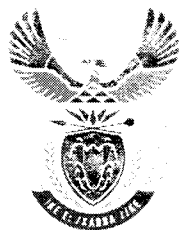


REPUBLIC OF SOUTH AFRICA



IN THE GAUTENG DIVISION OF THE HIGH COURT, PRETORIA

DELETE WHICH IS NOT APPLICABLE	
[1] REPORTABLE: YES / NO	
[2] OF INTEREST TO OTHER JUDGES:	
YES / NO	
[3] REVISED	
DATE 5/8/15	SIGNATURE <i>Gra...</i>

6/8/2015

CASE NO: 2644/2014

DATES HEARD: 11 – 21/05/2015
& 27/05/2015

In the matter between:

PHILIP MORRIS PRODUCTS S.A.

Applicant

and

**WESTMINSTER TOBACCO CO.
(CAPE TOWN AND LONDON) (PTY) LTD**

First Respondent

REGISTRAR OF TRADE MARKS

Second Respondent

JUDGMENT

J W LOUW, J

[1] The first respondent is the registered proprietor of trade mark registration no. 1952/00688 PARLIAMENT and of trade mark registration no. 1997/17613 PARLIAMENT (label). Both registrations are in class 34 and are in respect of cigarettes and other tobacco related goods.

[2] On 22 October 2008, the applicant launched an application before the Registrar of Trade Marks for the expungement of the first respondent's marks from the register in terms of s 27(1)(b) of the Trade Marks Act, 1994 of 1993 (the Act). The applicant alleged that the marks were liable to be removed from the register because the first respondent had not made *bona fide* use of the marks in relation to the goods for which they are registered for a continuous period of five years or longer, up to a date three months before the institution of the expungement application. Section 27(1)(b) provides the following:

"Subject to the provisions of section 70(2), a registered trade mark may, on application to the court, or, at the option of the applicant and subject to the provisions of section 59 and in the prescribed manner, to the registrar 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.”

[3] When the expungement application came before the registrar, the applicant applied that it be referred to oral evidence or trial in order to allow for cross-examination of the first respondent's witnesses. The respondent opposed the application but the registrar decided to refer the application to the High Court in terms of s 59(2) of the Act. The parties then agreed on the form of the order to be made. In terms of the order, oral evidence was to be heard on the issue whether the first respondent made use of the registered marks during the relevant period of 22 July 2003 to 22 July 2008 and whether any such use was *bona fide* within the meaning of s 27(1)(b) of the Act. The registrar has indicated that she abides the decision of the court. The costs of the application for expungement and the application for referral to the High Court for oral evidence were reserved for determination by the court, save in respect of those orders in relation to costs which had already been made by the registrar.

[4] The first respondent, to whom I shall refer as the respondent, does not dispute that the applicant is an interested person, and that it therefore has *locus standi* to bring the application. The applicant is an international tobacco company and has applied for registration of the mark PARLIAMENT in South Africa under trade mark application no.

2006/02685. The application is pending. It is also common cause that, in terms of s 27(3) of the Act, the respondent bears the onus of proving *bona fide* use of its registered marks during the relevant period.

[5] The respondent is a wholly-owned subsidiary of British American Tobacco Services (Pty) Ltd which, in turn, is a wholly owned subsidiary of British American Tobacco South Africa (Pty) Ltd (BATSA). BATSA is a wholly-owned subsidiary of British American Tobacco Holdings South Africa (Pty) Ltd. The use on which the respondent relies, is permitted use of the registered marks by BATSA. The applicant has admitted that BATSA manufactured and offered for sale cigarettes bearing the trade mark PARLIAMENT in South Africa from January to July 2008 and that it used promotional point of sale material bearing the trade mark, but denies that such use was *bona fide* and further denies that BATSA is a permitted user of the PARLIAMENT trade mark.

Permitted use of the marks

[6] Sections 38(1) and (2) of the Act provide the following:

- (1) *Where a registered trade mark is used by a person other than the proprietor thereof with the licence of the proprietor, such use shall be deemed to be permitted use for the purpose of subsection (2).*

- (2) *The permitted use of a trade mark referred to in subsection (1) shall be deemed to be use by the proprietor and shall not be deemed to be use by a person other than the proprietor for the purposes of section 27 or for any other purpose for which such use is material under this Act or at common law."*

[7] The respondent's main answering affidavit to the expungement application was deposed to by Ms. Liesl Hegland who was, at the time when the affidavit was deposed to, BATSA's marketing manager (Southern African markets) and had been employed by BATSA in various marketing positions for eleven years. She states in paragraph 1.3 of her answering affidavit that the facts to which she deposes in the affidavit are, unless otherwise indicated, either within her personal knowledge or extracted from the records of the respondent or BATSA, to which she has and can obtain direct and unrestricted access by virtue of her position. In paragraph 1.4 of her affidavit she states that she is well acquainted with the respondent's trade mark portfolio. In paragraphs 3.2 and 16.2 of her affidavit she states that BATSA is the operating company within the British American Tobacco group of companies, that it is licensed by the respondent to use the PARLIAMENT trade marks and that it is the permitted user of the PARLIAMENT trade marks. Mr. Ulreich Peter-John Tromp, who deposed to the applicant's replying affidavit, states in respect of all these allegations that he has no knowledge thereof and cannot admit or deny same.

