NOTES OF CASES

PARALLEL IMPORTS AND THE TORT OF PASSING-OFF AND TRADE MARK INFRINGEMENT

Colgate - Palmolive Ltd. & Anor. v. *Markwell Finance & Anor.*[1]

Introduction

ONE of the issues to have arisen recently in the development of the Law of Intellectual Property Rights, concerns the extent to which these rights can be asserted so as to stop parallel imports. The phenomenon of parallel imports derives much of its present importance from the increasing internationalisation of the market place. Products conceived, invented, developed and manufactured in one country are now marketed in the global marketplace, often by multi-national corporations through a network of overseas branches and subsidiaries. In many cases these products will be released in different countries under the same or similar logo, brand name and get-up. In some cases, the international linkage between the products is deliberately emphasised as a marketing strategy on the packaging of the products by a statement revealing the international source of the products. The endorsement "New York-London-Paris" and now "Hong Kong-Tokyo" is not only attractive, but further helps in the task of building up an international reputation and goodwill in the product name and get-up. These products will, more often than not, share the same brand name, and further, they could well be of the same general quality and substance. For example, a particular brand of hair shampoo marketed in one country is likely to be of the same general quality in all countries where it is made and sold.

Sometimes, however, there may be qualitative differences in the products which are made or destined for different markets. In such cases the owner of the rights may be keen to ensure that the products are not mixed up in the various distinct, albeit, international markets. Can he isolate these markets and set up "import barriers" by relying on his Intellectual Property Rights? In particular, can he assert his rights under the Law of Passing-Off and Registered Trade Marks to seal off individual markets where there is a qualitative difference in the products? Where there is no such difference in the make up of the products and

[1] See [1988] R.P.C. 283 (First Instance). The decision of the Court of Appeal is now reported at [1989] R.P.C. 497. The Court of Appeal approved of the lower court decision. The main judgments were delivered by Slade and Lloyd LJJ. Waller L.J. delivered a concurring judgment. For a case comment on the first instance decision of Falconer J., see Firth, A. *"Colgate-Palmolive* v. *Markwell Finance"* [1988] 9 E.I.P.R. 278.

they are marketed under the same name or get-up , the question becomes even more problematic. The desire to seal up markets simply reflects the wish to preserve and enhance the commercial value of the rights in issue. A much higher licence fee could be obtained and pricing policies safeguarded in the individual markets if freedom of competition from parallel imports could be ensured. This understandable commercial desire has to be balanced against the broader public interest. Where there is no qualitative difference, and where the products are sold by the same group of companies in the different markets under the same name, it is difficult to see why the public in any one country should be denied access to the same products sourced from some other country simply because they happen to be more competitively priced. Where the relevant name or get-up enjoys an international reputation, products sold under that name will in effect be linked to that international market place, making it extremely difficult to assert trade mark rights so as to stop parallel imports. On the other hand, where the reputation is developed nationally, the assertion of those rights to stop parallel imports is conceptually easier to support within the existing Tort of Passing-Off. The recent decision of the Court of Appeal in the United Kingdom in *Colgate - Palmolive* v. *Markwell Finance* goes some way in clarifying the law in this area. Some doubts, however, remain for further judicial consideration.

The Factual Matrix

The Colgate group of companies is headed by Colgate - Palmolive Company (Colgate US) which is a company organised under the laws of Delaware and having its principal offices in New York, United States Of America. The products in issue concerned toothpaste which had been made in Brazil by the Brazilian licensee of the relevant Colgate marks. These products were then picked up by a parallel importer and sold in the United Kingdom in competition with the toothpaste made in the United Kingdom by the United Kingdom licensee of the Colgate marks. In order to gain a better understanding of the legal issues it will be necessary to go into the facts in some greater detail. This will be done under the headings: "Corporate Structure", "Trade Mark Structure" and "The Parallel Imports".

Corporate Structure

Colgate US is the parent company of a large number of subsidiary companies set up in many different jurisdictions. In the United Kingdom its business was carried out through the vehicle of Colgate - Palmolive Limited (Colgate UK), a company incorporated under the laws of the United Kingdom. The entire issued share capital of Colgate UK was owned by Colgate Holdings Limited (U.K.) which was in turn wholly owned by Colgate US. In Brazil, Colgate US conducted its business through a private limited partnership, Colgate - Palmolive Limitada (Limitada). Colgate US was the beneficial owner of Limitada. Similar arrangements were made in many other countries. The subsidiaries in each country would be given licences to produce toothpaste products marked with the Colgate brand name and get-up. Each subsidiary was given considerable autonomy in terms of the products marketed and their formulations. They were however centrally controlled by Colgate US on what they could export and to whom. This was done presumably to preserve the integrity of the individual markets.

Trade Mark Structure

Toothpastes manufactured by the Colgate Group were sold under the Colgate brand name. The brand name together with associated get-up had been registered as trade marks in numerous countries. In most cases, proprietorship of the trade marks would appear to have been retained by Colgate US. In the United Kingdom there was a total of six trade mark registrations for toothpastes and dentifrices. The registered proprietor of the marks was Colgate US. A licence in respect of these marks was granted to Colgate UK for the use of the marks in the United Kingdom. Pursuant to this licence, Colgate UK was registered as the sole registered user under the Trade Marks Act 1938 (U.K.). The trade mark licence contained (*inter alia*) quality control obligations and a term reverting all rights granted back to Colgate US on the termination of the agreement.

