

Caterham Car Sales & Coachworks Ltd v Birkin Cars (Pty) Ltd & another
[1998] 3 All SA 175 (A)

Division: Supreme Court of Appeal
Date: 27 May 1998
Case No: 393/95
Before: Smalberger, Harms, Marais, Schutz and Plewman JJA
Sourced by: JJF Hefer and I Potgieter
Summarised by: S Moodliar
Parallel Citation: [1998 \(3\) SA 938](#) (SCA)

. [Editor's Summary](#) . [Cases Referred to](#) . [Judgment](#) .

Jurisdiction - Passing-off action - Whether or not a court has jurisdiction does not depend on where the goodwill of the plaintiff is located - Where the defendants reside within the area of the court, such court has jurisdiction to hear the matter - If defendants are not resident within the area of the court, the court will have jurisdiction if the claim arose within its jurisdiction.

Passing-off - Elements of - Reputation - Reputation as a component of goodwill - Where goodwill is located - What a plaintiff in a passing-off action has to establish in respect of reputation.

Editor's Summary

The Appellant ("Caterham") claimed exclusivity for its product, the Caterham Seven or Super Seven, and alleged that the Birkin Seven, the product of the first Respondent ("Birkin") was being passed off as that of Caterham's. The Caterham Seven and the Birkin Seven were both replicas of the Lotus Seven Series III sports car. There were no registered trade marks, designs or patents that had a bearing on Caterham's rights.

Caterham's main claims in the trial court related to copyright infringement. All the original claims were dismissed by the trial court; leave to appeal on copyright was refused but the court *a quo* granted leave to appeal on passing-off. On appeal, Caterham limited the relief sought to an interdict restraining Birkin from manufacturing, marketing, selling and exporting from South Africa a sports car having the distinctive shape and configuration using the numeral Seven.

Held - The Court held that a distinction had to be made between the issue of jurisdiction and the issue of where the goodwill of Caterham was located. The court below had jurisdiction because the Respondents resided within its area. Had the Respondents not been residents of the court below, the question would have been whether the claim in delict had arisen within its jurisdiction.

The Court held that the germane question *in casu* concerned the elements of the delict of passing-off; these were reputation, misrepresentation and damage. The Court noted that the essence of an action for passing-off was to protect a business against a misrepresentation that the business, goods or services of the representor were that of the business or were associated therewith. Such a misrepresentation could be committed only in relation to a business that had goodwill, viz the totality of attributes that lure or entice clients or potential clients to support a particular business. The components of goodwill included the locality and the personality of the driving force behind the business, business licences, agreements such as restraints of trade and reputation. The only component of goodwill of a business which could be damaged by means of passing-off was its reputation which was why proof of the relevant reputation was the first

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requirement for a successful passing-off action. It was thus incorrect to equate goodwill with reputation. The Court held further that the fact that, under certain circumstances, the locality of a business might be a component of goodwill did not mean that goodwill could only exist where the business was located.

The correct issue to be established in a passing-off action was whether the plaintiff had, in a practical and business sense, a sufficient reputation amongst a substantial number of persons who were either clients or potential clients of his business. The "location" of the reputation had to subsist where the misrepresentation complained of caused actual or potential damage to the drawing power of the plaintiff's business. The locality of the plaintiff's business was not irrelevant and was an important consideration in determining whether the plaintiff had potential clients and whether the alleged misrepresentation caused his business any harm. The extent of a business's reputation and the scope of its activities were also relevant to the probability of deception and to damages; the smaller the reputation, the smaller the likelihood of deception and of damage.

A plaintiff had to establish distinctiveness of his goods or services to prove reputation. Further, the reputation had to have been in existence at the time that the defendant entered the market.

Applying the above principles to the instant case, the Court concluded that Caterham had failed to establish the reputation upon which it relied for its passing-off action. The appeal was accordingly dismissed with costs.

Notes

For Jurisdiction, see LAWSA Re-issue (Vol 11, paragraphs 423-611)

For Passing-off, see LAWSA Re-issue (Vol 2, paragraphs 376-408)

Cases referred to in judgment

("C" means confirmed; "D" means distinguished; "F" means followed and "R" means reversed.)

South Africa

A Becker and Co (Pty) Ltd v Becker and others [1981 \(3\) SA 406](#) (A)

Adcock-Ingram Products Ltd v Beecham SA (Pty) Ltd [1977 \(4\) SA 434](#) (W)

Botha and another v Carapax Shadeports (Pty) Ltd [1992 \(1\) SA 202](#) (A)

Brian Boswell Circus (Pty) Ltd and another v Boswell-Wilkie Circus (Pty) Ltd [1985 \(4\) SA 466](#) (A)

Capital Estate and General Agencies (Pty) Ltd and others v Holiday Inns Inc and others [1977 \(2\) SA 916](#) (A)

Hoechst Pharmaceuticals (Pty) Ltd v The Beauty Box (Pty) Ltd (in liquidation) and another [1987 \(2\) SA 600](#) (A)

Imprefed (Pty) Ltd v National Transport Commission [1993 \(3\) SA 94](#) (A)

Jacobs v Minister of Agriculture [1972 \(4\) SA 608](#) (W)

Lorimar Productions Inc and others v Sterling Clothing Manufacturers (Pty) Ltd [1981 \(3\) SA 1129](#) (T)

McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty) Ltd and another [\[1996\] 4 All SA 1](#) (A); [1997 \(1\) SA 1](#) (A)