[8] The applicant was asked by the respondent in a list of pre-trial questions whether the applicant would admit that BATSA was the permitted user of the registered marks and was licensed by the respondent to use the marks. The answer was no. The submission in this regard by Adv. Puckrin SC, who appeared with Adv. Michau and Adv. Kilmartin on behalf of the applicant, was firstly that neither Ms. Hegland nor Mr. Luche Jacques Joubert, who both testified on behalf of the respondent, had any personal knowledge of the conclusion of an oral licence agreement between the respondent and BATSA.

[9] Ms. Hegland did not, when giving oral evidence, testify about a licence agreement between the respondent and BATSA, neither was she cross-examined about it. Her evidence in her answering affidavit therefore stands uncontested.

[10] Mr. Joubert is the in-house legal counsel of the British American Tobacco group of companies in South Africa and his responsibilities include that of company secretary for the various companies in the group. He testified that BATSA is the main operating company in the group through which the manufacture, marketing and distribution of cigarette products are done. British American Tobacco Services (Pty) Ltd (Services) is a wholly-owned subsidiary of BATSA and it in turn wholly owns a number of subsidiary companies, one of which is the respondent. The sole purpose of these subsidiaries is to hold trade marks for

exploitation by BATSA. The directors of Services and of the subsidiaries are all directors of BATSA. Mr. Joubert testified that BATSA uses and exploits the trade marks under licence from the various subsidiaries for the benefit of the whole group of companies. No formal written licence agreements exist where no third parties are involved, and there are no financial terms to the licence agreements. Because the respondent is a wholly-owned subsidiary of BATSA, it could not withhold its permission for BATSA to use its registered marks.

[11] Mr. Joubert was asked in cross-examination who applied his or her mind to conclude the licence agreement with BATSA in respect of the use of the trade mark Parliament. He said that it would be the board of directors of the respondent which would have overlapped with that of BATSA and that the decision to licence would have been taken simultaneously with the decision to exploit the mark. The directors of the respondent, who were also directors of BATSA, would have been intimately aware of and involved in the strategy of BATSA to exploit the Parliament trade mark.

[12] It is clear from Mr. Joubert's evidence about the manner in which the group of companies functioned, with BATSA being the operating company and the subsidiaries being wholly-owned by BATSA and simply being the registered owners of the various trade marks which could and would be exploited by BATSA, that there would not have been any express licence

agreement, whether oral or in writing, when a decision was taken to exploit a particular mark owned by any of the subsidiaries. The licence agreement would have been tacitly concluded as a necessary corollary of the decision to exploit the mark in question, in this case PARLIAMENT. It is not required, and it was not so contended by the applicant, that a licence agreement has to be in writing.¹

[13] It was put to Mr. Joubert that it was clear from the BAT Group delegation document, more specifically from paragraph 7.7(b) on p. 387J of Bundle B, that entry into any intra-group agreement involving the sub-licence of trade marks between two or more group companies requires the support from Central Finance, Group Tax and BatMark (the trade mark management division in the UK which manages trade marks), and that "*sub-licence*" must mean licence. Mr. Joubert agreed that no approval was obtained from BATMark, but said the licensing of trade marks was not governed by this document and that no approval was required from BATMark.

[14] It was submitted by Mr. Puckrin during argument that the reference to "sub-licence" in paragraph 7.7(b) must include licence as it was inconceivable that no delegation was catered for to conclude a licence. Whether the word "*sub-licence*" in paragraph 7.7(b) of the document must be read to mean or include "*licence*" is, of course, a matter of

¹ See Cadbury (Pty) Ltd v Beacon Sweets & Chocolates (Pty) Ltd 1998 (1) SA 59 (T) 76 H/I - J

interpretation. The heading of paragraph 7 is "*Brand, product innovation & trade marks*". Paragraph 7.7(b) reads as follows:

"Entry into any intra-Group agreement involving:

a)

b) The sale, transfer, assignment, sub-licence or termination of any trade mark licence between two or more Group companies."

