SA v La Mer Technology Inc* [2005] EWCA Civ 978; [2005] All ER (D) 493 (Jul) In that case the Court of Appeal in England held that five or six sales to a distributor amounting to about £800, with no proof of sales to the public, involved genuine use of the mark.

⁸ *Electrolux Ltd v Electrix Ltd* (1954) 71 (2) RPC 23 at 35-36; *Oude Meester Groep Bpk & Another v SA Breweries Ltd; SA Breweries Ltd & Another v Distillers Corporation (SA) Ltd & Another* 1973 (4) SA 145 (W) 151B-D.

⁹ *Gulf Oil Corporation v Rembrandt Fabrikante en Handelaars (Edms) Bpk* 1963 (3) SA 341 (A) 351E-G.

The launch of PARLIAMENT cigarettes

[8] Turning then to the facts, before 2007 BATSA did not use the PARLIAMENT mark on any cigarettes or tobacco related products. In September 2007 it caused one million cigarettes ('sticks' in the parlance of the trade) to be manufactured for the purpose of being sold under the PARLIAMENT mark. In the latter stages of October 2007 a launch was planned of PARLIAMENT cigarettes in the Cape Peninsula to take place in December 2007. It was, however, aborted. According to Ms Heglund, the principal witness for BATSA, this was because the launch of a new product in that area would have interfered with a far more important project, namely a policy of direct selling to stores (the DSS policy), which involved a substantial change to BATSA's method of supplying retail outlets. Previously it had done this through a relatively small group of wholesalers, but the change contemplated BATSA undertaking direct deliveries to retail outlets.

[9] The first launch of cigarettes under the PARLIAMENT mark occurred in Upington from 17 January 2008. The cigarettes were initially placed in twenty retail outlets identified by Mr Nel, a sales representative in Upington, as being shops that predominantly served the low price end of the market. This sales effort in the Upington area did not last long – a few weeks at most. In May 2008 a price card was issued showing the prices at which PARLIAMENT cigarettes could be sold and on 2 June 2008 sales were expanded to retail outlets in the Bloemfontein and Welkom areas. In August 2008, after the expiry of the relevant period, sales of PARLIAMENT cigarettes were also extended to Gauteng. The

mark was used on cigarettes for a few years until 2012¹⁰ and sales extended to some other areas including the Eastern Cape, the whole of Gauteng and the Southern Cape. Overall the brand did not become a particularly successful product. We were furnished with a schedule showing sales of about 1.5 million cigarettes in 2008; slightly less than 10 million in 2009 and nearly 15 million in 2010, which is tiny in relation to a market measured in the billions of cigarettes every year. A production record produced by BATSA suggested that production was anticipated to tail off in 2011 and subsequent years and according to Mr Joubert's evidence sales of PARLIAMENT cigarettes ended in 2012.

BATSA's initial case

[10] BATSA's case underwent a marked transformation in the course of the litigation, precipitated by the discovery of a document in the days immediately preceding the commencement of the trial. I will deal with the change in due course, but at this stage will consider the case as originally advanced by BATSA. The answering affidavit was deposed to by Ms Heglund, who was at the time a marketing manager (Southern African markets) of BATSA with responsibility for its portfolio of cigarette brands in the mid and low price ranges at the relevant times.¹¹ She said that, at the time of her affidavit in 2009, mid-price cigarettes were priced at between R14 and R18 for a pack of 20 cigarettes. The low price range was between R10 and R14 for a similar-sized pack. BATSA faced particular issues in the low price segment of the market because of the presence of counterfeit cigarettes and illicit cigarettes, that is, those

¹⁰ BATSA produced sales data for the period from 2008 to 2010. A Nielsen Brand Analysis shows sales continuing until 2012.

¹¹ BATSA treated the cigarette market as stratified into four segments, namely, premium, popular, mid-price and low price. It had different brands in the first three but historically had no brand that fell in the low price segment. The nearest was PRINCETON but it was priced at a level that meant it could not compete with low price offerings.

that had been introduced into the market unlawfully without the payment of excise duties. BATSA already held the three dominant brands in the mid-price range, in the form of ROYALS, EMBASSY and PRINCETON. But it had no brand in the low price sector of the market, where there were some 20 brands of which, according to her, ASPEN and LD were the leading brands. In fact another brand, VOYAGER, featured prominently in the evidence.