O'Kennedy v Smit [1948 \(2\) SA 63](#) (C)

Receiver of Revenue, Cape v Cavanagh 1912 AD 459

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Reckitt & Colman SA (Pty) Ltd v S C Johnson & Son SA (Pty) Ltd [1993 \(2\) SA 307](#) (A) - F

Rogaly v General Imports (Pty) Limited [1948 \(1\) SA 1216](#) (C)

Roos v Engineering Fabricators (Edms) Bpk [1974 \(3\) SA 545](#) (A)

Schultz v Butt [1986 \(3\) SA 667](#) (A)

Scott and Leisure Research and Design (Pty) Ltd v Watermaid (Pty) Ltd [1985 \(1\) SA 211](#) (C)

Slenderella Systems Incorporated of America v Hawkins and another [1959 \(1\) SA 519](#) (W)

Standard Bank of South Africa Ltd and another v Ocean Commodities Inc and others [1983 \(1\) SA 276](#) (A)

Thomas v BMW South Africa (Pty) Ltd [1996 \(2\) SA 106](#) (C)

Tie Rack plc v Tie Rack Stores (Pty) Ltd and another [1989 \(4\) SA 427](#) (T)

Union Wine Ltd v E Snell & Co Ltd [1990 \(2\) SA 180](#) (D)

Van der Westhuizen NO v United Democratic Front [1989 \(2\) SA 242](#) (A)

Victoria's Secret Inc v Edgars Stores Ltd [1994 \(3\) SA 739](#) (A)

Weber-Stephen Products Co v Alrite Engineering (Pty) Ltd and others [1992 \(2\) SA 489](#) (A)

Williams t/a Jenifer Williams & Associates and another v Life Line Southern Transvaal [1996 \(3\) SA 408](#) (A)

Australia

Conagra Inc v McCain Foods (Aust) Pty Ltd 23 IPR 193, [1992] 106 ALR 465

United Kingdom

Anheuser-Busch Inc v Budejovicky Budvar NP (trading as Budweiser Budvar Brewery) and others [1984] FSR 413 (CA)

Consorzio del Prosciutto di Parma v Marks & Spencer PLC and others [1991] RPC 351 (CA)

Erven Warnink BV and another v J Townend & Sons (Hull) Ltd and another [1979] AC 731

Reckitt & Colman Products Ltd v Borden Inc and others [1990] RPC 341 (HL)

Star Industrial Company Limited v Yap Kwee Kor (trading as New Star Industrial Company) [1976] FSR 256 (PC) 269

The Commissioners of Inland Revenue v Muller & Co's Margarine Limited [1901] AC 217 (HL)

United States

Cuba Railway Company v Walter E Crosby [1912] 222 US 473

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HARMS JA

[1] This is a passing-off case and concerns the exclusive right to manufacture, market and sell reproductions of the Lotus Seven Series III sports car. The appellant (the plaintiff, "Caterham") claims exclusivity for its product, the Caterham Seven or Super Seven, and alleges that the Birkin Seven, the product of the first respondent (the first defendant, "Birkin") is being passed off as that of Caterham's. Both these sports cars are replicas of this particular Lotus model, a

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car with a classic and distinctive shape and appearance. (I use the term "replica" to mean a copy or reproduction made by someone other than the original designer.) Even an expert finds it difficult to distinguish between these three cars from a relatively short distance.

[2] The essence of Caterham's contention on appeal is that the use of the numeral Seven has become distinctive of a sports car having the particular shape and external configuration of the Lotus Seven Series III and that the use of a Seven in relation to a sports car having this shape and configuration serves to identify the car as emanating from Caterham or its predecessor. Caterham, at the hearing of the appeal, abandoned any claim for damages and limited the relief sought to an interdict restraining the respondents from manufacturing, marketing, selling and exporting from South Africa a sports car having the said shape and configuration which uses upon or in relation thereto the numeral Seven in either alphabetic or numeric form. There are no registered trade marks, designs or patents that have a bearing on Caterham's rights. It is no longer argued that Birkin was guilty of the general delict of unfair competition as set out in *Schultz v Butt* [1986 \(3\) SA 667](#) (A). More importantly, the application of the principles concerning passing-off in relation to a get-up shorn of a distinctive name do not form part of Caterham's case on appeal (cf. *Weber-Stephen Products Co v Alrite Engineering (Pty) Ltd and others* [1992 \(2\) SA 489](#) (A); *Reckitt & Colman Products Limited v Borden Inc and others* [1990] RPC 341 (HL)). The reasons will become apparent. Initially Caterham's main claims related to copyright infringement. All the original claims were dismissed by the trial judge, Howard JP, in the Durban and Coast Local Division. He refused leave to appeal on copyright but granted leave on passing-off.

[3] For the background facts I rely heavily upon the judgment of Howard JP, and what follows is in part a quotation from it. The Lotus Seven sports car was designed by the late Colin Chapman and developed, manufactured, marketed and sold from about 1957 to 1972 by one or more companies in the Lotus group which Chapman founded. Nothing turns on the structure of the Lotus group and I shall refer to these companies singly and collectively as "Lotus". The Lotus Seven was

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designed as a relatively cheap sports car which would appeal to motor racing enthusiasts. Four models were designed and built consecutively and they were identified as the Series I (1957), Series II (1960), Series III (1968) and Series IV (1970) respectively. There is a suggestion that Chapman did not have a hand in the design of the last model and that it was marketed somewhat against his will, but that is of no consequence. Of importance to this case is the Series III.