In the case of Brazil the use of the Colgate marks was licensed to Limitada; ownership once again being retained by Colgate US. The licence provided *(inter alia)* that the use of the trade marks by Limitada was to inure for the benefit of Colgate US. Further, so as to ensure compliance with Brazilian Law, there was a term that the licence did not contain restrictions to the industrialisation or marketing, including exportation, of the goods covered by the same trade marks to any country. In fact Limitada was not free to export toothpastes produced by it to overseas countries. Colgate US retained a high degree of control over exports by its subsidiaries through Colgate-Palmolive Global Trading Company (Global) which was itself an American subsidiary of Colgate US. Limitada's exports were regulated by an agreement with Global. Pursuant to that agreement Global assigned three export markets to Limitada; Bolivia, Paraguay and Chile. Limitada also sold to export trading companies in Brazil for export to countries where there were no Colgate subsidiaries, such as Nigeria. One such trading company was Telexport Importacao-e-Exportacao Limitada (Telexport).

The Parallel Imports

Products Produced For U.K.: Colgate UK for many years had been manufacturing toothpaste for the United Kingdom market. Since 1972 they contained a Fluoride constituent. In 1981, a double fluoride toothpaste was introduced. Since 1981 the toothpastes were marketed in the United Kingdom under the following brands: Colgate Great Regular Flavour, Colgate Blue Minty Gel, Colgate Junior and Colgate Tartar Control. Colgate Tartar Control was a single fluoride toothpaste in which the abrasive ingredient was silica. The tubes were made of plastic laminates. Colgate Great Regular Control was a double fluoride toothpaste with dicalcium phosphate as its abrasive element. Colgate Blue Minty Gel was similarly a double fluoride toothpaste but with silica as its abrasive. Both were supplied in plastic laminated tubes except for the smallest size which was in aluminium. Colgate Junior was also supplied in an aluminium tube. The aluminium tubes were made with plastic necks around the nozzle so as to improve the quality of the product. Sales in the United Kingdom were substantial and considerable advertising expenditure was committed in promoting the products to the general public and to the dental profession.

Products Produced For Brazil: It would appear that in the Brazilian market two main toothpastes were produced by Limitada. These were Colgate Creme Dental Menta Natural and Colgate Creme Dental Fluorgard com Fluor MFP (Menta Natural and Com Fluor). Menta Natural was a non-fluoride toothpaste. Com Fluor was a single fluoride toothpaste. Significant differences in the formulation of the products existed between the United Kingdom and Brazilian toothpastes. The Brazilian toothpastes used calcium carbonate (chalk) as the abrasive element instead of silica or dicalcium phosphate. Chalk was cheaper and easier to obtain in Brazil. Limitada was constrained by exchange controls and a high inflation rate to use cheaper materials wherever possible. Chalk was however an inferior material which would have an effect on the flavourings. Preservatives were also added for tropical use and the tubes were made of aluminium without plastic necks. On these facts, Falconer J. at first instance held that the Brazilian toothpastes were of a much lower quality, as regards both cosmetic and prophylactic properties than those made in the United Kingdom by Colgate UK.

The UK Imports: The first defendant, Markwell Finance Ltd. was a company set up in the United Kingdom for the purpose of carrying out *(inter alia)* parallel imports of consumer products including toiletries. The second defendant was its Managing Director, its principal shareholder (99%) and sole employee. In the period from January to September 1986, the defendants purchased substantial quantities of Com Fluor and Menta Natural from Telexport. These were shipped to the defendants in seven consignments. The first consignment was probably obtained in the open market in Brazil. The remaining shipments were obtained by Telexport from Limitada on the express written undertaking that they were destined for the Nigerian market. Falconer J. found that Telexport in making these purchases and sales was acting as principal and not as the agent of the defendants. The trial judge also found, however, that in all probability the second defendant was aware from an early stage that the supplies from Limitada were obtained by Telexport on the basis that they were for Nigeria. In so far as knowledge was a requirement in establishing liability or in assessing damages, that had been proven against the defendants. The consignments were pre-sold by the defendants to Javex International Ltd. Javex then sold the Brazilian toothpastes to trade customers in the United Kingdom. These then found their way into the market place. There was evidence that the Brazilian toothpaste was being sold at a lower price than Colgate UK products. As a result, actions for passing-off and trade mark infringement were instituted in the United Kingdom. These were then tried together by consent. The passing-off action was brought in the name of Colgate UK and Colgate US. The trade mark action was brought in the name of Colgate US, the registered proprietor of the marks.

The Decision on Passing-Off

The key findings of facts made by Falconer J. in respect of the passing-off action were summarised by the judge in the following manner:

"1. Colgate UK has carried on business in the United Kingdom as a manufacturer and supplier of, *inter alia,* toothpaste and dental cream products for very many years and the mark COLGATE is and has been for very many years widely known because of its use upon and in relation to such products.

2. The mark COLGATE, in particular when used printed in white on red packaging, as exemplified in Exhibits P1, P3 and P4 indicates to the purchasers of such products in the United Kingdom the toothpaste and dental cream products manufactured and supplied by Colgate UK.

3. Members of the public in the United Kingdom who know of COLGATE toothpaste - and as I have held it is and has been for many years widely known- know that COLGATE toothpastes in the United Kingdom are fluoride toothpastes and expect them to be such and are generally aware of the value of fluoride in toothpaste as a protein *[sic]* against dental decay.

