On-Line Lottery Services (Pty) Ltd v National Lotteries Board
[2009] 4 All SA 470 (SCA)

Division:	SUPREME COURT OF APPEAL
Date:	7 September 2009
Case No:	536/08
Before:	LTC HARMS DP, FDJ BRAND, JA HEHER, V PONNAN JJA and ZL TSHIQI AJA
Sourced by:	A Street
Summarised by:	DPC Harris
Parallel Citation:	2010 (5) SA 349 (SCA)

. Editor's Summary . Cases Referred to . Judgment .

[1] Competition law - Unlawful competition - Passing off - Reasonable likelihood of confusion - Descriptive terms - Excluding factors - A party cannot be prevented from unambiguously using a descriptive term in its original descriptive sense, unless it has wholly lost that descriptive sense and become distinctive of the claimant in every context.

[2] Intellectual property law - Trade marks - Registrability of trade mark - Entry on trade marks register - Whether trade mark was wrongly entered and wrongly remained on the trade marks register - If, at the date of application a trade mark is inherently capable of so distinguishing or is capable of distinguishing by reason of prior use, it is considered to be registrable, and if it is not capable of such distinction, it may not be registered.

Editor's Summary

The appellant was accused of competing unlawfully with the second respondent ("Uthingo"), who was a permitted user of the trade mark "Lotto". The first respondent, the National Lotteries Board, was the registered proprietor of the trade mark in terms of the Trade Marks Act 194 of 1993 ("the Act").

In 1999, Uthingo became the sole authorised licensee of the right to operate the National Lottery, which it did using the "Lotto" name.

The appellant promoted its business as one through which tickets for the National Lottery could be ordered. The Board, however, was of the opinion that the true nature of appellant's activities was the unauthorised sale of tickets for the National Lottery and that in doing so the appellant was infringing the Lotto trade mark by advertising its business as "Lottofun". It also believed that the business and services were being conducted in a manner such as to create deception and confusion in the mind of the public between those services and the services offered by the Board and Uthingo. As a result, the Board sought interdictory relief against the appellant. That application was met with a counter-application by the appellant for the expungement of the Lotto trade mark on the grounds that it wrongly remained on the register as the word Lotto had not been used as a trade mark within the meaning of section 27(1)(*b*) of the Act. The court *a quo* granted the respondents' orders, and dismissed the counter-application, leading to the present appeal.

Held - Three questions needed to be answered. The first was whether the registered trade mark "Lotto" be removed from the trade mark register because it was wrongly entered and wrongly remains on the register as envisaged by section 24(1) of the Act. The second question was whether the appellant in conducting its business, passed that business off as that of the National Lotteries Board or as connected in the course of trade with the Board. Finally, it had to be determined whether the business carried on by the appellant involved the selling of tickets for the National Lottery which resulted in contraventions of sections 56 and 57 of the Lotteries Act 57 of 1997.

A trade mark is a badge which distinguishes the origin of the goods or services to which it is applied from the origin of other (usually competitive) goods and services. If, at the date of application it is inherently capable of so distinguishing or is capable of distinguishing by reason of prior use, it is considered to be registrable.

The appellant argued that the Lotto trade mark did not pass the test for either inherent or acquired distinctiveness in relation to lottery services because it did not tell the public who the services come from but rather what the services are, and the mark could not perform the function of distinguishing, without first educating the public that it is a trade mark. It also contended that "lotto" is an ordinary English noun that identifies a particular genus of games of chance and that the general public would, in 1991, have understood that any goods or services to which it was or would be attached were of the nature or connected with games of that ilk. The Court agreed that the word "lotto" was alive in South African language usage at the time of the registration in 1991 and had been for many years. By adopting the word without adaptation or qualification as a trade mark for lottery services, the registering party simply appropriated to itself a word already in general circulation which possessed an ascertainable generic and descriptive meaning over which it could have no monopoly and which should have been open to use by all competitive undertakings in the gaming industry. The Court concluded that the marks were wrongly placed on the register and remained wrongly there. The expungement application should therefore have succeeded.

Turning to the issues of unlawful competition, the Court pointed out that passing off protects a trader against

deception, arising from a misrepresentation by a rival concerning the trade source or business connection of the rival's goods or services. It does not protect a mark or get-up in itself. A party cannot be prevented from unambiguously using a descriptive term in its original descriptive sense, unless it has wholly lost that descriptive sense and become distinctive of the claimant in every context. Thus, the appellant's use of the business name "Lottofun" did not in itself constitute passing-off.