There is then a note on the right hand side of the page opposite the whole of paragraph 7.7 which reads:

"requires support from Central Finance, Group Tax and BATMark."

[15] In my view, the word "*sub-licence*" in paragraph 7.7(b) cannot be read to mean or include "*licence*". The approval of BATMark is required for the "*sub-licence of any trade mark licence.*" The respondent does not hold a licence in respect of the PARLIAMENT trade marks. It is the proprietor of the marks. It also did not purport to grant any sub-licence to BATSA. The approval of BATMark for the granting of a licence by the respondent to BATSA to use the PARLIAMENT trade marks was therefore not required.

[16] I accordingly find that the respondent has proved that it granted a licence to BATSA to use the PARLIAMENT trade marks and that any *bona*

fide use of the marks by BATSA would have inured to the benefit of the respondent.

Bona fide use of the marks

[17] The meaning of the term "*bona fide user*" in s 136 of the 1916 Trade Marks Act was considered in *Gulf Oil Corporation v Rembrandt Fabrikante en Handelaars (Edms) Bpk.*² Trolip J said the following:³

"The ground in sec. 136 on which the application is based is

'that there has been no bona fide user of such trade mark in connection with such goods during the five years immediately preceding the application'.

..... *It is necessary to consider some aspects of the meaning of 'user' and 'bona fide' in the context of sec. 136.*

I think, firstly, that 'user' must mean the use of the trade mark that is contemplated in the definition of 'trade mark' in sec. 96 of the Act, that is, use in connection with the goods

'for the purpose of indicating that they are the goods of the proprietor . . . by virtue of manufacture, selection, certification, dealing with or offering for sale'.

(See Electrolux Ltd v Electrix Ltd., 71 R.P.C. 23 at p. 35 line 44). Secondly, such user may take place at any time during the five-year period and need not be continuous within or co-extensive with that period. Mr. van der Spuy contended, relying upon the Nodoz case, 1962 R.P.C. 1, that a single act of user during that period was sufficient. In that case it is true that the Assistant Comptroller held that a single sale of goods under the trade mark in question was a sufficient bona fide use to defeat the application for rectification; but that was because there was evidence before him that the sale was 'in the course of trade' and

² 1963 (2) SA 10 (T).

³ At 23A – 24E

there was no evidence that it was not bona fide (p. 4 lines 6/7). On appeal the Court merely assumed that a single act of user would be sufficient but held that it had not been proved. That case does not, therefore, assist Mr. van der Spuy's contention. It seems hard to believe that it could have been intended that a single, isolated act of user would be sufficient to defeat an application for expungement and to confer immunity therefrom for a further five years. In this regard it is not without significance that in our sec. 136 the term 'user' is employed in contrast with the corresponding section of the U.K. Act in which 'use' appears. According to the Oxford English Dictionary 'user' is a term of law that means continued use, exercise or enjoyment of a right. It may therefore be that our section requires some degree of continuity (actual or prospective) of the use of the trade mark by the proprietor. However, it is not necessary for me to express a firm and final view on that aspect because it is obvious that the time, extent and continuity of use are all factors that are relevant to the determination of the proprietor's bona fides, and, as will appear presently, it is on that element that I think the present case turns. Thirdly, 'bona fide' must be given some effective meaning. In my view it cannot be confined to meaning merely real or genuine as opposed to fictitious or simulated, or honest as contrasted with dishonest, because it is difficult to conceive how a user, in the sense of the exercise of a right, can be said to be fictitious, simulated or dishonest, and in any event, a fictitious, simulated or dishonest user would not in law be a user at all, and the addition of the qualification 'bona fide' would therefore have been totally unnecessary. The words were obviously inserted to give a particular quality to the user which it was intended should defeat an aggrieved person's application. (See the judgment of the T.P.D. in *Mahomed & Son Ltd v Estate Horvitch*, 1928 AD 1 at pp. 2 - 9, and the authorities referred to therein). The expression obviously relates to the proprietor's state of mind in using his trade mark and therefore his object or intention in using it.⁴ Kerly on Trade Marks, 8th ed. at p. 218, says that in the corresponding section in the U.K. Act

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

⁴ Emphasis added.

.....