[11] Ms Heglund explained the introduction of the PARLIAMENT brand in the following terms:

‘The PARLIAMENT cigarette brand has been positioned by BATSA as an important new brand in the Low price sector. A key factor in the Value portfolio is pricing. It is imperative to set the pricing strategy correctly to compete properly in the legitimate Mid and Low price sectors. The price must be low enough to be attractive to the consumer while, at the same time, providing a meaningful margin to the retailer. BATSA has a separate Anti Illicit Trade (AIT) operation which deals with the illicit cigarette market. While BATSA is well positioned in the Value portfolio (Mid price products) with its brands ROYALS, EMBASSY, and PRINCETON, it would not be good practice to re-categorise one of the existing brands into the Low sector. Best practice is to introduce a new brand and PARLIAMENT was chosen for this purpose.’

[12] Ms Heglund described the initial launch of PARLIAMENT cigarettes in Upington and said that this was aimed at gaining insights into and enhanced understanding of PARLIAMENT in the low price segment, in order to develop ‘long-term sales and marketing strategy’ for the brand. She explained that, after the initial launch, sales of the brand were extended to the Bloemfontein and Welkom areas and, in August 2008, to Gauteng. After referring to the fact that sales figures nationally were in the region of one million cigarettes, she concluded as follows:

‘Considering that the PARLIAMENT brand was only launched in January 2008, and has since then progressively been introduced to the national market through targeted

low price outlets, the objectives behind the Respondent's launch strategy have been realised. The insights gained from this introductory period have contributed immensely to the Respondent developing a commercially viable long-term strategy for the PARLIAMENT brand.'

[13] A somewhat different picture was painted in a witness statement for the legal counsel to companies in the BATSA group, Mr Joubert. This statement was delivered during preparation for the trial, in terms of an order that witness statements be exchanged between the parties. He explained in some detail that there was a problem in South Africa with counterfeit and illicit cigarettes and that this problem had worsened between 2005 and 2008. According to his statement:

'The exploitation of the PARLIAMENT product was aimed at curbing this trend.'

[14] Philip Morris' response to this was to deliver a witness statement by an employee, Ms Fleming, apparently on the basis that she was an expert in the correct or normal approach to the launch of a new brand of cigarettes in the market. In a detailed analysis of the discovered documents she expressed forthright criticism of Ms Heglund's explanation in her answering affidavit concluding that:

'... this was not a genuine launch to further the legitimate commercial interests of the Respondent and to gain any insight into the low price sector'.

I have my doubts as to the admissibility of much of Ms Fleming's evidence, which appeared in many respects to be an attempt to provide the court in advance with an outline of counsel's argument and to answer the very question that it was for the court to decide, but no point was made of this in argument and ultimately there was virtually no reference to her evidence for the purposes of this appeal.

[15] Much of the cross-examination in the high court, as well as the evidence lead by Philip Morris, was directed at showing that these explanations for the launch of PARLIAMENT cigarettes were spurious and that the true reason was to protect the trade marks and nothing more. Likewise the heads of argument in this court included an extensive analysis of the evidence with a view to demonstrating that these explanations could not be truthful. The conclusion was that:

‘Examination of the actual “test” market for PARLIAMENT cigarettes reveals that the Appellant’s stated objective was a fiction and was in fact not carried out. The Appellant’s very account of the launch is not *bona fide* as demonstrated hereunder.’

A further analysis of the evidence with extracts from documents and oral testimony, attached as a schedule to the heads of argument, pursued the same theme and concluded that:

‘... as is evident from the above summary of the evidence presented in the matter, the only inference that can be drawn is that BATSA’s use of the PARLIAMENT trade mark was solely for the purposes of avoiding the trade mark being cancelled on the basis of non-use.’

[16] Had the case rested on the original explanations by Ms Heglund and Mr Joubert, BATSA may well not have discharged the onus that rested upon it of showing bona fide use of the marks. Those explanations were inconsistent with BATSA’s own documents and the concessions these two witnesses made under cross-examination in regard to them. In the absence of a plausible explanation for the launch of the PARLIAMENT brand BATSA may well have had difficulty in discharging the burden of proving bona fide use of the marks. The suspicion, supported by a number of references in the documents, that the use of the PARLIAMENT mark was directed at the preservation of the marks on the register and nothing else may not have been dispelled.