[4] Caterham is a company incorporated and registered in England and it carries on business as a motor dealer and manufacturer of sports cars at Caterham in Surrey. It became a distributor of Lotus cars in 1959 and the sole distributor of Lotus Seven sports cars in the United Kingdom from about 1965. Lotus ceased manufacturing any car in the Seven series in 1972, by which stage the version then in production was the IV. In terms of a written agreement dated 28 February 1973 the plaintiff purchased from Lotus, *inter alia*,

- "(i) the exclusive right to manufacture, sell and distribute Lotus Seven Series IV cars (and subsequent series thereof) in the United Kingdom and certain European countries;
- (ii) the right to manufacture, sell and distribute spare parts for Lotus cars of whatever series and the exclusive right to describe itself as 'Lotus Seven Spares Distributor', and

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- (iii) the right to use the Lotus symbol in connection with the manufacture, sale and distribution of spare parts but not otherwise."

(My underlining.)

[5] Pursuant to this agreement Caterham manufactured and sold about 30 Series IV cars. Thereafter it began manufacturing the earlier Series III, using jigs, tools and drawings which it had received from Lotus, presumably for the purpose of manufacturing spare parts for that model. Lotus acquiesced in the manufacture and sale of the Series III cars and accepted payment of royalties in respect of them as though they had been manufactured pursuant to the agreement. Since then Caterham has continued to manufacture the Series III, with modifications and improvements from time to time, and to market and sell it as the Caterham Super Seven car. (The evidence is not always consistent and reference is also made to the car as a Caterham Seven.) Subsequently, during the period 1985 to 1988, Lotus and Caterham entered into a number of agreements in which copyright and, more importantly for purposes of this case, the alleged rights to goodwill and to the unregistered trade marks *Seven*, *Super Seven* and *Super 7* were assigned to Caterham. There was an initial assignment during 1985 relating to the UK and Europe, but it was superseded in 1988 by an assignment of all the rights to and in these trade marks together with the goodwill in the business of manufacturing and selling Lotus Seven cars in all countries in the world excepting North America.

[6] Birkin is a local company which carries on business as a manufacturer of sports cars at Pinetown. Its replica of the Lotus Seven Series III is marketed and sold in South Africa under the name of Birkin Seven or

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Super Seven and is also exported to Japan. Watson (the second respondent/defendant) is the managing director of Birkin. Howard JP found no reason to disbelieve his evidence as to how he designed and developed the Birkin model. He is a mechanical engineer with considerable experience in building and working on sports cars. From about 1981 when he moved to Durban and started an engineering business he became acquainted with a syndicate of people who were engaged in building replicas of the Series III. He purchased a chassis from a member and built a replica for himself. He also made parts for other members of the syndicate and by the end of 1982 he had recognised a commercial opportunity.

[7] Watson knew that Lotus was no longer making the Series III and that Caterham was manufacturing a replica. During January 1983 he proposed to Caterham's managing director, Mr Nearn, that Birkin be licensed to manufacture and distribute Caterham Super Seven cars in South Africa. The terms upon which the plaintiff was prepared to do business with Birkin were unacceptable to Watson and the proposal was dropped. Watson thereafter approached Status Cars (Pty) Ltd in Pietermaritzburg, the local distributor and service agent for Lotus. This culminated in an agreement of 20 January 1983 in which Status Cars recorded that Lotus had accepted in principle a proposal that Birkin would manufacture a replica of the Lotus Seven Series III under licence to Lotus but not bearing the Lotus name, that the vehicle would be marketed through Status Cars and that it would be named the *Classic Super Seven*. Watson went ahead with the venture believing that he had the approval of Lotus.

[8] Birkin produced a prototype for a launch in Pietermaritzburg on 12 October 1983. Present were Chapman's widow, Mrs Hazel Chapman, Peter Waugh, the manager of Team Lotus International Ltd, Nigel Mansell and Elio de

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Angelis, the Team Lotus Formula 1 drivers, and Mike Bishop who was the export sales manager for Lotus. Team Lotus International Ltd was involved in Formula 1 motor racing and was not a member of the Lotus group. Mrs Chapman unveiled the prototype and the launch received wide press publicity. Birkin produced these cars for Status Cars in accordance with their arrangement. Twelve were produced during the period from 15 December 1983 to 14 January 1985. Thereafter a written contract was concluded in terms of which Birkin granted to Lotus Motors (Pty) Ltd, the successor of Status Cars as local agent of Lotus, the exclusive right to sell worldwide all Classic Super Seven vehicles manufactured by Birkin. The venture was not a success and was terminated in August 1985.

[9] At about the same time Watson reopened negotiations with Nearn for a licence. These foundered, with Nearn threatening legal action for infringement of copyright, knowing full well that he had no such rights. Birkin did not have the financial resources to continue with the production of complete cars and so reverted to manufacturing replacement and conversion parts for existing cars and to supplying kits comprising chassis, suspension parts and other components which

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enthusiasts could not obtain elsewhere. With an injection of funds Birkin was eventually able to resume the full-time manufacture of complete cars marketed as Birkin Sevens or Super Sevens.

[10] I now turn to consider the issues as they emerged during oral argument. The heads of argument of Caterham tended to conceal counsel's intentions and may largely be discounted.