Now the system of registering trade marks is designed to protect, facilitate and further the trading in the particular goods in respect of which the trade mark is registered. The very name, 'trade mark', connotes that, and the definition thereof in sec. 96 of the Act confirms it. I would therefore say that 'bona fide user' in sec. 136 means a user by the proprietor of his registered trade mark in connection with the particular goods in respect of which it is registered with the object or intention primarily of protecting, facilitating, and furthering his trading in such goods, and not for some other, ulterior object.⁵

[18] In *Arjo Wiggins Ltd v Idem (Pty) Ltd and Another*⁶, Cameron JA said the following:⁷

"[8] The present matter differs from Rembrandt in several respects."⁸

[9] Despite these differences, both the rationale of Rembrandt and its outcome seem to me to indicate that the use of the trade mark on the promotional products did not constitute bona fide use as contemplated by the statute. The basis of the decision in Rembrandt was that to constitute bona fide use the proprietor had to use the trade mark upon goods with the object or intention of protecting, facilitating or furthering trade in those goods. It is true that there the inquiry into bona fides concerned the proprietor's authenticity of purpose in orchestrating a tiny handful of sales with the objective of protecting its mark from expungement on the ground of non-use. Here the proprietor had no such objective, but only the commercially authentic aim of promoting sales of its traded goods. But the core of Trollip J's reasoning, as approved by this Court, was not that bona fide use is negated by the ulterior purpose of thwarting a competitor's registration (a conclusion incompatible with Electrolux Ltd v Electrix Ltd and Another,⁹ upon which both Trollip J and Steyn CJ relied), but that,

⁵ Emphasis added.

⁶ 2002 (1) SA 591 (SCA)

⁷ At paras. [9] – [11]

⁸ The differences were in the facts of the two cases.

⁹ 71 RPC 23

whatever the proprietor's actual motive, inauthenticity of statutory purpose is established by absence of commercial trade in the article on which the mark is used.¹⁰

[10] It is in this context that Trollip J's formulation of the general purpose of the statutory system of trade mark protection, expressly adopted in McDonald's,¹¹ must be understood

[11] Though Trollip J attached some significance to the word 'user' in contrast to 'use' in the 1916 Act, both the Trade Marks Act 62 of 1963 (the 1963 Act) and the present Act refer simply to 'bona fide use', and I conclude, as in the McDonald's case, that the reasoning of Trollip J is entirely applicable. Since absence of intention to trade commercially in the particular goods in respect of which the trade mark is registered renders use of the mark statutorily inauthentic, it must follow that use of a trade mark on goods other than with the object of promoting trade in those goods cannot constitute bona fide use for statutory purposes, even if that use promotes trade in other goods.¹² Although Arjo's use of the trade mark on the promotional goods was 'commercial' in that it promoted goods in which it did trade, it was not commercial use in relation to the goods on which it was displayed since those goods were not being traded. And while the use of the trade mark on those goods was use in order to distinguish them from others' similar goods, that use was not for the purpose of trading in those goods, but in other goods within the specification. As it has been expressed elsewhere, regarding all items within the specification other than carbonless copying paper, Arjo proved no 'course of trading embarked on as an end in itself'."

[19] The case presented by BATSA was that it was, at the time, faced with increased sales by competitors in the low-price segment of the cigarette market, and that it set about devising a strategy to deal with the

¹⁰ Emphasis added.

¹¹ 1997 (1) SA 1 (A)

¹² Emphasis added.

onslaught on BATSA's market share. Its main brand of cigarettes was Peter Stuyvesant, which accounted for about 45% of the entire cigarette market in South Africa and which was selling at R16,30 per packet of 20 cigarettes. BATSA's own lowest price offering was Princeton, which was selling at R12,40. Cigarettes in the low price segment were, however, selling at prices between R9,50 and R10,00 per packet. There was, therefore, a significant gap between the price of Princeton and the price at which cigarettes in the low price segment were selling.

[20] In 2006, BATSA conducted what was called a simulated test market (STM) for the brand Pall Mall. The aim was to understand the potential of Pall Mall at various price points within the low price segment and its potential to draw consumers from opposition legal low price brands as well as to up-trade consumers from illicit cigarettes in the market. The STM simulated a national launch of Pall Mall. The results of the STM indicated that Pall Mall had limited potential to draw consumers from legal low priced brands and that it, in fact, mainly drew consumers from the Peter Stuyvesant brand. If launched nationally, it would result in the cannibalisation of Peter Stuyvesant.