Finally, the Court considered the question of contravention of the Lotteries Act. The facts established that the essential nature of the appellant's business was the facilitation of the purchase of tickets, and thereby doing for and on behalf of the Lottofun members what they were lawfully entitled to do for themselves. That business did not even indirectly provide for betting etc on the outcome of the Lotto game. The respondents' relief on this count should also have been refused.

The appeal accordingly succeeded.

Notes

For Intellectual property law see:

. *LAWSA* First reissue Vol 29

. Burrell TD *Burrells South African Patent and Design Law* 3ed Durban LexisNexis Butterworths 1999

For Competition law see:

. Reyburn L and Sutherland P *Competition Law of South Africa* (updated looseleaf) LexisNexis Butterworths 2008

Cases referred to in judgment

South Africa

Appalsamy v Appalsamy and another 1977 (3) SA 1082 (D)	480

Burnkloof Caterers Ltd v Horseshoe Caterers Ltd 1976 (2) SA 930 (A)	480
Cadbury (Pty) Ltd v Beacon Sweets and Chocolates (Pty) Ltd and another [2000] 2 All SA 1 (2000 (2) SA 771) (SCA)	475
Caterham Car Sales & Coachworks Ltd v Birkin Cars (Pty) Ltd and another [1998] 3 All SA 175 (1998 (3) SA 938) (SCA)	480
First National Bank of Southern Africa Ltd v Barclays Bank Plc and another [2003] 2 All SA 1 (2003 (4) SA 337) (SCA)	475
Hollywood Curl (Pty) Ltd v Twins Products (Pty) Ltd (1) [1989] 4 All SA 30 (1989 (1) SA 236) (A)	480
Reckitt and Colman SA (Pty) Ltd v SC Johnson and Son SA (Pty) Ltd [1993] 1 All SA 27 (1993 (2) SA 307) (A)	480
Sea Harvest Corporation (Pty) Ltd v Irvin and Johnson Ltd [1985] 1 All SA 532 (1985 (2) SA 355) (C)	480
Selected Products Ltd v Enterprise Bakeries (Pty) Ltd [1963] 1 All SA 352 (1963 (1) SA 237) (C)	480
Truck and Car Co Ltd v Kar-N-Truck Auctions [1954] 4 All SA 354 (1954 (4) SA 552) (A)	480

United Kingdom

British Sugar Plc v James Robertson & Sons Ltd [1996] RPC 281	475
Jeryl Lynn Trade Mark [1999] FSR 491 (ChD)	475
The Canadian Shredded Wheat Co Ltd v Kellogg Co of Canada Ltd [1938] 55 RPC 125 (PC)	475

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Judgment

HEHER JA:

[1] This appeal depends in the main on the answers to three questions: Should the registered trade mark "Lotto" be removed from the trade mark register because it was wrongly entered and wrongly remains on the register as envisaged by section 24(1) of the Trade Marks Act 194 of 1993? Did the appellant in conducting its business pass that business off as that of the National Lotteries Board or as connected in the course of trade

with the Board? Did the business carried on by the appellant involve the selling of tickets for the National Lottery which resulted in contraventions of sections 56 and 57 of the Lotteries Act 57 of 1997?

[2] The Board is the first respondent in the appeal. It was established in terms of section 2 of the Lotteries Act. It is the registered proprietor under the provisions of the Trade Marks Act ("the Act") of the trade mark "Lotto" which is registered without disclaimer in class 36 in respect of "services for and in connection with financial transactions" and in class 41 in respect of "services for and in connection with lotteries", the respective registration numbers being 1991/02702/1 and 1991/02702 and the date of registration in each case being 17 April 1991.1 The second respondent in the appeal,

Uthingo Management (Pty) Ltd ("Uthingo") became the

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proprietor of the class 36 trade mark by assignment from the previous owner with effect from 9 September 1999 and on 11 February 2000 assigned its interest to the Board, becoming at the same time, by a written agreement, a permitted user of the trade mark. Thereafter, lottery services were reclassified from class 36 to class 41. The Board applied for and was granted an amendment to the specification of services to bring about the present registrations.