[11] Howard JP, after referring to some authorities, English and local, accepted as correct a statement by Webster & Page *South African Law of Trade Marks* 3ed p 420 to the effect that since the ordinary rules relating to jurisdiction apply to an action for passing-off, it is essential for the plaintiff to prove that the goodwill he seeks to protect extends to the area of jurisdiction of the court in which he sues. That, he held, meant that Caterham had to prove the existence of goodwill "generated by sales" within the area of jurisdiction of the court below. A similar statement of the law is to be found in *Star Industrial Company Limited v Yap Kwee Kor (trading as New Star Industrial Company)* [1976] FSR 256 (PC) 269:

" A passing-off action is a remedy for the invasion of a right of property not in the mark, name or get-up improperly used, but in the business or goodwill likely to be injured by the misrepresentation made by passing-off one person's goods as the goods of another. 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."

The proposition fits in with the first essential of a passing-off action as formulated by Lord Fraser in *Erven Warnink BV and another v J Townend & Sons (Hull) Ltd and another* [1979] AC 731 at 755, namely that the business of the plaintiff must consist of or include "selling in England a class of goods to which the particular trade name applies".

[12] Caterham's case as formulated in the court below was along these lines: Lotus carried on business in South Africa; Lotus had a goodwill and reputation in the Lotus Seven Series I to IV; the goodwill and reputation became that of Caterham during 1988 by virtue of the assignment from Lotus; since 1988 Birkin made a number of misrepresentations relating to its car's provenance and

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that amounted to a passing-off. The problem is that, if one applies the law as just stated, Caterham was doomed to

fail. Lotus stopped making the III before 1973, either in South Africa or elsewhere. There is also no indication that it had any business of any sort in South Africa by 1988. There was thus no residual goodwill which could have been assigned in 1988. Following a similar factual route, Howard JP dismissed the claim.

[13] It is necessary to pause and consider whether the statement in Webster & Page does not conflate two different matters, namely the elements of the delict of passing-off and the requirements for jurisdiction. The court below had jurisdiction, I would suggest, because the defendants reside within its area. Had they not been residents of that area, the question would have been whether the claim in delict had arisen within its jurisdiction (cf. *Thomas v BMW South Africa (Pty) Ltd* [1996 \(2\) SA 106](#) (C))

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127G-H). The unrelated, but for this case germane, question concerns the elements of the wrong. They are the "classical trinity" of reputation (or goodwill), misrepresentation and damage (*Conorzio del Prosciutto di Parma v Marks & Spencer PLC and others* [1991] RPC 351 (CA) 368 line 34 and 369 line 51).

[14] Our courts of first instance have so far adopted the same approach as that of the court below (*Slenderella Systems Incorporated of America v Hawkins and another* [1959 \(1\) SA 519](#) (W) 521A-522B; *Lorimar Productions Inc and others v Sterling Clothing Manufacturers (Pty) Ltd* [1981 \(3\) SA 1129](#) (T) 1138H-1140A; *Tie Rack plc v Tie Rack Stores (Pty) Ltd and another* [1989 \(4\) SA 427](#) (T) 442G-445D). These judgments are the reason for the characterisation of South Africa, with the UK, as the only major "hard line" jurisdictions left (Wadlow *The Law of Passing-off* 2ed p 98). The matter was recently debated in this court, but the question was left open (*McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty) Ltd and another* [1997 \(1\) SA 1](#) (A) 15-19). It was pointed out (at 16A-D) that the origin of the "hard line" is to be found in an oft-quoted dictum of Lord Macnaghten in *The Commissioners of Inland Revenue v Muller & Co's Margarine Limited* [1901] AC 217 (HL). Before I consider that case, it is convenient first to focus on the general principles of passing-off.

[15] The essence of an action for passing-off is to protect a business against a misrepresentation of a particular kind, namely that the business, goods or services of the representor is that of the plaintiff or is associated therewith (*Capital Estate and General Agencies (Pty) Ltd and others v Holiday Inns Inc and others* [1977 \(2\) SA 916](#) (A) 929C-D). In other words, it protects against deception as to a trade source or to a business connection (*Reckitt & Colman SA (Pty) Ltd v S C Johnson & Son SA (Pty) Ltd* [1993 \(2\) SA 307](#) (A) 315B). Misrepresentations of this kind can be committed only in relation to a business that has goodwill or a drawing power (Afrikaans: "werfkrag"). Goodwill is the totality of attributes that lure or entice clients or potential clients to support a particular business (cf. *A Becker and Co (Pty) Ltd v Becker and others* [1981 \(3\) SA 406](#) (A) 417A). The components of goodwill are many and diverse (*O'Kennedy v Smit* [1948 \(2\) SA 63](#) (C) 66; *Jacobs v Minister of Agriculture* [1972 \(4\) SA 608](#) (W) 624A-625F). Well recognised are the locality and the personality of the driving force behind the business (*ibid*), business licences (*Receiver of Revenue, Cape v Cavanagh* 1912 AD 459), agreements such as restraints of trade (*Botha and another v Carapax Shadeports (Pty) Ltd* [1992 \(1\) SA 202](#) (A) 211H-I) and reputation. These

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components are not necessarily all present in the goodwill of any particular business.