[21] Following the STM, a meeting was held in June 2006 which was attended by a visiting contingent of the AME (African Middle East) Regional Management of British American Tobacco's international operation. South Africa falls within the AME region. The AME contingent

included the regional director, the regional financial controller and the regional marketing director. The meeting was attended by the local executive committee of BATSA, which included, amongst others, the managing director, the head of marketing and the head of legal (Mr. Joubert). During the meeting, the growth of the illicit trade and the growth of the low price segment and how to respond thereto were discussed. Ms. Yvette Steyn, BATSA's head of marketing, gave a presentation which had been prepared by her and other marketing colleagues, including Ms. Hegland, which dealt with a number of options on how to deal with these issues, which included a national launch of a brand at a low price but which was contra-indicated as a result of the Pall Mall STM. The visiting contingent proposed that BATSA investigate the launch of a brand on a tactical basis, which meant that instead of launching a brand nationally, BATSA had to identify specific areas where the growth of the legal low segment was prevalent and then introduce an available brand in specific outlets in that pocket of the market at a price which could compete and only for a duration which would enable BATSA to address the problem. This was referred to as a controlled launch through which the risk of taking consumers away from BATSA's own brands rather than from competitor brands would be mitigated. It was something which BATSA had not done before. With regard to illicit cigarettes in the low segment, a directive was issued by the visiting contingent that BATSA should not try to compete with them on price, but

engage the relevant enforcement agencies to create awareness for the size of the problem and the risk posed to the fiscus.

[22] The specific brand to be used for purposes of the tactical launch in the low price segment which was decided upon at the AME meeting was not discussed at the meeting. Towards the end of 2006 or the beginning of 2007, Mr. Joubert proposed to BATSA's marketing management team that PARLIAMENT be considered as a brand to be used for the purpose. He was aware that the brand had become vulnerable because of non-use. The applicant was a relatively new entrant in the South African market and he wanted to protect the brand. He was aware that the applicant was the proprietor of the PARLIAMENT trade mark in other jurisdictions.

[23] Ms. Hegland, who at the time was BATSA's marketing manager responsible for its value portfolio (mid and low priced products) was part of the team which compiled the presentation for the AME meeting. She did not attend the meeting but was aware of its outcome. She went on maternity leave in March 2007. On her return at the end of October 2007, she was informed that there was a plan to do a test launch with Parliament in the Cape Peninsula in approximately 102 outlets around 14 December 2007. By virtue of her responsibilities for the value segment, she took responsibility for the planned activity. The product specifications for Parliament filter and light cigarettes had by that time been finalised as well as the packaging bearing the PARLIAMENT trade mark and the

tobacco blend, and one million sticks, i.e. single cigarettes, had been manufactured. All the specifications had been prepared by a product development team. An advertisement poster for use at point of sale had also been developed.

[24] The launch of Parliament cigarettes in the Peninsula did not happen as planned. The reason was that towards the end of 2007, BATSA planned a phased roll-out of a new distribution approach, moving from a predominantly wholesale distribution system to what was referred to as DSS (Direct Store Sales). DSS was deemed to be a high risk project and BATSA's executive decided that no additional brand activity should coincide with the DSS roll-out. The Peninsula was a region that was going to move to DSS and it was therefore decided not to proceed with the launch of Parliament in the Peninsula.

[25] Ms. Hegland's evidence was that she was part of the discussions which led to the decision not to overlay brand activity where DSS was going to be rolled out and said that an alternative therefore had to be evaluated. A region was identified that was not affected at the time by the DSS roll-out, which was the Northern Cape, and thereafter a specific area was identified where BATSA had seen low price opposition activity spikes. The area identified was Upington, where the feedback received indicated that there were sales increases in low price products. One of BATSA's sales representative in the Upington area, Mr. J. A. Nel, was

instructed by BATSA's area manager in Upington, Mr. Mario Erasmus, to identify twenty independent convenience stores ("kleinhandelaars") which were considered to be low-price hotspots and then to introduce Parliament to them. Mr. Nel testified that he was informed that it was a test market and that the product was to be distributed from their regional office (from so-called boot stock, i.e. stock with which he was issued and which was loaded into his car) as it would not be available from the wholesalers. The reason was to retain control over the trade mark.

[26] Mr. Nel further testified that he went to the convenience stores and inquired from the owner about sales of opposition low price brands such as Voyager and Sehawi. If the sales were, in his opinion, high, he put the name of the store on the list of 20. The price of Parliament was between R10 and R11 per packet, which was competitive with the price of Voyager and Sehawi. He started selling Parliament to some of the stores on 17 January 2008 and recorded the sales in a cash book which was handed in as Exhibit "A". The last seven invoices show sales to seven different stores. His subsequent cash books which recorded sales on subsequent dates were no longer available, but copies of ten further invoices reflecting sales of Parliament are annexed to Ms. Hegland's answering affidavit and those sales are admitted by the applicant. Another representative, Mr. Martin Steyn, later helped him with the sales. Mr. Nel also placed promotional material bearing the Parliament trade mark in the various stores.