[3] On 26 August 1999, Uthingo became the sole authorised licensee of the right to operate the National Lottery by reason of an agreement which it concluded with the Government of the Republic, effective until 31 March 2007. Because the Minister of Trade and Industry is, by the terms of section 13 of the Lotteries Act, empowered to issue only "one licence at one time", the rights afforded to Uthingo were exclusive to it.

[4] From 20 February 2000, Uthingo operated a game ("the Lotto game") as part of the National Lottery in terms of its licence, using the registered trade mark.

[5] The appellant ("On-Line") was registered under the name Equistock Holdings 169 (Pty) Ltd on 14 February 2000. On 19 September of that year it changed its name by special resolution to LottoFun (Pty) Ltd.2 Its main object was stated as "On line lotto services" but this was later changed to "electronic commerce and related services". One of those services was initially intended to be the on line sale of tickets in the National Lottery but the company was unable to obtain authorisation from the Board. In September 2001 the Board complained to the registrar of companies against the use of the name LottoFun (Pty) Ltd. The registrar upheld the objection and required the company to change it. Eventually, and ostensibly to avoid a protracted and expensive dispute, the appellant made the change to its present name in March 2002. It has, however, retained its trading name.

[6] Uthingo devised the Lotto game pursuant to section 14(2)(*g*) of the Lotteries Act. The game is played by persons from all walks of life through the full spectrum of the South African population. During the period of its contract Uthingo sold game tickets countrywide through a network of authorised retailers. The game could also be played by subscription. In March 2004, Uthingo concluded an agreement with Newbucks Operations (Pty) Ltd in terms of which that company was entitled to sell tickets for the Lotto game via its website operation under the name and style of "Play Lotto with your e-bucks".

[7] The Lotto game draw takes place on Wednesdays and Saturdays. In each draw seven balls are drawn randomly from a machine containing 49 such balls numbered accordingly. The first six numbers drawn are the main numbers and the seventh is the bonus number. A player marks his selected numbers manually on a game board which forms part of a Lotto game entry coupon purchased from an authorised retailer who in turn processes it and issues a ticket.

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[8] On-Line promoted its business as one through which tickets for the National Lottery could be ordered. It was apparently successful in this

venture. The Board, however, was of the opinion that the true nature of On-Line's activities was the unauthorised sale of tickets for the National Lottery and that in doing so On-Line was infringing the Lotto trade mark by advertising its business as Lottofun. Moreover, it believed that the business and services were being conducted in a manner such as to create deception and confusion in the mind of the public between those services and the services offered by the Board and Uthingo.

[9] The Board, therefore, commenced proceedings in June 2004 against On-Line. When its application was served on Uthingo that company joined as an applicant. The relief which they sought in the notice of motion was for:

(*a*) An interdict based on trade mark infringement under section 34(1)(*a*) of the Act of the trade marks "Lotto" by the use of the mark Lottofun and ancillary relief.

(*b*) An interdict based on passing-off by the use of the mark Lottofun.

(*c*) An interdict based on unlawful conduct by the contravention of section 57(2)(*c*), 57(2)(*f*)(i), 57(2)(*f*)(ii) and 57(2)(*g*) of the Lotteries Act.

(*d*) An interdict based on unlawful competition based on the contravention of the mentioned provisions.

(*e*) Interdicting On-Line from conducting its business and rendering its services on the terms and conditions detailed in its standard terms and conditions on the ground that they were *contra bonos mores*.

[10] On-Line opposed all aspects of the orders sought. It filed an extensive answering affidavit and lodged a counter-application in which it claimed consolidation of the applications, a stay of the application brought against it pending the outcome of the counter-application and for substantive relief, namely the expungement of the trade mark Lotto on the grounds that they wrongly remain on the register in the light of on the basis that the word lotto has not been used as a trade mark within the meaning of section 27(1)(*b*) of the Act.

The Registrar, the third respondent in the expungement application, did not participate in the case.

[11] At the hearing the Board and Uthingo pursued an application to strike out portions of the answering affidavit of On-Line in the infringement application and extensive sections of its founding and replying affidavits in the expungement proceedings. The court *a quo* granted the application *in toto* with costs of two counsel. The learned Judge also granted all the orders sought in the notice of motion in the infringement application (in spite of the large amount of overlap), dismissed the expungement application and ordered On-Line to pay the costs of two counsel in respect of each application. He subsequently refused an application by On-Line for leave to appeal, but leave was granted by this Court on petition.