BATSA's case at trial

[17] But BATSA's case did not rest on the original explanations. When properly analysed it was based on an entirely different explanation of the launch of PARLIAMENT cigarettes. It took that new direction after Ms Heglund, who was no longer an employee of BATSA, fortuitously discovered a document that she had been asking the company to produce. Searches at the company had failed to unearth it, but she found it on a memory stick inside an old handbag of hers, when her child was playing with the handbag. It contained a presentation made by the local BATSA marketing team in relation to concerns they had about the growth of the low price segment of the market. The presentation was made in December 2006 to the Africa Middle East group (the AME group) within BATSA's international operations. The AME group consisted of the regional director responsible for Africa and the Middle East and a team that accompanied him. It met with a local group lead by the head of strategy in South Africa, Ms Steyn.

[18] The presentation addressed the problems being experienced in the cigarette market in South Africa. Studies revealed a trend of reduced sales generally, but increasing sales in the low price market and sales of illicit cigarettes. These trends posed a threat to BATSA's business, as smokers who were experiencing difficult economic times were moving from the popular and mid-price segments of the market towards the low price sector. BATSA had never particularly traded in the low price sector of the cigarette market. Its principal brand, Peter Stuyvesant, was positioned as a popular brand between the mid-price and the premium sectors of the market and represented forty five percent of all cigarettes sold in South Africa. BATSA's fear was that, if it introduced a quality low price cigarette into the market, its effect would primarily be to draw smokers

away from Peter Stuyvesant towards the less profitable low price brand, rather than gaining market share from the plethora of low price brands that had come into the market. An analysis it had done on the likely impact of re-categorising Pall Mall, one of its existing brands, as a low-price brand suggested that whatever competitive advantage it gained as against low-price competitors would be offset by a significant level of cannibalisation of the Peter Stuyvesant brand. These problems were highlighted in the presentation

[19] The final page of this document is headed ‘outcome of the discussion’. Ms Heglund testified that Ms Steyn, who was present and was head of strategy at BATSA, typed it at the end of the meeting. Counsel for Philip Morris accepted that this was so and that the document was genuine and reflected the outcome of the discussions at that meeting. Ms Steyn’s note read as follows:

‘LOW

- Do not enter given profit erosion
- Tactical execution

ILLICIT

- Continue with AIT strategy and government engagement is KEY
- Do not manage through pricing strategies.’

[20] The heading ‘LOW’ related to the low price sector of the market and the heading ‘ILLICIT’ to the counterfeit and duty avoiding sector. The clear statements under the latter head put paid to Mr Joubert’s suggestion that one of the purposes of the launch of the PARLIAMENT brand was to deal with the problem of illicit sales. He accepted this in a supplementary witness statement delivered on the Friday before the commencement of the trial and again in his oral evidence.

[21] The first entry under the heading ‘LOW’ reflected a clear decision not to enter the low-price sector of the market, because of the risk of profit erosion arising from the cannibalisation of the Peter Stuyvesant brand. This was compatible with the outcome of the marketing and strategy team’s analysis of the situation as reflected in the presentation. That left the possibility of ‘tactical execution’. The meaning, purpose and implementation of this decision assumed central importance in the conduct of the trial and the arguments that were addressed to us.

[22] Although, as was repeatedly emphasised in both written and oral argument, the case presented by BATSA at the trial was transformed by the discovery and production of this document, it could not have come as a complete surprise to Philip Morris. Its vastly experienced legal team did not think it necessary to seek an adjournment to reflect on its implications. No doubt that was because the bundle already contained documents, to which I will turn in a moment, which used the expression ‘tactical execution’ or a similar expression. Ms Fleming’s witness statement expressly recognised that there was an intention to use it for that purpose, although she dated it to August 2009 and a re-launch of the PARLIAMENT brand.¹² She also analysed the documents referring to the use of the brand for tactical purposes. But for so long as BATSA continued to run its case in accordance with Ms Heglund’s answering affidavit these documents did no more than rebut that case. It was only once the summary of the decisions at the meeting with the AME group in December 2016 emerged that they assumed far greater significance.