[16] The only component of goodwill of a business that can be damaged by means of a passing-off is its reputation and it is for this reason that the first requirement for a successful passing-off action is proof of the relevant reputation (*Hoechst Pharmaceuticals (Pty) Ltd v The Beauty Box*

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(Pty) Ltd (in liquidation) and another [1987 \(2\) SA 600](#) (A) 613F-G; *Brian Boswell Circus (Pty) Ltd and another v Boswell-Wilkie Circus (Pty) Ltd* [1985 \(4\) SA 466](#) (A) 479D; *Williams t/a Jenifer Williams & Associates and another v Life Line Southern Transvaal* [1996 \(3\) SA 408](#) (A) 419A-B, 420B). Misrepresentations concerning other components of goodwill are protected by other causes of action such as claims for injurious falsehoods. It is thus incorrect to equate goodwill with reputation (or *vice versa*) or to suggest that the "need for some reputation or secondary meaning to be shown ... is not a principle or rule of law" (*Union Wine Ltd v E Snell & Co Ltd* [1990 \(2\) SA 180](#) (D) 183I-J). If the protection of the reputation of a business is the only or main concern of the remedy, why is it necessary to localise goodwill for purposes of passing-off? A similar question has been posed more than once (cf. Van Heerden & Neethling *Unlawful Competition* (1995) p 178-183 and NS Page in (1990) 2 SA Merc LJ 29). The answer must be sought in *The Commissioners of Inland Revenue v Muller & Co's Margarine Ltd*, a case which the Federal Court of Australia (General Division) in *Conagra Inc v McCain Foods (Aust) Pty Ltd* 23 IPR 193, [1992] 106 ALR 465 encourages one to read as a whole and in context and not to rely on the famous dictum of Lord Macnaghten in isolation.

[17] The issue was whether a particular agreement was subject to payment of stamp duty under the Stamp Act 1891. The Act imposed stamp duty upon any agreement made in the UK except for the sale of "any property locally situate out of the United Kingdom". Simplified the facts were these. One Muller had carried on a wholesale business as manufacturer of a margarine in a town in Germany. He sold, *inter alia*, the goodwill of the business together with a covenant that he would not be engaged in a similar trade within fifty miles of that town. The main issue was whether the goodwill of the business fell within the statutory exception, the Commissioners arguing that it did not because goodwill is incorporeal and cannot be situate anywhere. The question was "whether the goodwill which is comprised in this contract has a locality for the purpose of the Stamp Act" (Lord Davey at 226). Lord Macnaghten posed the same question and proceeded to answer it (at 223-225) and I quote his speech on the subject fully with underlining added:

"Then comes the question, Can it be said that goodwill has a local situation within the meaning of the Act? I am disposed to agree with an observation thrown out in the course of the argument, that it is not easy to form a conception of property

having no local situation. What is goodwill? It is a thing very easy to describe, very difficult to define. It is the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates. Goodwill is composed of a variety of elements. It differs in its composition in different trades and in different businesses in the same

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trade. One element may preponderate here and another element there. To analyze goodwill and split it up into its component parts, to pare it down as the Commissioners desire to do until nothing is left but a dry residuum ingrained in the actual place where the business is carried on

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while everything else is in the air, seems to me to be as useful for practical purposes as it would be to resolve the human body into the various substances of which it is said to be composed. The goodwill of a business is one whole, and in a case like this it must be dealt with as such.

For my part, I think that if there is one attribute common to all cases of goodwill it is the attribute of locality. For goodwill has no independent existence. It cannot subsist by itself. It must be attached to a business. Destroy the business, and the goodwill perishes with it, though elements remain which may perhaps be gathered up and be revived again. No doubt, where the reputation of a business is very widely spread or where it is the article produced rather than the producer of the article that has won popular favour, it may be difficult to localise goodwill. But here, I think, there is no difficulty. We have it in evidence that the firm of Muller & Co had no customers out of Germany, and it is a significant fact that the protected area - the limit within which the vendor is prohibited from setting up in business - is the limit of fifty miles from Gildehaus. Moreover, under the Stamp Act of 1891 we are not required to define the local situation of the goodwill. We have only to determine whether it is or is not situate out of the United Kingdom. Surely, if there were an agreement made in England for the sale of a local German newspaper, the circulation of which did not extend beyond a limited district in Germany, no one would doubt that the goodwill of that business was locally situate out of the United Kingdom; and so it must be, I think, in the present case."

[18] The conclusion arrived at was an inevitable consequence of the question posed. As the underlined passages illustrate, the answer was neither directed at passing-off nor intended to give an all-embracing definition or analysis of the concept of "goodwill" irrespective of the context in which it appears. The fact that, under certain circumstances, the locality of a business might be a component of goodwill, does not mean that goodwill can only exist where the business is located. This Lord Macnaghten appreciated. One wonders what the drawing power of the place of business is if the business is conducted solely by post or over the Internet. There is therefore merit in the view of Lockhart J, namely that the law of passing-off should not be trammelled by definitions of goodwill developed in the field of revenue laws (*ConAgra Inc* at 232 in IPR).

[19] My earlier conclusion that reputation is pivotal to passing-off is fortified by Lockhart J's findings - in an encyclopaedic dissertation - that "reputation is the key business facet that passing off protects" and that "the requirement of 'goodwill' was not meant to have [in this context] a different meaning from reputation and [that] its inclusion only serves to complicate the matter" (at 231 *in fine*). The decisions of our courts to the opposite effect can no longer be considered to be good law. They are based upon a misunderstanding of Lord Macnaghten's dictum, they are inconsistent with general principles and incompatible with the world we live in and modern foreign jurisprudential trends. I would in any event venture to suggest that most of those cases, if not all, would have had the same result had the correct question been asked. A case such as

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Victoria's Secret Inc v Edgars Stores Ltd [1994 \(3\) SA 739](#) (A) is not in conflict with what

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I have stated simply because it was concerned with the interpretation of the repealed Trade Marks Act [62 of 1963](#) and not with passing-off.