The expungement application

[12] As mentioned, On-Line sought to have the trade mark register rectified because, so it contended, the word "LOTTO" had been wrongly

entered in the register and wrongly remains there, as contemplated in section 24(1) of the Act. It also relied on non-use of the trademark as a ground of removal under section 27(1)(*b*).

[13] It is trite that a trade mark is a badge which distinguishes the origin of the goods or services to which it is applied from the origin of other (usually competitive) goods and services. In order to be registrable it must possess this capability (section 9(1)). If, at the date of application it is inherently capable of so distinguishing or is capable of distinguishing by reason of prior use, it is considered to possess that capability (section 9(2)). A mark which is not capable of distinguishing within the meaning of section 9 may not be registered as a trade mark (section 10(2)(*a*)), provided that a mark may not be refused registration for that reason, or, if registered, may not be liable to be removed from the register on that ground, if at the date of an application for registration or at the date of an application for removal, as the case may be, the mark has in fact become capable of distinguishing within the meaning of section 9 as a result of the use made of that mark (the proviso to section 10).

[14] Of course, as pointed out in *Cadbury (Pty) Ltd v Beacon Sweets and Chocolates (Pty) Ltd and another* 2000 (2) SA 771 (SCA) at 779C-D [also reported at [2000] 2 All SA 1 (A) - Ed], evidence that a mark has become distinctive by use must be approached with circumspection as the sole producer or distributor of a product cannot by means of advertising and selling the product under its generic name render that name capable of distinguishing in terms of section 9. That caution applies equally to the provision of a service said to be protected by a trade mark.

[15] In *First National Bank of Southern Africa Ltd v Barclays Bank Plc and another* 2003 (4) SA 337 (SCA) [also reported at [2003] 2 All SA 1 (SCA) - Ed], this Court was required to decide whether the mark "PREMIER" was registrable in relation to cheques, banking and credit card services and certain related marketing and merchandising services. In upholding the decision of the Registrar of Trade Marks that the word "PREMIER" was not registrable for such goods and services, it approved the *dictum* of Jacob J in *British Sugar Plc v James Robertson and Sons Ltd* [1996] RPC 281 at 302 that there is "an unspoken and illogical assumption that use equals distinctiveness". This assumption is based on the fact that common words are naturally capable of use in relation to the goods or services of any trader no matter how extensively such common words have been used by any individual trader of goods or services of that class.

[16] In *The Canadian Shredded Wheat Co Ltd v Kellogg Co of Canada Ltd* [1938] 55 RPC 125 (PC) at 145 Lord Russell pointed out that:

> "A word or words to be really distinctive of a person's goods must generally speaking be incapable of application to the goods of anyone else."

[17] On-Line's counsel submitted that, in the light of the aforegoing principles, the Lotto trade mark does not pass the test for either inherent or acquired distinctiveness in relation to lottery services because:

(*a*) the mark does not tell the public who the services come from but rather what the services are: *Jeryl Lynn Trade Mark* [1999] FSR 491 (Ch D) at 497 paragraph 11; and

(*b*) in any event, the mark cannot perform the function of distinguishing, without first educating the public that it is a trade mark: *British Sugar* (*supra*) at 306.

[18] It is On-Line's case that "lotto" is an ordinary English noun that identifies a particular genus of games of chance and that the general public would,

in 1991, have understood that any goods or services to which it was or would be attached were of the nature or connected with games of that ilk. The Board and Uthingo respond that, as it was put by the chief executive of Uthingo in his founding affidavit in the infringement proceedings,

> "Prior to the inception of the National Lottery in accordance with the Lotteries Act, the word 'lotto' was an obscure word in South Africa and was, for all intents and purposes, not used in this country . . . When one has regard to the dictionary definition of the word 'lotto' it is clear that the primary meaning of the word is a game, similar to bingo (which is vastly different from a lottery such as that run by the second respondent [Uthingo] and in connection with which [it] uses the trade mark Lotto."

[19] The Board and Uthingo submit further that the game which Uthingo offered under the trade mark was, if not *sui generis*, then at least so distinct from existing definitions of the word "lotto" as to provide a character to that word which the public would and did readily attach to the National Lottery and, thereby, to the Board and its authorised operator.