¹² Her statement read: ‘In August 2009, PARLIAMENT was re-launched within the BATSA portfolio as a tactical market brand to be used to disrupt low price competitor brands with its brand strategy based solely on pricing.’

[23] While the discovery and production of this document by Ms Heglund caused her a measure of discomfiture under cross-examination, the fact that she sought it out and produced it, even at a late stage when she must have been preparing to give her evidence, reflected favourably on her honesty and credibility. Had she been dishonest it would have been the simplest thing in the world to suppress it and carry on as before. After all, that was what her erstwhile employer was expecting. Instead she asked for it and, having discovered it by accident, produced it and it was made available to Philip Morris. It occasioned a measure of discomfiture because BATSA's legal team sought to run the case on the basis that the tactical execution referred to in the document and explained by her in evidence was consistent with her original affidavit. This was exploited in cross-examination because the inconsistency was apparent. It may have been preferable for BATSA to accept that what she had said originally was incorrect, and live with the consequences. But that is possibly the wisdom of hindsight emanating from one who no longer has responsibility for the conduct of trials on behalf of clients.

[24] Ms Heglund not only explained what was meant and understood by the strategy and marketing team by 'tactical execution', but testified that this was the nature and purpose of the launch of PARLIAMENT. She said it meant that instead of a national launch of a single product in the low price section of the market they would consider, evaluate and investigate tactical options. No single brand in the low price sector had a very large market share and therefore it was possible to take a brand tactically into areas where there was specific low price activity or 'hot spots' in the market, and attempt to reduce the opposition in those specific areas. The idea was to disrupt 'opposition traction' in the

environment and to distract the consumer by making a further choice available.

Philip Morris' case

[25] Philip Morris' case, as articulated in its heads of argument, was that the only inference that could be drawn from the evidence was that BATSA's use of the PARLIAMENT mark was solely for the purpose of avoiding its removal from the register. In advancing this argument, stress was laid on the fact that Mr Joubert was aware of the risk that the registration of the mark might otherwise be lost, and had suggested using the PARLIAMENT mark. Furthermore, documents discovered by Westminister emphasised the need to launch the product in time to prevent the mark from being deregistered. A launch presentation dated 14 December 2007 said that BATSA needed to demonstrate use of the mark before April 2008. The same presentation recorded that PMI was the international trade mark owner. Protection of the trade mark was manifestly one of the objectives of the launch. Philip Morris argued that BATSA had failed to demonstrate any other legitimate trade objective and, to this end, placed evidence before the High Court to show that the steps taken to place PARLIAMENT cigarettes in the market were not those ordinarily attendant upon the launch of a new cigarette. This evidence was largely uncontested, save in regard to its relevance. Lastly, Philip Morris launched a sustained attack on the credibility of the principal witnesses for BATSA, namely, Mr Joubert and Ms Heglund, and their evidence concerning the purpose of the launch of the PARLIAMENT brand.

[26] Philip Morris attacked Ms Heglund's evidence on the basis that the manner in which the launch was conducted from January to July 2008 and thereafter, would not have served the purposes she outlined. The argument proceeded as follows. The initial launch in Upington, in 20 outlets selected by Mr Nel, was unscientific and an inadequate sample for information purposes. It was not undertaken with any degree of vigour or enthusiasm, nor had it an adequate budget. Moreover, Upington was an isolated place to launch a brand with this tactical purpose. If indeed that were truly the purpose, the launch should have been undertaken in a major urban area, particularly if useful information was to be derived from it. There was no market research of the smoking preferences of the target group and no follow up when reports were received that the target group did not like the taste of PARLIAMENT cigarettes. Once the launch took place there was no proper follow-up with retailers or consumers. The information that was obtained was so limited and superficial in nature that it was effectively valueless. Fairly rapidly the launch fizzled out in that area. The launch was then pursued in the Bloemfontein and Welkom areas, in the same desultory fashion, which suggested a concern to dispose of the initial stock of one million cigarettes before they became stale, rather than a desire to establish the PARLIAMENT brand.