[27] Mr. Nel reported to his area manager on a weekly basis at BATSA's satellite office in Upington. Together they prepared a weekly report which was sent by e-mail to the head office. Mr. Steyn later took part in this reporting process. The weekly reports contained the sales figures for the week and feedback from the retailers under the heading "*Retailers (Acceptance levels, off take, POP items and comments*". The first report *inter alia* stated "*Parliament Filter and Lights were received in Upington on Thursday 17-01-2008, and successfully launched at all targeted 20 outlets during Thursday and Friday 19-01-2008. Retailers accepted the brand very well, even Village Shop, a pro opposition retailer, made it the same price (R11.00 p.p) as Sehawi, Mega, Voyager and Sharp and even put it face-on next to the opposition cheapies.....*". Later reports were less optimistic and sales progressively declined. Ms. Hegland received the weekly reports and in turn reported to her superiors. She testified that the test launch in Upington did not achieve its purpose in terms of significant sales or a significant reduction in opposition sales of legal low priced products.

[28] A "*Demand Review Meeting*" was held on 30 May 2008 which was attended by Ms. Hegland and at which the following was minuted:

"Voyager brand is currently experiencing significant SOM¹³ growth due to its retail pricing strategy (retailers are achieving significant profit margins on the brand and are therefore driving the growth of Voyager).

- *LH (Ms. Hegland) has met with AIT¹⁴ team to investigate possible strategies to minimise the impact of illicit Voyager on the market and to ensure legitimate product is sold at an appropriate price. Decision has been taken to tactically place Parliament in stores to compete directly with Voyager.*
- *....."*

[29] On 2 June 2008, Ms. Hegland wrote an e-mail to BATSA's regional manager of the Free State area which stated that the shelf life of the remaining stock of 900 000 sticks would expire in July 2008 and advised that the recommendation was to sell the stock, which was at the respondent's Bloemfontein distribution centre, in prominent low price areas in the Free State. A price card was attached to the e-mail.

[30] The price card attached to the e-mail indicated the recommended retail price as R10.00 per pack of 20's. Ms. Hegland had, prior to sending the e-mail, made a presentation to BATSA's pricing committee in which she recommended that the price be reduced to R10.00 per packet. The recommendation was accepted. In a subsequent e-mail, sent by Ms. Hegland on 29 July 2008, she indicated that the stock would only exceed shelf life by the end of August and not July as previously advised.

¹³ Share of Market

¹⁴ Anti Illicit Trade

[31] Towards the end of June or the beginning of July 2008, Ms. Hegland gave a presentation to the respondent's marketing leadership team in which she indicated that Parliament was struggling to compete with Voyager on price, that the sales rate in the 20 outlets in Upington was too slow and that the product was to exceed its shelf life in August 2008. She recommended that the Upington test market be closed at the end of July and that Parliament be deployed nationally, but tactically in low price hotspots. She referred to the tactical price promotion in the Free State where the recommended retail price per packet had been reduced from R11.80 to R10.00 in outlets in low price hotspots which were supplied from the Bloemfontein distribution centre. By that time the stock on hand had, as a result of sales in the Free State, been reduced from 950 000 sticks to 641 000.

[31] Two Free State retailers, Mr. Van der Walt and Mr. Tickley, deposed to affidavits and testified about the sale of Parliament through their outlets. Mr. Van der Walt's evidence was that he was the owner of an Engen store in Welkom and that he first stocked Parliament cigarettes in June 2008 after ordering the stock from a BATSA representative. Point of sale material was supplied. He identified a number of invoices for such stock and said that Parliament did not sell well initially but that sales increased as customers came to know the brand. Mr. Tickley's evidence was that he was the proprietor of the Taxi Cash & Carry store in Parys and that he stocked Parliament cigarettes for some months during 2008.

Point of sale material was also supplied to him. During the first few weeks sales were slow, but increased as more people became aware of the brand. Ultimately, he recorded sales of approximately 8 cases, which equates to about 80 000 sticks.

[32] Subsequent to the expiry of the relevant period of five years, arrangements were made to extend the sale of the remaining stock of Parliament cigarettes to Gauteng on a basis similar to what was done in the Free State.

[33] It was submitted on behalf of the applicant that the respondent should have called Ms. Yvette Steyn, who was BATSA's director of marketing and at all times Ms. Hegland's superior, as a witness. Reference was made to Ms. Hegland's evidence that Ms. Steyn participated in the AME meeting and in fact drafted the page containing the conclusions reached at that meeting. It was submitted that an adverse inference should be drawn from the respondent's failure to call Ms. Steyn as a witness.