[20] The first thing to notice about the response and submission is that they depend not on the distinctiveness of the mark at the date of registration, but upon the nuance said to be cast upon the word "lotto" by the peculiar use to which the Board has put it. No such use was proved at or prior to the date of registration. Indeed it is clear that such a public understanding could not have arisen for eight or nine years after registration, if at all. Counsel for the Board and Uthingo submitted, however, that even prior to Uthingo creating a distinctive character by use, such appreciation of the substance of the word as the public may have possessed did not result in any common meaning or certainty sufficient to exclude the right of registration in 1991.

[21] The parties sought to persuade the court *a quo* of the meaning of lotto by introducing expert opinion derived from the experts' trawling through dictionary definitions. That was inappropriate and unnecessary as dictionaries speak for themselves unless called in question for good reason and the courts are, generally, presumed to be capable of finding and understanding such information without expert assistance.

[22] In this case, it seems to me, recourse to dictionaries printed before or more or less contemporaneously with the registration of the trade mark in question, support the appellant's submissions rather than those of the Board and Uthingo. (I say "more or less" since it is notorious that the production of dictionaries lags the use of words included in them.)

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[23] There is no doubt that "lotto" is not a word recently invented, but, on the contrary, one which was imported into the English language in the late eighteenth century, probably from Italian, where it connoted a particular form of lottery, although it was perhaps already known in England as "a game played with cards divided into numbered and blank squares and numbered discs to be drawn on the principle of a lottery": *Oxford English Dictionary* (1976) *sub nom* "lotto, loto". *The English Dictionary* ed HC Wyld (1952) *sub nom* "lotto" identifies the origin of the word as Italian with Germanic roots and defines it as a:

> "Game of chance played with cards bearing five numbers in a line, and numbered balls drawn from a bag, the object being to cover all the numbers in a line or as many as possible. The right to cover a number on a card is determined by the same number being drawn from the bag."

[24] *The New Shorter Oxford English Dictionary*, (1993) defines "lotto" as:

> "1. A game of chance resembling bingo, in which numbers drawn as in a lottery are to be matched with numbers on a card, the winner being the first to have a card with a row of numbers all of which have been drawn. 2. A lottery (in Italy),"

while *The New Oxford Dictionary of English*, (1998) tells us that "lotto" is a children's game similar to bingo, in which numbered or illustrated counters or cards are drawn by the players, but adds: "chiefly N. Amer, a lottery". *The New Penguin English Dictionary*, (2000) *sub nom* "lotto" has "1. a children's game similar to bingo 2. N. Amer, Aus. = lottery".

[25] The venerable American work, *Webster's Third New International Dictionary* (1985) defines "lotto" as "a game played by drawing numbered disks from a bag or the like and covering corresponding numbers on cards, the winner being the first player to fill a row".

[26] According to *Collins' New Compact English Dictionary*, "lotto" is a:

> "game of chance in which numbers are drawn and called out while the players cover the corresponding numbers on cards, the winner being the first to cover all the numbers or a particular row".

[27] *The South African Pocket Oxford Dictionary of Current English* (1974) identifies "lotto" as a "game of chance like bingo, but with numbers drawn by players instead of called [Italian]".

[28] But, as the presiding judge pointed out to counsel during argument, at least as legitimate and valid a source for plumbing the mind of the South African public in 1991 was the use of the word among Afrikaans-speakers. He drew attention to the 1981 edition of the *Verklarende Handwoordeboek van die Afrikaanse Taal* ("HAT") (1981) at 664, which contains the following entry:

> "lotto (It.) Tipe dobbelspel waarby die spelers elk 'n kaart met nommers kry en die een wen wie se nommers die eerste ooreenstem met nommers wat lukraak getrek word."

[29] The *Verklarende Afrikaanse Woordeboek* (ed Labuschagne and Eksteen, 1992) defines "lotto" as "1. soort getallelotery 2. Soort kinderspel op 'n bord met skyfies wat vakkie tot vakkie geskuif word".