[27] I accept that, in contrast to the introduction of other brands by BATSA, the launch of PARLIAMENT was characterised by hesitation, a lack of planning and follow-up and a failure to follow the usual course for such a launch. But the use of a mark does not cease to be bona fide because it is characterised by inefficiency, incompetence or failure. The only question is whether it was genuinely used for trade mark purposes. If a large and successful commercial organisation, such as BATSA, mishandles a product launch or conducts it in a fashion that to industry

experts seems sloppy, amateurish and unlikely to succeed, that may be an important factor in considering whether it was a bona fide attempt to launch a product using the mark in issue. Such conduct may well aim at disguising an intention to put the mark on a product in the market solely to protect it against a rival and not to trade using that mark. It cannot, however, be decisive where the evidence indicates that there was in fact a genuine intention to launch the product using the mark for commercial purposes. So it becomes necessary to weigh Philip Morris' criticisms against the evidence pointing to a genuine intention to use the PARLIAMENT mark in the manner outlined by Ms Heglund in her evidence.

Credibility

[28] In the High Court Philip Morris submitted that Ms Heglund was an unsatisfactory witness. Louw J did not accept this criticism. He agreed that what was said in her affidavit about a nationwide launch of a new brand in the low price sector of the market was inconsistent with her oral evidence about targeted entry into low price hot spots of limited duration with the object of disrupting the business of legal competitors, while protecting the Peter Stuyvesant brand. But in the very next paragraph of his judgment he went on to say that he accepted her evidence that the latter was indeed the intention of BATSA in launching the PARLIAMENT brand of cigarettes.

[29] Philip Morris accepted that an appeal court does not lightly overturn credibility findings by a trial court, but nonetheless in its heads of argument launched a forthright and direct attack on Ms Heglund's credibility. It said that she was an 'unsatisfactory witness', and that there were various aspects of her evidence 'which are not credible', in

particular where her oral evidence did not coincide with the contents of her affidavit. She was criticised for her failure to make concessions in cross-examination and some of her evidence was described as manifestly false. Her evidence that the initial launch was a test was debunked. In conclusion it was submitted that:

‘Faced with the damaging discovered documents which were clearly at odds with the original answering affidavit of Ms Heglund, the Appellant was forced to “*invent*” a more plausible explanation for the use. But even the version ultimately advanced in oral testimony as to the intent behind those “*test*” launches cannot survive scrutiny, and is false in material respects.’

More forthrightly it was said that ‘the intent to disrupt is fictitious’.

[30] The attack on Ms Heglund’s credibility was couched in terms that could only be understood to suggest that she was a dishonest witness and that her version, of using PARLIAMENT as a brand directed at the low price sector of the market on a tactical basis to disrupt the activities of low price competitors, was untruthful. However, in oral argument, leading counsel for Philip Morris disavowed any attack on Ms Heglund’s honesty. The concession was correctly made, but it made it difficult to maintain the argument that PARLIAMENT was introduced for the sole purpose of protecting the marks. Her evidence during the trial could not be dismissed as an error of recollection or attributed to mistake occasioned by the passage of time. Either the PARLIAMENT brand was launched for the reasons she described, however imperfectly implemented, or those reasons were nothing but a facade to disguise the true purpose, which was protecting the trade marks. If the latter was the case then she, as the person responsible for the launch of the brand and its marketing, must have been a party to the deceit and her evidence was untruthful.

[31] There is no reason to depart from Louw J's acceptance of Ms Heglund's oral evidence concerning the reasons for the launch of the PARLIAMENT brand. In para 23 I drew attention to the fact that the circumstances of the discovery and disclosure of the memory stick and the presentation to the AME group reflected well on her honesty. The legitimate criticisms directed at her evidence arose from the attempt to suggest that her oral evidence was compatible with her answering affidavit. That was an unfortunate, if all too human, approach.

[32] The decisive evidence in support of Ms Heglund's credibility lay in Ms Steyn's summary of the decisions taken at the AME meeting in December 2006 and in the very documents that Ms Fleming analysed and criticised in her witness statement. The summary reflected a decision that the approach to be adopted in the low price segment of the market was not to introduce a brand to compete across the sector in the conventional way, but to engage in 'tactical execution'. The documents show that this decision was not ignored. The production of PARLIAMENT cigarettes commenced from July 2007 with differing product specifications and pack designs for filter and lights being commissioned. In September 2007 the brand was entered with SARS for excise purposes.