[20] The correct question can be distilled from the judgments on passing-off of this Court mentioned earlier in paragraphs [15] and [16] and from *ConAgra Inc* (esp at 234, 237 and 269). In general terms, it appears to me to be whether the plaintiff has, in a practical and business sense, a sufficient reputation amongst a substantial number of persons who are either clients or potential clients of his business. As far as the "location" of reputation is concerned, it must subsist where the misrepresentation complained of causes actual or potential damage to the drawing power of the plaintiff's business. Otherwise the misrepresentation would be made in the air and be without any consequences. The locality of the plaintiff's business is not hereby rendered irrelevant. Obviously, it must be an important consideration in determining whether the plaintiff has potential clients and whether the alleged misrepresentation causes his business any harm. Likewise, the extent of a business's reputation and the scope of its activities are relevant to the probability of deception and to damages - the smaller the reputation, the smaller the likelihood of deception and of damage, and *vice versa*.

[21] The nature of the reputation that a plaintiff has to establish was well stated by Lord Oliver in a judgment referred to at the outset of this judgment, namely *Reckitt & Colman Products Ltd v Borden Inc and others* [1990] RPC 341 (HL) 406 lines 26-31:

"First, he must establish a goodwill or reputation attached to the goods or services which he supplies in the mind of the

purchasing public by association with the identifying 'get-up' (whether it consists simply of a brand name or a trade description, or the individual features of labelling or packaging) under which his particular goods or services are offered to the public, such that the get-up is recognised by the public as distinctive specifically of the plaintiff's goods or services."

(My underlining. See also Lord Jauncey at 417 lines 3-6.) The words underlined are pertinent and echo those of Nicholas J that -

"the plaintiff must prove that the feature of his product on which he relies has acquired a meaning or significance, so that it indicates a single source for goods on which that feature is used."

(*Adcock-Ingram Products Ltd v Beecham SA (Pty) Ltd* [1977 \(4\) SA 434](#) (W) 437A-B.) Put differently, reputation is dependent upon distinctiveness (cf. Van Heerden & Neethling p169.)

[22] The reputation relied upon must have been in existence at the time the defendant entered the market, in other words, a plaintiff cannot rely upon a reputation that overtook the business of the defendant (*Anheuser-Busch Inc v Budejovicky Budvar NP (trading as Budweiser Budvar Brewery) and others* [1984] FSR 413 (CA) 462). It must also exist when the misrepresentation is committed.

[23] There is a small group of people who are passionate about old and inconvenient cars and who are prepared to buy a replica of a car designed in 1968 in which the designer himself had lost interest in 1970. Why the

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interest in the III? According to the witnesses, it all revolves around the classic shape of a relatively cheap car. It is inexpensive because Lotus designed not much more than the chassis and body, relying on standard moving parts, such as a Ford engine and a

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Triumph gearbox. The design is ideal for use as a kit car and relatively easy to reproduce. It is considered to be special because Colin Chapman designed it - "it had a pedigree from Colin Chapman" said one of the witnesses. Chapman is famous because he designed a British car (not the Seven) which was able to compete successfully in Grand Prix races against German and Italian competition. Here was an attractive sports car with a pedigree which could be used on the road or on a track within the reach of the less affluent enthusiast.

[24] There has always been a potential, but small, local market for such a product among cognoscenti and it is only fair to assume that they knew the following facts. Lotus made four cars of different shapes, each having *Seven* as part of its name. In 1972 it stopped production of the last car in the series, namely the IV. Under licence Caterham took over the manufacture of IV's. Some time later it began to manufacture the III. It was available for export to South Africa. Lotus never produced another Seven. A number of replicas were being produced locally and around the world, including those by Birkin since 1983. Many were privately built. As early as 1984 the manufacture of replicas, in the words of Nearn of Caterham, had almost become a national pastime in South Africa. Lotus had a business presence in South Africa by virtue of its agency agreement (what it entailed we do not know) with Status Cars and the local Lotus Motors, and they distributed Birkin's replica. Caterham had hardly any market presence in South Africa. (In fact, only four cars were exported to South Africa during the early 1980's and none since.) Lotus badges are affixed to replicas by the owners as a matter of course. Local Lotus enthusiasts formed a club called The Lotus Register. Its object is to promote an interest in "Lotus" cars, not only those manufactured by Lotus but also "acceptable replicas". They keep a record of these cars and know of 71 Series III cars in South Africa: two are genuine Lotus's, there is one Caterham, there are 41 Birkins and the rest home-built.

[25] These facts are fatal to Caterham's now abandoned claim based upon the distinctiveness of the shape and configuration of the III. Lotus had lost interest in the Seven. It knew all along that replicas were being built around the world, but provided the name *Lotus* was not appropriated, it had no objection. It knew of the Birkin since its launch in 1983 and, in the words of its secretary, acquiesced in its production and refrained from taking any action. Through the inaction of Lotus, which sat by while others copied its onetime car, the distinctiveness of the car was first diluted and then destroyed. The shape of the III no longer gave any indication of its provenance.

