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Introduction

The question you ask goes to the fundamentals of trade mark law. If it is accepted that a trade mark in the modern law is no more than an emblem in which absolute rights exist and which can be freely traded, then it would follow that it could be disposed of without restriction, like any other property.

This assumes that the function of the trade mark as designating origin has fallen away and that its sole function, now, is to distinguish between goods.

If the function of a trade mark still includes an indication of origin, then the use of the identical indication of origin by two differing entities must inevitably be deceptive. Deceptive use vitiates a registered trade mark.

The Law

The South African Trade Marks Act, No. 194 of 1993 provides at section 10, subsections 12 and 13 as follows:

1. **Unregistrable trade marks** – the following marks shall not be registered as trade marks or, if registered, shall, subject to the provisions of sections 3 and 70, be liable to be removed from the register:
    1. A mark which is inherently deceptive or the use of which would be likely to deceive or cause confusion, be contrary to law, be *contra bonos mores*, all be likely to give offence to any class of persons;

    2. A mark which, as a result of the manner in which it has been used, would be likely to cause deception or confusion;"

The question then, is whether ownership of the identical mark, albeit for differentiated goods or services would be "likely to deceive".

In the New Zealand case of *Pioneer Hi-Bred Corn Co. v Hyline Chicks Pty Ltd [1979] RPC410 423* as quoted in Shanahan Second Edition the New Zealand judge Richardson J explained: ""Deceived" implies the creation of an incorrect belief or mental impression … Where the deception or confusion alleged is as to the source of the goods, deceived is equivalent to being mislead into thinking that the goods bearing the applicant's mark comes from some other source and confused to being caused to wonder whether that might not be the case".

In the situation proposed, the trade mark would no longer indicate a single source but would indicate two unconnected sources. No doubt, the goodwill attaching to the trade mark would also be divided since a certain goodwill will attach to the one set of goods and services and a certain goodwill will attach to the other set. This is tantamount to an assignment which is expressed to the "without goodwill" but which leaves both the assignor and the assignee deceptively utilising the same attractive force. That this is not permitted in the US law is quite clear. The 9th circuit court of appeal has stated: "The law is well settled that there are no rights in a trade mark alone and that no rights can be transferred apart from the business with which the mark has been associated." *Mister Donut of America, Inc v Mr. Donut, Inc 418 F2d 838, 842, 164 USPQ 67, 69(CA) 9 1969.*

In the *1998* case of *Berni v International Gourmet Restaurants of America Inc* it was stated that rights in trade marks cannot be bought and sold as if they were common property, independent of any interest in an ongoing business because "a mark is not property that may be assigned" in gross." "If a trade mark is assigned in gross, then the assignee obtains the symbol divorced from its goodwill. The assignee may subsequently employ the mark in connection with a different business, a different product or service, in a different goodwill. As Dr Lisa H Johnston stated in her article "Drifting Toward Trade Mark Rights In Gross", in volume 85 of the Trade Mark Reporter [published by INTA], having discussed the above cases "Thus, the rule prohibiting assignments in gross protects consumers from the confusion and deception resulting from a discontinuity in the nature or quality of a product that the trade mark symbolises." She also referred in her article to the case of
Thomas Pride Mills, Inc v Monsanto Co., 155 USPQ 205, 208(ND Ga 1967)
where it was stated "The primary functions of a trade mark are to indicate a single source of origin of the articles to which it refers and to offer assurance to ultimate consumers that articles so labelled will conform to quality standard established and, when licensed to others, controlled by the trade mark proprietor."

I am mindful that you have opinion that the proposed split would be acceptable both in the UK and in the US under current law. My reading of the position under US law differs from that view as may have been illustrated above. The South African law has traditionally been closely similar to the UK law and UK authority is much used (together with reference to US authority) to establish what the South African law is. Before the passing of the South African 1993 Trade Marks Act, it would have been a fair assumption to say that the position in South Africa was much the same as the position in the UK under the 1938 Trade Marks Act, and before. The leading case was apparently the *Sinclair case (1932) 49 R.P.C.123* which, although relating to the position before the 1938 Act, held that an assignment under the 1905 Act required the assignment together with the goodwill of the entire business in which the mark was used. Where the entire business was not assigned, it was held that the assignment was bad. This position was modified by the 1938 Act, as you no doubt know and it would seem under that Act a part of the goodwill could be assigned, but Kerly (12th edition) page 244 states:

"If, however, the result of a particular transfer should be that the mark assigned becomes deceptive, the registration could (it would seem) be expunged as invalid, notwithstanding that the assignment as such was not open to challenge."

There is no direct South African authority on the point. However, if it is borne in mind that the EC directive that brought about the harmonisation of the trade mark laws in Europe, and also brought about our 1993 Act noted that the function of a trade mark is: "In particular to guarantee the trade mark as an indication of origin" – then it would follow that origin is still an important function.

There has been one judgment in this country which indicates a change of attitude to marks (the case of *Abott Laboratories and others v UAP Cropcare (Pty) Limited and others, 1999(3)SA624(CPD)),* a decision by a single judge of the Cape Provincial Division in which it was stated by Cleaver, J:

"…there has been a shift in our legislation to elevating the distinguishing feature of a trade mark as its main purpose."