[33] The purpose of this was dealt with in a presentation on the launch of PARLIAMENT dated 14 December 2007. It set out three objectives other than the launch itself, namely, to protect the trade mark, to test the commercial viability of a low price offer and finally, to gain insight into the low price segment. Presumably the author of the presentation thought that all three objectives mattered. None was prioritised ahead of the others. There is no suggestion that the latter two were subtly slipped in to

provide plausible protection at a later stage against an application for expungement of the marks. Any such suggestion would have required the collaboration of a number of individuals, both high and low in the hierarchy. It would have required approval to launch a loss-making product for no greater purpose than to stop an attack on two marks that had never been used and that had no brand reputation in South Africa. Mr Joubert legitimately, and with cogent reasons, poured cold water on that idea. There is not the slightest indication in the documents of this being the case.

[34] A further presentation in January 2008, after the launch in Upington, set out as background the two goals of protecting the trade mark and gaining insight into low price segment dynamics. It said that the sales rate in the 20 outlets chosen by Mr Nel was too slow and that there was an opportunity to extend the test market and further illustrate use of the trade mark. This was to be done by a ‘tactical price promotion’, echoing the decision taken at the AME meeting. It identified a tactical price promotion in the Free State at ‘low price hot spots’ supplied from the Bloemfontein distribution centre. One of the goals was to provide a healthy retail margin to ensure retailer buy-in and off-take. It closed with the recommendation for the national deployment of the brand ‘but tactical usage in low hot spots (clear strategic intent)’. The Upington test market was to be closed at the end of July.

[35] On 25 January 2008 at a Sales Operational Planning meeting the PARLIAMENT brand was discussed. Its launch was said to have been successful, which accorded with the reports received by Mr Nel, and the decision taken at the meeting was that:

‘Viability of increasing the brand’s distribution to be evaluated and a decision to be taken based on findings.’

A further report on the progress with the PARLIAMENT brand is dated 8 February 2008. The roll-out of PARLIAMENT was described as being ‘critically behind schedule’. It was said to be twenty-three weeks past the planned project end date and only at Stage 5 released. The aim, according to the report was that there should be growth. If that was not the real intention the entire discussion at this meeting was a farce.

[36] At a demand review meeting on 30 May 2008 there was a discussion concerning the Voyager brand. The minutes reflects that the: ‘Decision has been taken to tactically place Parliament in stores to compete directly with Voyager brand.’

Ms Heglund was present at that meeting. A presentation in June 2008 was in similar terms. The last document before the cut-off date is an email that Ms Heglund sent to various people on 2 June 2008. In it she described this as having been a ‘Tactical Pricing Initiative for Parliament’. Why would she use that expression if that were not in fact the case? And, if it was a tactical pricing initiative, it could only have been in relation to the low price area of the market. Once again reference was made to extending the test market.

[37] If this was all an elaborate charade to disguise the fact that the sole purpose of launching PARLIAMENT cigarettes was to protect the trade marks, it must be asked who was orchestrating the charade. It is impossible to see how this could have been done without Ms Heglund’s knowledge and participation. A charade would have been a particularly subtle one – a cunning plan, involving an outward openness in the frank acknowledgement of the need to protect the trade marks, while presenting

a plausible scenario in which these could be used in the ordinary way to identify a brand that BATSA was inserting into the market. If it were a charade one would have expected that there would be no mention of the need to protect the trade marks. Why mention something that could be held against BATSA? There was no attack on the authenticity of these documents and no suggestion that they did not accurately represent the views of those responsible for their preparation and presentation or who were at the relevant meetings. Yet the truth, if this was indeed a charade, had to be that there was no real intention to launch a PARLIAMENT brand, or to market it, and no intention to use it to address the problems BATSA perceived in the low-price sector of the market.

[38] Central to all of this would have been Ms Heglund. She would have had to have known what should be included in presentations and what excluded. She would have had to make reports, ostensibly genuine, about the launch and progress of the product, whilst being aware that a successful launch was the last thing that was wanted. Even more to the point, she would have had to be willing to give untruthful evidence and defend the reality of what she knew to be a charade if an application for expungement was made. It is hardly surprising that Philip Morris made no endeavour to delineate such an actual charade or to indicate how it could have been pursued and maintained over the five years that the brand was on sale.