[30] Lastly in this excursus mention must be made of the great *Woordeboek van die Afrikaanse Taal* ("WAT"), Negende Deel L (1994) which gives: "'lotto'

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as (It). Soort dobbelspel waarby die deelnemers getalle lukraak trek en die wenner die een is wat eerste 'n ry getalle op sy speelkaart afgemerk het".3

[31] It is unnecessary to delve further. Certain conclusions can fairly be drawn from the preceding citations. The first is that the word "lotto" was alive in South African language usage at the time of the registration in 1991

and had been for many years. It is impossible to determine how widely the word was known or used but it is reasonable to believe that it was present in the vocabulary of literate persons in at least English and Afrikaans language groups. One may also take judicial notice of the fact that gambling and the language of gambling had transcended national borders long before it mushroomed on the internet in the late 1990s. Second, the concept of lotto as a genus of games of chance which embraces a variety of species seems clear. The common element of the genus seems to be the matching of chosen or allotted numbers against numbers randomly generated. Save in relation to the children's version of the game, each species is adapted to gambling and the demands of private or public participation. Hence each operator will bring to the basic format refinements which assist him in increasing demand, just as has Uthingo has done in formulating the rules for the Lotto game.

[32] But just as the term "motor car" generally embraces many different manifestations both in design, and name, none of which entitles anyone to the sole trading use of the generic name, so was it with "lotto" at the relevant time. By adopting the word *simpliciter* (without adaptation or qualification) as a trade mark for lottery services, the registering party simply appropriated to itself a word already in general circulation which possessed an ascertainable generic and descriptive meaning over which it could have no monopoly and which should have been open to use by all competitive undertakings in the gaming industry. The word "lotto" could, as counsel for On-Line have submitted, contribute nothing to identifying the source of the service which it promoted. Moreover, as stressed earlier, the Board and its operator could not enhance the inherent absence of power to distinguish by creating a game to which they chose to apply the generic description "lotto".

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[33] We were referred in argument by counsel for On-Line to rulings of the Office for Harmonisation in the Internal Market ("Trade Marks Department"), which is the arm of the European Union which deals with trade mark disputes. Those emphasised by counsel were: ruling on opposition number B934 101 (21/12/2007) "*Magic Lotto*", ruling on opposition number B907 156 (18/12/2006) "*moto-loto*", and the decision of the First Board of Appeal in case R1019/2000-1(9/1/2002) "*Euro-Lotto Privat System*". None of these authorities was by reason of differences in time and location relevant to the understanding of the South African public in 1991 and I understood counsel to rely on them purely in principal support of his argument that the word "lotto" carries no distinctive force. Suffice to say that the conclusion reached in all those decisions was consistent with the view I have taken.

[34] The respondents face a further problem which strikes at the heart of the validity of their trade mark. The terms of the class 36 registration are "services for and in connection with lotteries". "Lottery" as defined in section 1 of the Lotteries Act:

> "includes any game, scheme, arrangement, system, plan, promotional competition or device for distributing prizes by lot or chance and any game, scheme, arrangement, system, plan, competition or device, which the Minister may by Notice in the Gazette declare to be a lottery."

Uthingo was authorised by the Board to operate the National Lottery which, as defined in section 1, means "the lottery contemplated in Part 1 of this Act and includes all lotteries conducted under the licence for the

National Lottery, taken as a whole". The licence granted by the Board empowered Uthingo to operate not only the main lottery (which takes the form of the game described above and which the respondents contend is distinguished by the "Lotto" trade mark as their service) but also "Constituent Lotteries" each of which was to have its own rules, and any "Lottery Ancillary Activity". It is, thus, plain that the registration, even on the Board's categorisation of the Lotto game as a permissible adaptation to which the term could properly be applied, went far beyond the limits of that game to forms of gambling which need bear no relationship to the "lotto" concept.4 The effect of the registration was thus to draw into the exclusive domain of the Board and its operator all forms of lotteries. They have, however, not attempted to show either the use of the trade mark for those broader aims or the distinguishing force of the mark in relation to them. It is also probable that at the date of registration neither the proprietor nor the public understood "lotto" as possessing the breadth which the registration purports to bring about.