[26] The appellant argued, however, that the use of the name Seven, which it was said is a common-law trade mark, made all the difference. The reasoning was more or less this. Lotus was, because of use, the original owner of the reputation in a car with the shape of the III and carrying the name Seven. Lotus licensed Caterham to manufacture the

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III and to use the trade mark *Seven*. Caterham utilised its rights under the licence agreement. During the years 1973 to 1988 it proceeded to build on Lotus's reputation and to expand it. Because it acted as licensee everything Caterham did enured to the benefit of Lotus. During 1988 Lotus assigned its goodwill to Caterham and the goodwill and reputation in the shape plus trade mark thereafter vested in Caterham. A Lotus replica with the name Seven used in relation to it therefore exclusively identifies it as a product licensed by Lotus or made by its successor in title, Caterham.

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[27] There are many reasons why this new argument cannot be upheld. Partly it flies in the face of the pleadings and although many of the contrary allegations in the particulars of claim may have been unnecessary, they funnelled attention in a different direction. It is not then permissible to argue another case on appeal (cf. *Imprefed*

(Pty) Ltd v National Transport Commission [1993 \(3\) SA 94](#) (A) 107G-I). Apart from this fatal objection, the evidence simply does not support the argument.

[28] Assuming the name *Seven* to be capable of distinguishing, even in the hands of Lotus it was not distinctive of the Series III. In fact, when Lotus entered into the first agreement with Caterham during 1973, *Seven* was the name used for the Series IV. In the result, the name *Seven* had a diffuse meaning in 1972, referring to four differently shaped cars in the Lotus series. The potential purchaser of a new car asking for a Lotus *Seven* would have received a Series IV. In the second-hand market the request for a Lotus *Seven simpliciter* would have led to a query.

[29] It being trite that a passing-off action does not protect a mark or get-up in itself and that goodwill or reputation cannot exist by itself (cf. *Star Industrial Company Limited v Yap Kwee Kor (trading as New Star Industrial Company)* quoted in par [11] above), it is difficult to conceive of an extant goodwill in the hands of Lotus in 1988, especially as Lotus had last made and sold a III some 18 years before. Caterham, in attempting to meet this problem, did not argue that the legal proposition just stated should be reconsidered. The submission that Lotus had a goodwill in 1988 as the result of Caterham's endeavours which enured to the benefit of Lotus depends on whether Caterham had a licence from Lotus to build the III and to use the *Seven* in relation thereto. The facts are clear. Caterham had no such licence. The attempt to interpret the 1973 agreement differently to its clear meaning was rejected by Howard JP, correctly so. In any event, the agreement did not extend to this country. Before us Caterham jettisoned this agreement. Instead, during the course of the oral argument reliance was unexpectedly placed upon a tacit licence agreement. A party who relies on an express contract is not entitled to invoke a tacit contract on appeal (*Roos v Engineering Fabricators (Edms) Bpk* [1974 \(3\) SA 545](#) (A) 550F). In addition, this line was not foreshadowed during the trial and does not take proper account of the evidence of Monk or Nearn given on behalf of Caterham.

[30] I am prepared to accept that Caterham had a reputation during the

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1980's in South Africa. It was reputed to be the exclusive successor to Lotus in relation to the Series III and properly licensed. The prime cause of this was the belief that the 1973 agreement had given it those rights. Caterham, directly and indirectly, nurtured this notion. In addition, Howard JP held that for many years Caterham had been sedulously passing off its product as that of Lotus by the improper and unauthorised use of the trade mark *Lotus* in relation to the Caterham *Seven* or *Super Seven* and that this course of conduct was deliberate and dishonest. These factual findings have not been shown to have been incorrect.

[31] Whether a passing-off action can be used to protect a misapprehension or a false reputation appears to me to be open to serious doubt but since it was not argued it need not be decided. However, to the extent that a reputation is founded upon a conscious falsehood, public policy demands that legal protection should be withheld (cf. *Scott and Leisure Research and Design (Pty) Ltd v*

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Watermaid (Pty) Ltd [1985 \(1\) SA 211](#) (C) 220G-221C). Caterham cannot be permitted to benefit from its own wrong.

[32] To sum up, I am of the view that Caterham has failed to establish the reputation relied upon. As far as deception is concerned, there can be little doubt that before 1988 Birkin did present itself to the South African public as a Lotus licensee. This was done because Watson was brought under the impression that it was true. This kind of representation was effective, at least among a section of the motoring fraternity. However, Caterham chose in its pleadings to limit itself to post-1988 representations and, in any event, these acts are of no consequence to interdictory relief which is concerned with future conduct and is not a remedy for past wrongs.

[33] I have made occasional reference to Japan in the course of this judgment. The reason is that Birkin exports cars to Japan, an important market for Caterham. Part of the relief sought is an interdict preventing Birkin from exporting these cars, especially to Japan. The allegations in the pleadings that found this claim are similar to those affecting the local market and they amount to the following:

1. the use of the numeral 7 in conjunction with the car serves to identify it as emanating from Caterham or Lotus;
2. Caterham is the owner of the relevant goodwill in Japan;
3. the Birkin *Seven* is marketed in Japan by a distributor of Birkin's;
4. use of the numeral *Seven* on such a the car represents to the Japanese that the car's manufacture is authorised by Lotus;
5. the representation is false;
6. by exporting to Japan, Birkin is placing an instrument of deception in the hands of the distributor;
7. the misrepresentation constitutes an actionable wrong in Japan.