[39] Once it was accepted, as Louw J did, that Ms Heglund's evidence at the trial accurately reflected the motivation for launching the PARLIAMENT brand, the fact that there was a conscious desire to protect the marks throughout cannot detract from the fact that they were being used on a product that was to be placed in the market for a very

specific purpose, targeted at a very specific sector of the market and in a way that would not be detrimental to their existing brands, especially Peter Stuyvesant.

Was this use as a trade mark?

[40] The case was fought out between the parties on the basis that BATSA's real intention in launching the PARLIAMENT brand was to protect the marks and that there was no genuine commercial purpose in doing so. No doubt that was to avoid the principle enunciated in *Electrolux*¹³ and accepted in several decisions of our courts, that bona fide use of a trade mark does not cease to be such because the user has an additional motive of protecting the mark or protecting its other business. The attempt to obtain expungement on this basis was doomed to fail in the light of the high court's acceptance of the evidence of Ms Heglund as to the commercial purpose of the launch of PARLIAMENT. After that it is not clear what room remained for a finding that this use did not constitute bona fide use of the marks. There had been no attack directed at the proposition that strategic use on the basis of her evidence would not qualify as bona fide use. Mr Joubert was cross-examined on legal issues around the preservation of the marks, but it was not suggested to him that this kind of use would not qualify as bona fide use. There was no indication in the record of this line of attack.

[41] The expungement action was not fought on the basis of pleadings. The exchange of witness statements did not identify as an issue what became the major focus of the argument on appeal, namely, that use of the nature to which Ms Heglund testified would not constitute use as a

¹³ Footnote 8 above.

trade mark for the purposes for which trade marks are afforded statutory protection. Even the heads of argument only mentioned this in a somewhat throwaway fashion in the penultimate paragraph. The submission was that

‘[E]ven if the Appellant’s evidence is to be accepted insofar as a disruptive strike to interfere with the legitimate business of its competitors is concerned, such disruptive strikes cannot be described as being “*statutorily authentic*” even if it is accepted these were aimed at protecting the PETER STUYVESANT business. There was no desire or objective to build up any commercial long term sales strategy in PARLIAMENT cigarettes and the objectives were anathema to the functions of a trade mark as defined in the Act.’¹⁴

[42] It came as something of a surprise therefore that, in developing his argument in this court, Philip Morris’ main line of approach was to urge upon us that the use of the PARLIAMENT mark by BATSA, in the manner described by Ms Heglund, was not trade mark usage. The concern in this regard is that, while the onus rested on BATSA to prove that its use of the mark was bona fide use, as that expression is to be understood in trade mark law, that does not mean that such proceedings do not have to be conducted in a fair way so that neither party is surprised by the stance of the other.¹⁵ However, as I conclude that the point is without merit, it is unnecessary to decide whether it was open to Philip Morris to advance it.

[43] The starting point is that the mark PARLIAMENT was affixed to the cigarettes for a purpose. This was not a ‘no name’ brand of cigarettes,

¹⁴ The same submission was made in heads in the high court.

¹⁵ Even in a court of equitable jurisdiction the disputants must (metaphorically) observe the Marquess of Queensbury’s rules. *Buthlezi & Others v Eclipse Foundries (Pty) Ltd* (1997) 18 ILJ 633 (A) at 642H.

but one marketed to retailers and thence to consumers under that particular name. Outlets that made repeat orders in the five years that it was on the market would have asked for it by name. So would smokers who bought it. There must have been a reasonable number of these as over 20 million cigarettes were sold. The mark satisfied the most fundamental requirement of a trade mark, namely, that of identifying the source from which the goods were derived and distinguishing it from its competitors. Had a person asking for Voyager been given PARLIAMENT, or vice versa, they would have objected that they had been given the wrong cigarettes.