[35] That leaves the matter of the registration of the trade mark LOTTO in class 36, "services for or in connection with financial transactions". Such transactions are not defined in the Act or in the schedule of classification of

goods or services published by the Minister of Trade and Industry pursuant to section 69(2) of the Act. The Financial Services Board Act 97 of 1990 does define "financial service" but in terms which render

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its application peculiarly applicable to the financial institutions defined in that Act. It is thus necessary to give content to the term as used in the Trade Marks Act according to the ordinary signification of the expression, ie services in relation to the conduct of business which involves money or finance. No doubt the Board, inasmuch as it administers the National Lottery Distribution Trust Fund and prize monies, is heavily involved in financial transactions but there is no suggestion that the registered mark is or has been applied to any aspect of its business other than the organisation, marketing and operation of the Lotto game. It seems clear that in this regard On-Line established in the expungement application that section 27(1)(*b*) of the Act applied to the registered trade mark: up to the date three months before On-Line applied to court in August 2004, a continuous period of at least five years had elapsed from the date of issue of the certificate of registration in class 36 during which the registration stood and during which there was no bona fide use of the LOTTO trade mark in relation to financial services by the Board and any previous proprietor of the trade mark and Uthingo as a permitted user within the scope of section 38 of the Act and the Board was unable to satisfy the onus laid on it by section 27(3). For this reason the registration under class 36 should have been struck down by the court *a quo*.

[36] For all these reasons I am satisfied that the marks were wrongly placed on the register and remain wrongly there. On-Line should have succeeded in the court below in the expungement application and in relation to paragraph 1 of the infringement application. This puts an end to the trade mark infringement proceedings.

Unlawful competition and contraventions of the Lotteries Act

[37] Passing-off protects a trader against deception, arising from a misrepresentation by a rival concerning the trade source or business connection

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of the rival's goods or services: *Reckitt and Colman SA (Pty) Ltd v SC Johnson and Son SA (Pty) Ltd* 1993 (2) SA 307 (A) at 315B [also reported at [1993] 1 All SA 27 (A) - Ed]. It does not protect a mark or get-up in itself: *Caterham Car Sales & Coachworks Ltd v Birkin Cars (Pty) Ltd and another* 1998 (3) SA 938 (SCA) at paragraph [29] [also reported at [1998] 3 All SA 175 (A) - Ed]. Many unsuccessful attempts have been made to restrain alleged passing off arising from the use of descriptive names.5 In summary, the reason for this lack of success is set out in *Sea Harvest Corporation (Pty) Ltd v Irvin and Johnson Ltd* 1985 (2) SA 355 (C) (the "*prime cuts*" case) at 360B-D [also reported at [1985] 1 All SA 532 (C) - Ed], *viz* that the courts will not easily find that such words have become distinctive of the business or products of the person using them, and will not give what amounts to a monopoly in such words to one trader at the expense of others.

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[38] If a term is descriptive, in the sense that it is the name of the goods themselves, it cannot simultaneously denote any particular trade source. Therefore, a party cannot be prevented from unambiguously using a descriptive term in its original descriptive sense, unless it has wholly lost that descriptive sense and become distinctive of the claimant in every context: Wadlow, *The Law of Passing Off* (Sweet and Maxwell) 3ed at 616.

[39] Even if the claimant succeeds in proving that a *prima facie* descriptive term has acquired some degree of secondary meaning, the scope of protection for the mark is narrower than for a wholly arbitrary term. Relatively minor differences will suffice to distinguish the defendant's goods or business when both use a mark which is descriptive of the goods or services they provide. This applies even though the defendant is using the closely similar term in a trade mark sense: Wadlow, *op cit*, at 617, paragraph 4.

[40] Applying the principles summarised in paragraphs 38 and 39 it is clear that On-Line's use of the business name "Lottofun" does not in itself carry the complaint of passing off any distance at all.

[41] Moreover, all the elements of the cause of action for passing off must exist at the time that the allegedly infringing acts take place: *Hollywood Curl (Pty) Ltd v Twins Products (Pty) Ltd* (*1*) 1989 (1) SA 236 (A) at 249J [also reported at [1989] 4 All SA 30 (A) - Ed]. In the present case, there is no evidence to show that, by the time that On-Line commenced business, the word lotto had become distinctive of any of the respondents in connection with services for financial transactions and/or services for and in connection with Lotteries.