4. The quality of the Menta Natural and Com Fluor toothpastes imported by the defendant company and complained of in these proceedings were of a much lower quality, as regards both cosmetic and prophylactic properties than the COLGATE toothpaste products manufactured and marketed by Colgate UK for many years and in particular since early 1981."[2]

The ingredients for a successful action in Passing-Off were laid down by the House of Lords in *Erven Warnick BV* v. *J Townend & Sons (Hull)* (the *'Advocaat' case*)[3]. Lord Diplock set out the elements in the following manner:

> " My Lords, *Spalding* v. *Gamage*[4] and the later cases make it possible to identify five characteristics which must be present in order to create a valid cause of action for passing off:(1) a misrepresentation (2) made by a trader in the course of trade, (3) to prospective customers of his or ultimate consumers of goods or services supplied by him, (4) which is calculated to injure the business or goodwill of another trader (in the sense that this is a reasonably foreseeable consequence) and (5) which causes actual damage to a business or goodwill of the trader by whom the action is brought or (in a *quia timet* action) will probably do so."[5]

Lord Fraser gave his assessment of the elements in different terms and from a somewhat different perspective. He said:

"It is essential for the plaintiff in a passing-off action to show at least the following facts:

[2] See [1988] R.P.C. 283 at 303.
[3] [1979] A.C. 731; [1979] 3 W.L.R. 68; [1980] R.P.C. 31.
[4] (1915)32 R.P.C. 273; 84 L. J. Ch. 449. This was a decision of the House of Lords which established that the interest protected by passing-off was goodwill. It also established that passing-off was concerned with unfair trading practices and that it could be used to stop deception as to quality even where there was no deception as to origin.
[5] [1979] A.C. 731 at 742.

(1) That his business consists of, or, includes, selling in England a class of goods to which the particular trade name applies;

(2) That the class of goods is clearly defined, and that in the minds of the public, or a section of the public, in England, the trade name distinguishes that class from other similar goods;

(3) That because of the reputation of the goods, there is goodwill attached to the name;

(4) That he, the plaintiff, as a member of the class of those who sell the goods, is the owner of goodwill in England which is of substantial value;

(5) That he has suffered, or is really likely to suffer, substantial damage to his property in the goodwill by reason of the defendants selling goods which are falsely described by the trade name to which the goodwill is attached."[6]

Both Falconer J. and the Court of Appeal approached the *Advocaat* case on the basis that the two statements of principles were to be treated as cumulative requirements, In so holding they were following the earlier remarks of the Court of Appeal in *Anheuser - Busch Inc.* v. *Budejovicky Budvar N.P.*[7] With respect, this approach is perhaps a little curious. Lord Diplock's formulation sets out a general criterion of liability which can be applied to any type of passing-off action. Lord Fraser, on the other hand, approached the problem from the perspective of the plaintiff on the facts in the *Advocaat* case. It should be borne in mind that there are now three different forms of the Tort of Passing-Off. First, classical passing-off involving a deception as to the origin of a product; second, passing-off involving a deception as to the quality of the plaintiff's product, without necessarily involving any deception as to their origin; third, passing-off involving a deception as to origin in respect of a class of goods produced by a number of manufacturers and sold under a particular name - the problem of shared goodwill. *The Advocaat Case* involved passing-off in the third of the above categories. To a large extent the Diplock and Fraser requirements are overlapping and it is doubtful as to whether there is any real purpose to be achieved in treating them as being cumulative. Lord Fraser does of course emphasise the need to locate the relevant goodwill within jurisdiction. The absence of any reference to the locality of the goodwill in the Diplock test is however more apparent than real since the existence of such a requirement was already established by the Privy Council in *Star Industrial Co. Ltd.* v. *Yap Kwee Kor.*[8] In short, in order to succeed it would be necessary to establish a goodwill within jurisdiction in the marks, a misrepresentation by the defendants and the likelihood of damage to that goodwill as a result of that misrepresentation.

6 [1979] A.C. 731 at 755.

7 [1984] F.S.R. 413. This is a decision of the Court of Appeal which focused its attention on the question of the locale of the goodwill to support a passing-off action in the United Kingdom. It decided that a business within jurisdiction had to be found to establish goodwill within that jurisdiction. See *also Bernadin* v. *Pavilion Properties* [1967] R.P.C. 581.

8 [1976] F.S.R. 256.

The Goodwill

The standard definition of goodwill cited in passing-off cases is that it is the attractive force which brings in custom to a business. In the *Star Industrial* case the Privy Council expanded on this by concluding that:

> "Goodwill as the subject of proprietary rights, is incapable of subsisting by itself. It has no independent existence apart from the business to which it is attached. It is local in character and divisible; if the business is carried on in several countries a separate goodwill attaches to it in each".[9]

Merely for Colgate to establish a general international reputation would not have been enough to sustain the action. What was needed was goodwill in the United Kingdom. On the facts found by the trial judge this had been clearly established, and indeed, the existence of goodwill in the United Kingdom was not in fact challenged on appeal. Issue was however taken on the point of misrepresentation.

The Misrepresentation

The misrepresentations pleaded were of three types:

(a) That the defendant's goods were the plaintiff's goods. This was interpreted by Falconer J. to mean the toothpastes made by Colgate UK for the United Kingdom market. This would be a plea of passing-off in its classical form - deception as to origin.

(b) That the defendant's goods were connected in the course of trade or business with Colgate UK. This again was a plea of passing-off in its classical form.

(c) That the defendant's goods were of a formulation and quality manufactured or supplied by Colgate UK in the United Kingdom. This would primarily be a plea of passing-off in its extended form to quality.