[44] The next point is that the use was in the very market for which the registration existed, namely, cigarettes. It was directed at a very specific segment of that market, namely, the low price sector. The intention was not to build a massive new brand that might compete with BATSA's other brands, especially those in the mid price or popular price range. As Ms Heglund expressed it they would not want 'to drive [a] huge amount of equity on brand in that segment'. Most particularly, it was not to be built up to a position where it might draw custom away from the jewel in the crown that was Peter Stuyvesant. Its primary use would be strategically in low price hot spots where there were signs of competitors building a sufficient presence to start eroding BATSA's overall position. But it would be necessary to 'keep the brand ticking over' so as to maintain a degree of market recognition and not to treat every hot spot as if it were a launch from scratch. That is reflected in the level of sales over the five years that it was on the market.

[45] In a market such as that for cigarettes, as with other similar markets, there is a commercial purpose in the manufacturer providing

different offerings aimed at different sectors of the market and pricing them differently. For example, if one has the leading brand in the premium sector it gives a measure of control over price in all sectors. A diversified range of products can be targeted at different sectors, thereby enhancing sales and profits. On the other hand there are potential pitfalls. If a leading position is built up in one sector, one does not wish to imperil the profitability of that sector by providing a lower priced competitor. The sensitivity of BATSA to the standing of Peter Stuyvesant is understandable. But the fact that this precluded a full-blooded launch of a competing product in the low price segment does not mean that the launch that did occur was not genuine, albeit for a limited purpose. That launch had to take place with a product under a specific mark and PARLIAMENT was chosen for that purpose.

[46] No questions were put to either Ms Heglund or Mr Joubert as to the reasons why the PARLIAMENT brand was withdrawn. Had such questions been put, we would have known whether it was decided that the strategy of attacking hot spots and trying to disrupt the market for competitors was not working. The entire exercise was a novel one in which the conventional playbook for the launch of a brand could not be applied. Whether it was even feasible to develop a brand, to play the envisaged role, was unknown. However, BATSA thought it necessary to make the attempt and they used PARLIAMENT to do so. Assuming it was a failure that cannot detract from the genuineness of the attempt.

[47] Louw J reached a different conclusion. He said:

‘The basis of the decision in *Rembrandt* was that to constitute bona fide use, the proprietor of the mark had to use the mark upon goods with the object or intention of protecting, facilitating or furthering trade in those goods. That was not the

respondent's object or intention. If a mark is used on goods not with the object of promoting trade in those goods as an end in itself, but with an ulterior purpose such as disrupting the business of a competitor, or protecting its trade in other goods, such use does not, in my view, constitute *bona fide* use of the trade mark and can therefore not be said to be statutorily authentic."

[48] I am respectfully unable to agree. This overlooks the point that all the legitimate commercial purposes referred to by the judge would have underpinned a decision to launch a competing product in the low price sector in the fashion Ms Fleming regarded as normal. The use of a mark on such a product would undoubtedly have been *bona fide* use. The fact that, for sound commercial reasons, the product was launched on a more circumspect basis with less ambitious goals cannot mean that the use of a mark on it was not *bona fide*. That is to introduce a quantitative and qualitative element to the enquiry into *bona fide* use of a mark and that would be inconsistent with the cases cited in paras 5 to 7 above.

Conclusion

[49] In my view therefore the use BATSA made of the PARLIAMENT marks was *bona fide* use in terms of the Act. In the result the appeal must succeed. In regard to costs we were asked to make the intervening party liable jointly and severally with Philip Morris for the costs, but I do not think that justified. Its intervention was purely to protect its position in regard to its attempt to register the PARLIAMENT mark and added nothing to the costs.

[50] Accordingly it is ordered that:

- 1 The appeal is upheld with costs, such costs to be paid by the first respondent and to include those consequent upon the employment of two counsel.
- 2 The order of the High Court is set aside and replaced by the following:
‘The application is dismissed with costs, such costs to be paid by the first respondent and to include those consequent upon the employment of two counsel.’

M J D WALLIS
JUSTICE OF APPEAL

Appearances

Appellant: L Bowman SC (with him I Joubert)

Instructed by: Spoor and Fisher Attorneys, Pretoria; and
Phatshoane Henney Attorneys, Bloemfontein.

First and Third Respondents: C E Puckrin SC (with him R Michau SC
and L Kilmartin)

Instructed by: Kisch IP, Pretoria and Webbers, Bloemfontein.