[34] Howard JP dismissed the claim. All his reasons are not pertinent to the case as now argued. Postulating that the court below had jurisdiction in regard to this claim because Birkin is an *incola* of that court, one has to accept that Japanese law governs the claim. But we do not know what Japanese law in this regard is and we do not have the facility to ascertain it readily and with sufficient certainty. What we do know is that

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Caterham alleges that the misrepresentation relied upon by it constitutes an actionable wrong in Japan. Foreign

law being a question of fact, one would have expected that the party wishing to invoke it, would prove it. Caterham initially intended to do so because it filed an expert summary relating to the law of unfair competition in Japan, from which it appears that there is a recent statute governing the matter. The text of the statute was not produced, nor was the witness. Is the court then obliged to presume that the foreign law is the same as our law? Hoffmann & Zeffertt *The South African Law of Evidence* 4ed p110-111 point out that our case law is not consistent and refer to a well argued note by Prof Ellison Kahn (1970) 87 SALJ 145-149 who favours the approach that a failure to prove foreign law will cause the plaintiff relying on it to lose his action or the defendant relying on it to fail in his defence. Whether the presumption can be applied when the trial court has good reason to believe that the foreign law is not the same as the local law, where the rule to be applied may be affected by a difference in *mores* or where

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public policy considerations arise (as is the case with passing-off), appears to me to be open to doubt (cf. *Cuba Railway Company v Walter E Crosby* [1912] 222 US 473, a decision of the Supreme Court quoted with disapproval in *Rogaly v General Imports (Pty) Limited* [1948 \(1\) SA 1216](#) (C) 1230). In the absence of counsel's assistance it is inadvisable to say more on the subject and I shall simply adopt the approach of Corbett JA in *Standard Bank of South Africa Ltd and another v Ocean Commodities Inc and others* [1983 \(1\) SA 276](#) (A) 294H that the party relying on a foreign statute should, generally speaking, place it before the court. Having regard to the pleadings and the expert notice, Caterham was saddled with that duty. It cannot hide behind its failure.

[35] If we have to apply South African law to this part of the case, Caterham has to overcome the considerations discussed in the South African context in pars [28] to [31], which apply in the light of the evidence with equal force in the Japanese setting. No attempt to do so was made. An even greater problem for Caterham is the fact that its evidence dealt with misrepresentations made in advertisements which it tried to fix the responsibility for on Birkin and Watson. It did not deal with the question whether the Birkin Seven itself misled or could mislead anyone in the manner alleged. There is therefore no merit in this aspect of the appeal.

[36] I wish to say something about the practice note. It is required of the practitioner who will argue the appeal to indicate which parts of the record in his opinion are not relevant for the determination of the appeal ([1997 \(3\) SA 345](#); [1997] 2 All SA between pp 594 and 595). The object of the note is essentially twofold. First, it enables the Chief Justice in settling the roll to estimate how much reading matter is to be allocated to a particular judge. Second, it assists judges in preparing the appeal without wasting time and energy in reading irrelevant matter. Unless practitioners comply with the spirit of this requirement, the objects are frustrated and this in turn leads to a longer waiting time for other matters. Caterham's note boldly claimed that the whole record was relevant while it had to be obvious that the whole record of 30 volumes

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and 2669 pages could not be, especially in view of the limitation of the issues on appeal. When called upon by the learned Judge presiding to reconsider, we were informed that 11 volumes were irrelevant. Even that was an understatement. Much more was, as is apparent from Birkin's note which was filed out of time. This conduct is unacceptable.

[37] There also appears to be a misconception about the function and form of heads of argument. The rules of this Court require the filing of main heads of argument. The operative words are "main", "heads" and "argument". "Main" refers to the most important part of the argument. "Heads" means "points", not a dissertation. Lastly, "argument" involves a process of reasoning which must be set out in the heads. A recital of the facts and quotations from authorities do not amount to argument. By way of a reminder I wish to quote from *Van der Westhuizen NO v United Democratic Front* [1989 \(2\) SA 242](#) (A) 252B-G:

"There is a growing tendency in this Court for counsel to incorporate quotations from the evidence, from the Court *a quo's* judgment and from the authorities on which they rely, in their heads of argument. I have no doubt that these quotations are intended for the convenience of the Court but they seldom serve that purpose and usually only add to the Court's burden. What

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is more important is the effect which this practice has on the costs in civil cases ... Superfluous matter should therefore be omitted and, although all quotations can obviously not be eliminated, they should be kept within reasonable bounds. Counsel will be well advised to bear in mind that Rule 8 of the Rules of this Court requires no more than the *main heads* of argument. ... The heads abound with unnecessary quotations from the record and from the authorities. They reveal, moreover, another disturbing feature which is that the typing on many pages does not cover the full page ... Had the heads been properly drawn and typed I do not think more than 20 pages would have been required. The costs cannot be permitted to be increased in this manner and an order will therefore be made to ensure that the respondent does not become liable for more than what was reasonably necessary."

[38] Practitioners should note that a failure to give proper attention to the requirements of the practice note and the heads might result in the disallowance of part of their fees.

[39] In the result the appeal is dismissed with costs which include those consequent upon the employment of two counsel.

(Smalberger, Marais, Schutz and Plewman JJA concurred in the judgment of Harms JA.)

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Footnotes

1 Also reported at [\[1996\] 4 All SA 1](#) (A) - Ed