[34] In my respectful view, the criticism is not justified. The AME meeting was attended by Mr. Joubert when the presentation which had been prepared by Ms. Steyn and other marketing colleagues, including Ms. Hegland, was discussed. He testified about what transpired at the meeting. Ms. Steyn took the meeting through the presentation. The

proposals contained in Ms. Steyn's presentation were not accepted by the meeting. Mr. Joubert's evidence was that the leadership of the AME proposed a launch of a brand on a tactical basis, which meant that instead of launching a brand nationally and through the entire market, they wanted BATSA to identify specific areas where the growth of the legal low segment was prevalent, then have a brand available to introduce only in that pocket of the market at a specific price that can compete with the low price segment in specific outlets where the problem was most prevalent and only for the duration needed to address the problem. It was referred to as a controlled launch and the rationale behind it was to mitigate the risk of taking consumers from BATSA's own brands as opposed to from competitor brands by controlling the outlets within which the brand is launched, the duration for which it is sold marketed and the price at which it is made available. The page of the presentation referred to was not part of the presentation presented by Ms. Steyn. It was drafted after the discussion to ensure that everyone understood the conclusion of the meeting and was recorded by Ms. Steyn on her laptop at the meeting. There is, therefore, no compelling reason why she should have been called as a witness.

[35] It was submitted on behalf of the applicant that Mr. Joubert's evidence was unsatisfactory. In this regard, it was submitted that he had said in his first witness statement that the purpose of the launch was to combat trade in illicit cigarettes, but that he later proffered another

reason, namely limited launches into legal low hotspots in order to disrupt the market. Mr. Joubert did not refer to a disruption of the market. That was the evidence of Ms Hegland. What Mr. Joubert said in his statement was the following:

"During the period 2005-2008 it became clear that the concept, and trade, of "duty not paid" cigarettes was becoming more prevalent and established in the South African market. The data received from Research International distinguishes between counterfeit products and "duty not paid" products. BATSA identified the risk of growth of the "duty not paid" sector and took steps to curtail the growth of this sector. The exploitation of the PARLIAMENT product was aimed at curbing this trend."

When asked during cross-examination to explain the statement, he said the following:

"If you go back to the low price segment, the segment that we were targeting, this was a segment that was on the face of it selling product at a legal price. In other words it was a price above what we regarded as a suspicious activity price."

One of the main competitors in this brand, was a brand called Voyager. I think that is also mentioned in Ms Flemming's statement. Voyager was gaining ground rapidly and the odd thing about Voyager was that it seemed to gain traction at a very low price in a manner that a brand would do that had brand equity."

So it was a phenomenon from an independent manufacturer that we were concerned about. However, this very same independent manufacturer called GLTC, which is still prevalent in the market, was to our understanding embarking on a number of activities that we regarded as illicit activities."

COURT: As what?

Illicit activities, in other words the distribution of illicit brands in addition to Voyager. And what they were also doing at the time, was starting to explore with grocery outlets. In other words outlets that we regard as quite a high status sales channel, to list Voyager in those outlets.

We wanted to ensure that their activities on the illicit front was exposed to the effect that it would curtail the growth in Voyager.

The strategy as we understood it at the time, was that they played in the legal market with Voyager, so we were never in a possession (sic) to find any Voyager products that could be proved to be illegal, in other words where the duties weren't paid. But the rest of their portfolio or brands were selling at prices which clearly indicated that it is illicit.

So yesterday I spoke about manufacturers that was on the one hand conducting a legal business and what we call the third shifts or in the background conducting an illicit business under the front of the legal business. We believed at that stage that GLTC was such a company, GLTC being the owners and manufacturers and distributors of Voyager.

So while certainly I would reiterate the fact that we were not able to compete on price with illicit product, it didn't mean that competition in the low price segment was irrelevant to illicit trade, because this very competitor distributing Voyager was also a very big player in the illicit market.

We didn't at that stage from an AIT perspective, and I'm not talking marketing now, I'm talking about the area that I was involved in more in detail – we did not regard these issues as stand-alone issue there was a common threat in the market and we saw the launch of Parliament or the launch of a brand at that space – later on it was different brands that were launched in that space – as useful tools to compete and put pressure on the illicit trade generally.

.....

MR PUCKRIN: *Despite your lengthy explanation let's agree on one thing the bald statement at page 417 of Exhibit C, sorry Bundle C paragraph 10 "the exploitation of the Parliament product was aimed at curbing this trend, which is duty not paid" that statement without qualification is false.*

MR JOUBERT: *I think that statement without the context that I provided is not correct.*

MR PUCKRIN: *Correct, either that is not correct or the explanation you gave yesterday and in your supplementary statement is not correct they can't live cheek by jowl do you agree?*