In so far as the first two misrepresentations were concerned, the trial judge found that they were fully made out by his first three findings of fact which have been set out above. In the case of the third misrepresentation, this was borne out by his fourth finding of fact. The existence of the misrepresentations were strenuously challenged by the defendants. Heavy reliance was made on the decision of the Court of Appeal in *Revlon Inc.* v. *Cripps & Lee Ltd.*[10] On the facts of that case the Court found no significant qualitative differences between the shampoo made by the plaintiffs for the United Kingdom market and the parallel imports which had been sourced from the United States market. Passing-Off in its classical form failed because there was no relevant deception given the nature of the goodwill established. In the *Revlon* case, the parallel imports concerned

9 *Ibid,* at p. 269.

10 [1980] F.S.R. 85. This was an interlocutory decision of the Court of Appeal in the United Kingdom. The decision has been followed in Malaysia in *Winthrop Products Inc & Anor.* v. *Sun Ocean (M) Sdn. Bhd.* [1988] 2 M.L.J. 317.

shampoo that had been imported into the United Kingdom from the United States. The goodwill enjoyed in the United Kingdom in the Revlon marks did not necessarily teach members of the United Kingdom public that the products were made in the United Kingdom for that market.The goodwill was international in nature since members of the public in the United Kingdom were fully aware of the international source of the products. After all, the products were marked, "New York/London/Paris". A customer in the United Kingdom would realise that the goods sold in the United Kingdom were of a kind dealt with by the Revlon group in a number of countries. This led Buckley L.J. to comment that:

> "there is nothing to suggest that any retail purchaser in the U.K. would know who has made the U.K. products or who has put them on the market; such a purchaser might equally well suppose that they were made in the United States or France, or indeed anywhere else, and that they were imported into this country."[11]

Given the international nature of the reputation, there was clearly no misrepresentation involved in the import and sale of Revlon shampoo sourced from the United States. Revlon also attempted to claim passing-off in its extended form -deception as to quality. This failed because of the finding that there were no significant qualitative differences between shampoos made for the United Kingdom and United States markets. The only difference of composition resided in the fact that the United States shampoo contained an anti - dandruff additive. This fact, however, was made clear on the packaging of the shampoo. Accordingly, it would be unlikely that a reasonably perspicacious member of the United Kingdom public would be led into confusing the two products.

The facts of the *Revlon* case were clearly distinguishable from those found proved by Falconer J. First, the relevant reputation of the Colgate marks in the United Kingdom established a United Kingdom origin for the products made by Colgate UK. No express attempts had been made to internationalise the marks in the United Kingdom through international endorsements on the product labels. Second, there were significant qualitative differences between the toothpastes produced for the Brazilian and English markets. Accordingly, Falconer J. found that passing-off had been established.

Given the nature of the misrepresentations pleaded and the trial judge's findings of facts, it would seem, at first sight, that passing-off in two separate forms was established. First, classical passing-off as to origin. Second, extended passing-off as to the quality of the plaintiff's products. On the facts found, these two forms were of course factually related in that the complaints were in respect of the same parallel imports. In law, they are distinct. To succeed in classical passing-off it would not be necessary to prove any deception as to quality. What is protected is the value of the mark as an indicator of the origin of the products. Viewed broadly the parallel imports were products produced by the Colgate group of companies. To some extent it may even have been possible to regard the group as a single economic entity. This was, after all, the view taken in the *Revlon* case of the Revlon group. Be that as it may, there seems to be no reason why in principle, a multi-national group cannot choose to develop the goodwill in its

11 [1980]F.S.R. 85 at 103.

trade marks on a strictly national basis. In the *Revlon* case the passing-off action failed because the goodwill established in the United Kingdom in the Revlon marks was of a distinctly international nature. That being so there was no deception as to the origin of the parallel imports. In the *Colgate* case, the "domestic" nature of the reputation proved, as part of the goodwill, would have to be taken into account in deciding the question of deception as to origin. This is a point to which I shall return to later. Conversely, in passing-off as to quality, it would not be necessary to prove any deception as to origin. The interest protected by this extended form of passing-off action is of course the goodwill in the mark; goodwill not in the usual sense of the mark as a badge of origin, but as a badge of quality.

One final point raised in the Colgate case concerned the ownership of the goodwill in the United Kingdom. Section 28 of the Trade Marks Act 1938 provides, *inter alia,* that the use of a registered mark by the registered user (Colgate UK), would be regarded in law as user by the registered proprietor (Colgate US). Accordingly, it was argued that the goodwill belonged to Colgate US. This issue was however sterile since both Colgate US and Colgate UK were plaintiffs in the passing-off action.

On appeal issue was taken on the point of the existence of misrepresentations. Slade L.J. agreed with the trial judge's findings on the three-fold nature of the misrepresentations pleaded. He also found himself in broad agreement with the findings in respect of those misrepresentations. In respect of the misrepresentations , Falconer J.'s conclusion was that:

> "... members of the public who know of COLGATE toothpaste as marketed in this country will be likely to think that the defendants' imported Menta Natural and Com Fluor toothpaste bearing the COLGATE mark ... are COLGATE toothpaste products emanating from the same source as the COLGATE toothpaste products they know of and will expect them to be . .. of the quality they associate with ... those manufactured and marketed by Colgate UK."

Falconer J. then continued:

> "... such members of the public will also be deceived as to the quality of the Menta Natural and Com Fluor toothpastes complained of, expecting them to be the same quality as the COLGATE toothpastes manufactured and marketed in this country by Colgate UK ..."