His reason for stating this was based on a mistaken impression that the South African Act did not follow the EC Directive (the explanatory memorandum makes it very clear that it was intended to follow the directive) and a change in the language used to define a trade mark. Under our 1963 Trade Marks Act, a trade mark was defined as follows:

"Other than a certification mark, means a mark used or proposed to be used in relation to goods or services for the purposes of –

1. indicating a connection in the course of trade between the goods or services and some person having the right, either as proprietor or as a registered user, to use the mark, whether with or without any indication of the identity of that person; and
2. distinguishing the goods or services in relation to which the mark is used or proposed to be used, from the same kind of goods or services connected in the course of trade with any other person."

In the 1993 Act, the definition reads:

"Other than the certification trade mark or a collective trade mark, means a mark used or proposed to be used by a person in relation to goods or services for the purpose of distinguishing the goods or services in relation to which the mark is used or proposed to be used from the same kind of goods or services connected in the course of trade with any other person."

It will be seen that the language of the second part of the 1963 Act definition is used to the virtual exclusion of the language of the first part of the previous definition. To say that this does away entirely with the origin function of the mark is, to some, a seductive argument. The judgment, however, referred to a change of emphasis and the retention of language relating to a mark becoming deceptive is inconsistent with the removal of the origin function. This is because a mark is deceptive when it constitutes a misrepresentation as to source.

In researching this point, I was reminded that the US Lanham Act makes provision for cancellation of a trade mark for a registrant misrepresentation of source in terms of section 14(3). An article by Theodore H Davis, Junior in the same volume 85 of the Trade Marks Report to which I referred above goes into detail on this issue. It is interesting that section 14(3) authorises cancellation "if the registered mark is being used by, or with the permission of, the registrant so as to misrepresent the source of the goods or services on or in connection with which the mark is used." From the article it appears that most of the uses of this section have related to the misuse of a registered trade mark in such a way as to impinge upon the goodwill of another. Perhaps the most instructive of the cases to which he refers is at page 75 of the article where the defendants had been terminated as distributors of the plaintiff's **LIQUID GLASS** car polish. The defendants then purchased from a third party the rights to the federally registered trade mark **LIQUI-GLASS** for the same goods but then adopted a trade dress closely similar to that of the plaintiff. The court found this conduct adequate to warrant cancellation of the defendant's registration in view of the defendant's failure to fulfil their duty as a former distributor to distinguish their goods.

The next question to consider is whether the trade mark would remain "capable of distinguishing" or, in other words, distinctive.

In South Africa, as in the UK, the decision in the *Bowden Wire* case was generally accepted as laying down the principle that the licensing of a trade mark vitiated the trade mark on the grounds that public deception would result in that the trade mark would cease to be distinctive. In the UK, as you no doubt know, the "GE" case modified that position but, in South Africa, use of a registered trade mark by a wholly owned subsidiary of the registered proprietor, where the subsidiary was not a registered user, was held, in a full bench decision of the Transvaal Provincial Division, to be insufficient save the trade mark from expungement on grounds of non-use by the registered proprietor. That was in 1983. The decision has since been criticised locally, but is generally accepted to have been correct under the previous law.

Since, with the proposed splitting of ownership, what I presume to be a presently distinctive trade mark will no longer be distinctive of either party, it is my view that it will become vulnerable to expungement in terms of section 10(2)(a) in that it will have become incapable of distinguishing within the meaning of section 9 which requires that a trade mark should be capable of distinguishing the goods or services of one person from those of another. Here, where two people own the same trade mark, the trade mark clearly could not distinguish between their goods, or services, as the case may be.

This comes into sharper focus if we consider the rights granted by section 34(1)(c) which is the South African provision which makes a trade mark dilution actionable. The relevant portions of the provision read as follows:

"A trade mark shall be infringed by the unauthorised use in the course of trade in relation to any goods or services of a mark which is identical or similar to a trade mark registered, if such trade mark is well known in the Republic and the use of the said mark would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark, notwithstanding the absence of confusion or deception."

The proposed splitting of ownership and then use with the split goodwill will clearly be, as demonstrated above, detrimental to the distinctive character or repute of the registered trade mark. This is the case even if the use of the second feature proposed by the one party to be used in conjunction with the shared mark is sufficient to prevent deception. It is in fact the entire basis for the theory of trade mark dilution and the inescapable fact is that the two companies will be diluting their shared asset.

In practical terms this may mean very little until a third party allegedly "dilutes". How, in that event, would either company take action against that third party in terms of this section? I suggest that such action would be impossible and the third party alleged "dilutor" would be able to carry on regardless.

The problem is even further illustrated by considering the situation where there are unforeseen changes of management and direction from the one half of the enterprise which causes problems for the other. The one half may embark on a disastrous advertising campaign such as that of **BENETTON** and destroy the repute of the shared mark. The other half would inevitably be affected by factors beyond its control and, as the architect of its own misfortune, could hardly seek to enjoin the activities of the other half.

Conclusion

As a practical matter, from the point of view of persuading the South African Registrar to permit the split of registrations in this country, I would expect little difficulty provided written consents were furnished by both sides. Any objections are theoretical, but they go to the heart of the nature and function of a trade mark. If the question of validity was brought before our courts, there is a very strong prospect of our courts finding that the shared mark has been vitiated.

Accordingly, my advice would be to establish a third party holding company to administer the trade mark and to hold the rights in it without division. Both new companies should pay royalties to this company and this company should employ a person for the express purpose of exercising control over the use of the mark. Naturally, both new companies would be represented on the board of the new third party entity so that control over this entity would be shared. This would prevent any future surprises and ensure the consistent development of the trade mark as an asset.