MR JOUBERT: *I actually don't agree with that in toto.*

MR PUCKRIN: *Alright well I'll argue it let's not us argue between us.*

COURT: *Let him say why he doesn't agree.*

MR PUCKRIN: *I'm sorry.*

MR JOUBERT: *I don't want to add more than my previous answer but I do want to emphasise the fact that these things were not happening in isolation. The threat to the market yes we divided our responses into illicit trade and a marketing response to the low price but at the end of the day the threat was one that had a commercial generality and that commercial generality was the fact that there was severe down-trading to both the low price as well as illicit portions of the market. So from that perspective nothing happened in isolation but to the extent that you want to specifically pose Parliament against illicit trade to directly influence the sale of illicit trade with that I agree that was not the intent."*

[36] Although this evidence of Mr. Joubert explained that there was an additional object of the launch, namely a marketing response to legal low priced products of competitors, more particularly Voyager, Mr. Joubert did not explain why that further object was not mentioned by him in his statement. As appears from his evidence above, he in fact conceded that the statement without the further context which he provided was not correct and agreed that it was not the intent to pose Parliament against illicit trade.

[37] It was further submitted by Mr. Puckrin that Ms Hegland was an unsatisfactory witness. The main reason for the criticism was that Ms Hegland had said in her affidavit that the Parliament brand "*has been positioned by BATSA as an important new brand in the Low price sector*", that it was "*imperative to set the pricing strategy correctly to compete properly in the legitimate Mid and Low price sectors*" and that "*the insights gained from this initial introductory period (in Upington) have contributed immensely to the respondent developing a commercially viable long-term sales strategy for the PARLIAMENT brand*", whilst her evidence in court was that the ultimate goal was to conduct disruptive launches of limited duration in legal low hotspots. Ms. Hegland said the following in her evidence in chief with reference to the outcome of the AME meeting:

"The feedback was that a national launch was definitely not an option and to go head on against other low opposition brands would not be the way to play it and that we should consider and evaluate and investigate tactical options to fight the opposition."

At that point the belief was that the proliferation in that segment actually helped that not any one brand got traction to the point where it had huge equity and that it assisted us in a way to protect Stuyvesant and therefore the feeling was that if one could tactically go in where there was specific low price activity or hot spots happening in the market as I had explained before, one could attempt to only reduce the opposition in those specific outlets and in so doing not pull Stuyvesant into that brand or activity. "

She was then asked by Adv. Morley SC, who appeared for the respondent with Adv. Joubert, what was meant by *"tactical execution"*. She said:

"(T)actical means that one has to specifically go play where there is a problem that it is not something that should be addressed on a national level. And to launch a low price brand in an outlet where there is not even low growth, would absolutely be to the detriment to your portfolio. So this looks at very much a focussed approach in short term bursts to, I suppose disrupt that environment to the point of – and disrupt the opposition traction in that environment."

She was then asked what she meant by the term *"disrupt"*. She said the following:

"(T)he objective would be to include a brand in the low price segment by doing so distract the consumer to have even an additional, another choice."

MR MORLEY: Yes

MS HEGLAND: As we believed that the many choices that came and went within that, whether it be illicit or low, low players, helped in a way that the consumer didn't particularly just go to one brand, because there were just so many options that it assisted in not it assisted us to the point where opposition brands didn't get particular traction on a national level.

MR MORLEY: And what would be the commercial advantage in proceeding in that way, if any?

MS HEGLAND: Well the commercial advantage would be not to disrupt your own popular and premium portfolio and therefore protect your own profit."

[38] I agree with Mr. Puckrin that this evidence is different to what was presented in Ms. Hegland's affidavit. Launches of limited duration in legal low hotspots with the object of disrupting the business of a competitor and to protect the Peter Stuyvesant brand cannot be equated with a commercially viable long-term sales strategy for Parliament cigarettes to compete in the legitimate mid and low price sectors.

[39] If one accepts, which I do as it was Ms Hegland's evidence, that the respondent's intention was to conduct launches of limited duration in legal low hotspots in order to disrupt the competition and to protect its Peter Stuyvesant brand, the question arises whether such launches, of which Uppington was the first, can, in the words of Cameron JA in *Arjo*, be described as statutorily authentic. In my view not. 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.

[40] It follows that the respondent has failed to discharge the onus of proving *bona fide* use of the Parliament trade marks during the relevant period. I accordingly grant the following order:

- (a) Trade Mark 1952/00688 and Trade Mark 1997/17613 are removed from the register.
- (b) The respondent is ordered to pay the costs of the application, including the costs of the application for referral to oral evidence and the hearing of oral evidence, such costs to include the costs of two counsel.

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Adv. L G Kilmartin

Instructed by: D M Kisch Inc

Counsel for first respondent: Adv. G E Morley SC; Adv. I Joubert
Instructed by: Spoor & Fisher