Slade L.J. agreed with these findings. The issue was whether in law a claim in passing-off should be allowed on these findings. The Appeal Court accepted that there were a number of separate ways in which passing-off could be committed. The two most germane to the facts before the Court were deception as to origin and deception as to quality. In the view of Slade L.J., the main form relied on by the plaintiffs was passing-off as to quality. The argument presented on appeal on this type of passing-off rested on the broad claim that Colgate US ought to have foreseen that international trade would develop in its products. Colgate US was aware that different quality toothpastes would be produced for the different markets, all under the same basic COLGATE mark. Inferior quality goods were likely to cross national frontiers and to find their way to markets such as the United Kingdom. If the United Kingdom public was confused or deceived as to the quality of the parallel imports, this was something which should be laid at the door of the plaintiffs. More should have been done by Colgate US to untie any possible confusion by clearly marking the goods in a way so as to differentiate the goods. To some extent, this argument smacks of the defences of *Volenti Non Fit Injuria* and *Acquiescence,* defences which are difficult to establish in the best of times. Two cases were cited in support. First the decision of Clauson J. in *Champagne Heidsieck et Cie Monopole Societe Anonyme* v. *Buxton.*[12] There the plaintiffs were producers of champagne. Two types were produced; a dry version for the United Kingdom market and a sweeter one for the French market. Both were sold with a label bearing the mark, CHAMPAGNE DRY MONOPOLE. In the case of the champagne destined for the French market the word BRUT also appeared. The general get-up of the labels were similar. The plaintiffs wished to restrict the sales of the two types to their intended markets. Unfortunately for them, some of the BRUT champagne came into the hands of the defendants in the United Kingdom. An action for passing-off and trade mark infringement was instituted. Both actions failed. Passing-Off failed because the French champagne was clearly marked BRUT. Clauson J. found that on the facts there was no reasonable prospect of public confusion between the two products. In this respect the Court of Appeal in the *Colgate* case had little difficulty in distinguishing the facts of the *Champagne* case. Clauson J. then found that in any event, any confusion which might have arisen in the *Champagne* case was due to the fault of the plaintiffs in not objecting to the sales of the BRUT champagne earlier and in not having sufficiently differentiated the products. Again the *Champagne* case could be distinguished since there was no evidence of acquiescence in the *Colgate* case.

The most difficult aspect of the *Champagne* decision lay in the remarks of Clauson J. that a plaintiff who attaches a distinctive mark to goods could never sue in passing-off to prevent resale under that same mark. Slade L.J. concurred in that view only in so far as it was directed to an alleged misrepresentation concerning the origin (as opposed to the quality) of goods. He said:

> "It is not, in my judgment, open to a trader who has placed his mark on goods produced by him to complain that a person who resells those goods, without altering their contents or get up is misrepresenting the origin of the goods. In such circumstances the goods are 'genuine goods' in the sense that their origin is in truth what the mark represents it to be."[13]

Further on his judgment, he continued:

> "... if in the present case the plaintiff's claim had had to be founded solely on an alleged false representation ... as to the commercial origin of the Brazilian toothpastes, it would have failed... In so far as the get up of the Brazilian toothpastes carries with it a message as to the origin of the products,... the message is the same as that conveyed by the get up of the United Kingdom products - namely that they are products of the Colgate group headed by Colgate US. This indeed is the message which Colgate US and its subsidiaries presumably intend to be conveyed by the use of the similar get up in both countries."[14]

12 [1930] 1 Ch. 330; 47 R.P.C. 28.
13 [1989] R.P.C. 497 at 513.
14 *Ibid*, at 515.

Where however the resale of the "genuine goods" involves some deception as to quality, cases such as the *Advocaat* decision and *Spalding* v. *Gamage* had already established that liability could arise even in the absence of deception as to origin. Such was the case at hand.

One key aspect of the decision of Slade L.J. is the conclusion that no action could have been sustained had there been no passing-off as to quality. This is a point which warrants further examination. On the case pleaded, the cause of action was based on both a misrepresentation of origin and quality. It has been noted earlier that passing-off as to origin is conceptually distinct from its cousin, passing-off as to quality. On the facts found by Falconer J., members of the United Kingdom public were deceived into thinking that the Brazilian toothpastes were connected with Colgate UK. One witness remarked that he had assumed that the Menta Natural and Com Fluor toothpastes had been produced in the United Kingdom for the export market. Clearly this would constitute a factual case of deception as to origin. This deception as to origin was, no doubt, made the more serious by the accompanying deception as to quality. It does not however follow that proof of confusion as to the source was in any sense *dependent* upon the deception as to quality. Would the action have succeeded then if there had been no qualitative difference between the Brazilian imports and toothpastes produced by Colgate UK? According to Slade L.J. the action would have then failed. As an issue of fact, given the national nature of the goodwill established, deception of origin could still have arisen. The mere fact that the Brazilian toothpastes were connected with the international Colgate group would not necessarily prevent confusion as to origin from arising. Each subsidiary is an independent legal entity. The goodwill in the United Kingdom established a connection between the United Kingdom products and Colgate UK. The Brazilian imports were patently not sourced from Colgate UK. Hence factual deception. As an issue of law, a somewhat different complexion surfaces. What Colgate US was seeking was a right in law to control the destination of their products. To seal up individual markets. It is questionable as to whether the Law Of Passing-Off should be developed so far. The Brazilian toothpastes were "genuine" goods in that they were produced and marked with the licence of Colgate US. The goodwill enjoyed in the United Kingdom in the marks belonged, at least beneficially, to Colgate US. Any factual confusion which might arise would be so technical as to belong to the realm of metaphysics. It makes good sense and good law that where products of one quality are put into the markets of the world under the same mark by members of the same group, that passing-off as to origin should not be allowed, even if technically the goodwill in the marks have been developed on a national basis. Looked at another way, if the genuine goods, marketed in the different countries under the same mark, are of the same quality, it will be difficult to establish a national, as opposed to international, goodwill. Where the goodwill expressly teaches the broader international source, by endorsements such as "New York/London/Paris", the position is even clearer as it will be very difficult to establish factual deception or misrepresentation.[15]

[15] See *Revlon Inc.* v. *Cripps and Lee* [1980] F.S.R. 85, Templeman L.J. (as he then was) stated at p. 112 that "in my judgment the plaintiff companies form part of a multinational group, and are not entitled by asserting the English law of passing-off to prevent their own goods, put into circulation by their own group, from being exported from the United States and sold in the United Kingdom at prices determined by the importers."

The other decision relied upon by the defendants was the decision in the *Revlon* case. In so far as the action for deception as to quality was concerned, the decision was distinguished on the facts for the reasons set out above. The argument that the plaintiffs were the authors of the confusion as to the quality of the two products was not accepted as a defence to the claim. Lloyd LJ. in delivering a concurring judgment put the matter in the following way:

> "But is there any thing so very unmeritorious about manufacturing one quality of goods for one market and a different quality of goods for a different market, and marking them both with the same mark . . . [the defendants] argument comes to this, that if the plaintiffs want the advantage of a worldwide presentation, they must pay the price; and the price is that they must anticipate that goods will be transferred from one market to another, and cannot then complain if lower quality goods are passed off as higher quality goods... But this argument cuts across the now well established principle of passing-off actions that goodwill is local in character and divisible . . . Since, therefore, goodwill is a territorial concept,... a manufacturer ought to be free to decide for himself by what goods he will make (or break) his reputation in that territory. If so, then I cannot regard it as fair to blame the plaintiffs for the confusion in the minds of the United Kingdom consumer. They have done their best to secure that lower quality toothpaste is confined to Brazil . . . The fact that the defendants have succeeded in circumventing the plaintiffs' precautions does not mean that the plaintiffs are to be treated as the authors of their own misfortune, still less as being guilty of a misrepresentation."[16]

The *Colgate* decision on passing-off, when read with earlier cases, such as the *Revlon* case, makes it clear that passing-off will seldom constitute a legal barrier to parallel imports of genuine goods. This is so, even where there has been an attempt to develop the goodwill in the marks on a national basis. If it is desired to seal up the markets it would be necessary to develop different marks for use in the different markets, an approach which is unlikely to commend itself to many multi-national companies. Where, however, there is a significant qualitative difference, passing-off can succeed, even if the products of the different classes are sold with the same or similar marks.[17]

Trade Mark Infringement

A total of six marks had been registered under the Trade Marks Act 1938 (the Act)[18]. Of these, four had been registered under Part A of the register and two under Part B. Colgate US was the registered proprietor of the marks and Colgate UK was the sole registered user. The special defence set out in section 5(2) of the Act for Part B marks was not relied on. The latter provides that no relief will be

16 [1989]R.P.C. 497 at 531.

17 See also *Wilkinson Sword* v. *Cripps and Lee* [1982] F.S.R. 16 where an interlocutory injunction was granted in respect of inferior quality parallel imports. This decision was approved of by the Court of Appeal in the *Colgate* Case. Even if there are qualitative differences, the defendant may be able to untie any confusion by clearly indicating the differences to the consumer. See *Sony* v. *Saray Electronics* [1983] F.S.R. 302.

18 The Singapore Trade Marks Act Cap. 332 contains similar provisions to its United Kingdom counterpart.

granted against a defendant who is able to show that the use of the mark is unlikely to cause deception or confusion. The exclusive rights conferred by registration are set out in section 4(1) of the Act. This provides, *inter alia,:*

> "Subject to the provisions of this section... the registration... of a person ... in respect of any goods shall, if valid, give or be deemed to have given to that person the exclusive right to the use of the trade mark in relation to those goods and, without prejudice to the generality of the foregoing words, that right shall be deemed to be infringed by any person who, not being the proprietor of the trade mark or a registered user thereof. . . uses a mark identical with it or so nearly resembling it as to be likely to deceive or cause confusion, in the course of trade, in relation to any goods in respect of which it is registered,and in such manner as to render the use of the mark likely to be taken either -
>
> (a) as being use as a trade mark."

The defences relied upon by the defendants were based on section 4(3)(a) of the Act. This provides:

> "The right to the use of a trade mark given by registration... shall not be deemed to be infringed by the use of any such mark... by any person -
>
> (a) in relation to goods connected in the course of trade with the proprietor or a registered user of the trade mark if, as to those goods or a bulk of which they form part, the proprietor or the registered user conforming to the permitted use has applied the trade mark and has not subsequently removed or obliterated it, or has at any time expressly or impliedly consented to the use of the trade mark."

Section 4(3)(a) would provide a defence if either one of the following were established:

1) That the trade mark had been applied to the goods dealt with by the defendants, by the registered proprietor or registered user and that they had not been subsequently removed or obliterated; or

2) That the registered proprietor or registered user had at any time consented to the use of the trade mark.

Falconer J. held that the first line of defence failed because neither the registered proprietor (Colgate US) or the registered user (Colgate UK) had applied the United Kingdom registered trade marks to the parallel imports. The marks applied to the Brazilian toothpastes were applied by Limitada in pursuance to the licence agreement between Limitada and Colgate US. That agreement clearly restricted Limitada's rights to the trade marks registered in Brazil. Even if the application of the Brazilian marks could be regarded as an application by Colgate US, the defence was not established. This was because the section only applied to cases where the marks applied were causally related to the rights secured by the United Kingdom registration. On appeal, Slade L.J. agreed with the view that section 4(3)(a) was confined to the United Kingdom registered marks and that the United Kingdom trade marks had not been applied to the Brazilian products by Limitada, Colgate US or any one else. Similar views on the construction of the section had been advanced in the earlier decision in *Castrol* v. *Automotive Oil Supplies.*[19]

Even if this construction was wrong, the defendants would still have to show that the application of the trade marks by Limitada constituted an application by Colgate US. The main authority in the defendants' favour was the decision in the *Revlon* case. There, Templeman L.J. (as he then was) held that the application of the Revlon marks by Revlon Inc. fell to be treated as the application by its subsidiary, Revlon Suisse. He concluded that section 4(3)(a) could not be evaded by substituting the monkey for the organ grinder. Buckley L.J. disagreed on the basis that it would be inappropriate to treat the acts of the parent company as the acts of the subsidiary. As he put it, "the act of the hand may be caused or permitted by the brain, but the actions of the brain cannot be caused or controlled by the hand." Implicit in this statement, is the concept that an application of trade marks by a wholly owned subsidiary is to be treated as an application by the parent company. If this were indeed the law, it would be difficult to see how the conclusion could be reconciled with the concept of individual corporate personality. It could only be supported if some ground could be found to lift the veil of incorporation. No such ground would appear to have existed. Neither would it have been possible to regard Limitada as the alter ego or amanuensis of Colgate US. No final decision on this point was reached by the Court of Appeal since it was unnecessary to do so in light of the construction placed on section 4(3)(a).

The second defence based on consent also failed. Falconer J. held that neither Colgate UK nor Colgate US had consented to the use of the United Kingdom registered trade marks. Colgate US only consented to the use by Limitada of the Brazilian trade marks. Limitada's ability to use the Colgate marks on export goods being strictly regulated by the agreement with Global. At no time did the plaintiffs expressly or impliedly consent to the use of the marks by Limitada on toothpaste destined for the United Kingdom. Falconer J. also opined that there was no need to prove that the defendant had knowledge of the absence of consent in order for liability to arise. In any case, even if knowledge was needed, the second defendant was aware that Telexport had obtained the toothpaste from Limitada on condition that they were destined for Nigeria.

On appeal, Slade L.J. agreed that there was no relevant express consent. The critical issue was one of implied consent. Again the main authority cited for the defendants was the *Revlon* case. There the Court of Appeal had unanimously held that the registered proprietor and registered user of the United Kingdom Revlon marks had impliedly consented to the use of the marks by Revlon Inc. The latter was the United States parent company and both the registered proprietor and registered user in the United Kingdom were subsidiaries. Revlon Inc. by virtue of its complete corporate control could override any objections raised by any subsidiary as to the use of the marks. From this control, consent was implied to the use of the marks. One other important aspect of the *Revlon* case is that there was no material qualitative difference in the United States and United Kingdom

[19] [1983] R.P.C. 315. Here the parallel imports concerned motor oil produced and sold under the CASTROL mark. The Canadian licensee of the marks was given a limited licence to use the marks only in Canada. An export embargo notice was attached to the goods. Qualitative differences also existed which helped to underline the importance of restricting the Canadian oil to the Canadian market.

hair shampoo products. The facts in the *Colgate* case, as already noted, were materially different. The trade marks were applied in Brazil by Limitada, the Brazilian licensee. Limitada was a subsidiary of Colgate US. Likewise, Colgate UK was a subsidiary of Colgate US. Limitada was at all times under the control of Colgate US. Its ability to produce COLGATE marked products for the export market being narrowly controlled by the agreement with Global. Further there were significant qualitative differences between the Brazilian toothpastes and those produced in the United Kingdom. There was every reason for Colgate UK and Colgate US to wish to exclude Brazilian toothpaste products from the United Kingdom market given the qualitative differences. Accordingly, Slade L.J. agreed that no implied consent could be read in. Similar views were also expressed by Lloyd L.J. The defences set out in section 4(3)(a) were predicated upon a finding that the application or consent related to the rights secured by the United Kingdom registration.This was so even though in form the Brazilian marks were the same as the United Kingdom marks. Given the domestic territorial nature of the rights created by the Trade Marks Act 1938, this is a conclusion supported with considerable legal force and logic, notwithstanding the metaphysical nature of trying to distinguish two marks which look the same.[20] To the question - which trade mark has been applied, the answer apparently is not to be found blowing in the wind, but in the intention of the proprietor. On the facts, Colgate US clearly only consented to the application of the Brazilian marks in respect of the toothpaste made by Limitada.

Conclusion

The decision of the Court of Appeal in the *Colgate* case has helped to clarify important points on the Law of Passing-Off and Trade Mark Infringement, especially in relation to the problem of parallel imports.

It establishes that passing-off does have a limited role to play in controlling parallel imports, at least where there is a material qualitative difference between the products in issue. What is not entirely clear is whether the action should be allowed to succeed where there is no qualitative difference. The decisions in the *Revlon* and *Colgate* cases can be interpreted as setting up a principle of law, that where the same quality, class or type of product is marketed under a particular trade mark, by the proprietor or licensee of the mark, that under English Common Law, no action for passing-off can be sustained in respect of subsequent dealings with those products. Furthermore, if there are no qualitative differences between the parallel imports and the goods made within jurisdiction, tricky questions could arise on the likelihood of damage. Where the goods have been altered by the defendant, an action based on passing-off as to quality can of course still be brought.[21]

20 See however, Cornish, W.R. *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (2nd Ed.) at para. 18 -004.

21 See for example, *Sony* v. *Saray Electronic* [1983] F.S.R. 302 where television sets made for the US market were adapted for the UK market by the parallel importers without the consent of Sony. It should also be noted that the goodwill might also extend to cover matters such as after sales service and systems of authorised dealerships. A false claim on the latter by a parallel importer might arise in liability. See *Consumers Distributing Co. Ltd.* v. *Seiko Time Canada Ltd.* (1984) 10 D.L.R. (4th) 161 and *Sony* v. *Saray Electronics.*

A less severe interpretation would be to confine the decisions to their particular facts. In the *Revlon* case, the goodwill had been developed on an international basis. The reputation in the United Kingdom in the Revlon marks was international in content. Goods sourced from that international market (United States) told no lies. They were exactly what they claimed to be. Viewed this way, the *Revlon* decision does not necessarily stand for the proposition, that as a matter of law, passing-off can never be brought to stop parallel imports of 'genuine goods'. The *Colgate* case could be interpreted as one where the qualitative difference was the very feature which helped to establish a national goodwill. On balance, it is submitted, that in theory it should be possible for a national goodwill to develop in a mark even though there are no differences in quality between the goods made within jurisdiction and those made outside.The reality may however be different. In the context of parallel imports it may be that the absence of any sensible qualitative difference will render the goal of proving goodwill based on a national reputation of origin, an almost impossible task. Either way, it is clear that qualitative differences are extremely important in any passing-off action that is brought to restrain parallel imports.

The ability of the registered proprietor of a trade mark to assert his statutory rights to stop parallel imports has also been clarified. The *Colgate* decision together with the *Castrol* case makes it clear that the defences set out in section 4(3)(a) of the Act are to be confined to cases where it is the United Kingdom marks which have been applied. Even if the marks are identical, a legal distinction has to be made between the marks which have been registered in multiple jurisdictions. The *Revlon* case would also appear to have been confined more closely to its facts. There, consent was established, largely because of the corporate control of parent over subsidiary. This coupled with the absence of any qualitative difference made the inference of consent irresistible. In the *Colgate* case, the contractual controls on the export rights of Limitada, together with the qualitative differences, were the main reasons for the finding of no consent. What is perhaps a little unclear is whether qualitative differences are determinative of the issue of consent. Certainly Slade L.J. placed a fair amount of judicial emphasis on this factor. It is however submitted that qualitative differences are but one of a whole host of factors which the court can turn to in evaluating consent. Other factors will include express embargoes on use attached to the trade marked products and contractual limitations imposed on licensees as to the right to export. The totality has to be looked at. The absence of any one factor need not necessarily be fatal to the plaintiff's case. After all, whilst in the *Castrol* case there was an express embargo attached to the products, there was no such notice in the *Colgate* case. The common denominator in both were the qualitative differences in the products concerned. In the *Revlon* case, there was no qualitative difference and it was unclear as to whether there was any resale limitation imposed when the shampoo was released onto the United States markets. Qualitative differences, whilst not essential, are important factors. This point brings this Case Comment back to its starting point. Is it in the wider public interest to seal up national markets against the competition of parallel imports of genuine goods? In the absence of sensible qualitative differences, a serious question must arise as to whether it is necessary to go so far. The apparent importance attached by the decisions to qualitative differences underscores these wider policy concerns. Qualitative differences that relate to suitability for use or safety would invoke strong arguments. Other differences may also suffice so long as they are real and not imaginary. It is this writer's view that the emphasis on the "qualitative difference" factor is to be welcomed so as to stop the growth of unreasonable monopoly power in the realm of parallel imports.[22]

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22 See also *Winthrop Products Inc & Anor.* v. *Sun Ocean (M) Sdn. Bhd. & Anor.* [1988] 2 M.L.J. 317 for a Malaysian decision on parallel imports which follows the *Revlon* decision. There the plaintiffs were members of a world wide group which manufactured analgesic under the PANADOL mark. The parent company was Sterling Drug Inc. a US corporation. The plaintiffs were the Malaysian registered owners and users of the marks in Malaysia. They were the wholly owned subsidiaries of Sterling Drug Inc. The defendants imported into Malaysia for sale Panadol products made in UK. The marks were the same. The products were the same. No express export notices were attached to the packaging. Passing-Off failed since there was no deception as to either origin or quality. Trade Mark infringement also failed because the defendants were able to set up the defence in the Malaysian equivalent of s.4(3)(a) - see s.52(3)(a) Trade Mark Ordinance No. 26 of 1950. V.C. George held that "where a parent company chooses to manufacture and sell... through subsidiary companies in different parts of the world products which bear the same trade mark, neither the parent or any member of the group nor any subsidiary can complain in Malaysia if those products are sold and resold under that trade mark." He also held (rightly?) that user by the parent or any one of its subsidiaries is user by the proprietor. He also concluded that since the plaintiffs were unable to object to the use of the marks in UK by other members of the Sterling group, that implied consent had been established. The result of the decision seems equitable enough - however, there was no reference to the legal distinction now drawn between the marks in the various jurisdictions. For a general survey of parallel imports and Intellectual Property rights, see Brown, "Parallel Importation: A New Zealand Perspective" [1989] 8 E.I.P.R. 275.

* Dip. Law, LL.M. (Lond.), Barrister (I.T.), Advocate & Solicitor, Supreme Court of Singapore, Senior Lecturer, Faculty of Law, National University of Singapore.