[42] In the context of these proceedings a determination of the nature of the business carried on by On-Line was of critical importance. Insofar as the applicants were seeking final relief in motion proceedings they were of course bound to accept On-Line's description of its activities unless some acceptable reason could be found for rejecting that version without a reference to evidence. Despite their primary deponent, Uthingo's chief

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executive officer, Mr Isaac Monamodi, boldly stating that:

> "a consideration of all the facts establishes that it sells tickets to members of the public. Many of its terms and conditions are simply a stratagem in an attempt to avoid infringing various sections of the Lotteries Act,"

a careful examination of the affidavits does not bear him out. Nor were counsel for Uthingo and the Board any

more persuasive. Their strongest submission related to the operation of a terminal at the premises of an authorised agent for the sale of lottery tickets, Wingate Computers, at which copies of the tickets were apparently printed and which, so it was alleged, On-Line had, by agreement with Wingate Computers, "appropriated for its own use". They were forced to concede, however, that whatever *prima facie* impropriety such evidence disclosed could not be brought within any relief sought in the notice of motion.

[43] The court *a quo* should, in the event, have tried the matter on the basis of On-Line's description. The substance of this is set out in the succeeding paragraphs.

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[44] On-Line obtained registration and ownership of four internet domain names in March and April 2000. Each contains the word "lottofun". During February 2002 it applied to the registrar of patents and trade marks to register its trade name "Lottofun" as a trade mark in class 38 in respect of the services of "telecommunications including information technology, internet and electronic commerce, and lottery services conducted through the aforementioned media".

[45] The business of On-Line provides the following services to its subscribers:

1. Generic lottery services such as random number generation, probability permutations and simple number permutation "wheels";
2. Specific information about the South African Lottery, such as latest draw results and frequency statistics on drawn numbers;
3. An agency service that allows its registered members to place orders for lottery tickets in the National Lottery either using the medium of the internet or via a cellphone using SMS.

[46] The *modus operandi* of On-Line's business is the following. On-Line operates a trust account and a separate business account. To become a subscriber money must be placed in trust[6] with the company. This is effected electronically by a secure credit card transaction. When a subscriber/member places an order to purchase tickets in the lottery, the computerised system checks the balance held for the member in trust. A service fee of 15% is added to the purchase and the account is debited with the amount of the order and the service fee. The amount of the order is transferred from the trust account to the business account and On-Line then places the order and pays the Uthingo retailer who sells the ticket accordingly. Once the tickets are purchased they are stored in a fireproof safe, indeed, and kept for auditing purposes. All winning numbers are processed by On-Line for subscribers, winnings of a smaller sort being credited to the trust account. If a member has a big win a tax clearance certificate is obtained on behalf of the client and the ticket is given to the subscriber who can then claim the amount from Uthingo.

[47] Lottofun customers are people who visit the Lottofun website. To use its services customers must have an identity document, a banking account, access to credit card use, must be an internet banking user and be computer literate - generally a discerning purchaser who is skilled in connection with online internet transactions. Such customers select numbers on-line using a computer and do not have to stand in queues to purchase tickets or collect winnings.

[48] The application papers contain print-outs from the website www.lottofun.co.za. On the homepage the interested reader is told, *inter alia*, that:

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> "LottoFun is a convenient independent online lottery service that allows adult members to play the South African National Lottery on the Internet.
>
> LottoFun is an independent operator and has no direct affiliation with the South African National Lottery, the National Lotteries Board and/or Uthingo Management (Pty) Ltd.
>
> We execute your orders and will purchase and hold your lottery tickets on your behalf as your agent."

And:

> "LottoFun is owned by On-Line Lottery Services (Pty) Ltd, a limited liability company incorporated in the Republic of South Africa.
>
> LottoFun's mission is to enable you to order lottery tickets in the South African National Lottery with maximum convenience and minimum expense."

And:

> "On-Line Lottery Services is an independent company and is not associated with the South African National Lottery in any way whatsoever. Use of this web site implies agreement with the *Terms and Conditions*."

[49] The Lottofun registration page provides for the completion and submission of a registration form subject to seven clearly-stated specific terms of agreement the fourth of which is "I have read and agreed to the LottoFun *Terms of Service*". The disclaimer quoted at the end of paragraph [48] is repeated.

[50] The LottoFun Terms and Conditions consist of twenty-two clauses. Clause 1.4 provides:

> "Lottofun.Com [ie the trading name of On-Line as is made clear in clause 1.1] is not a retailer of any lottery ticket and does not, nor indeed does it purport to, sell lottery tickets."

Clause 5 "Agency" provides as follows:

"5.1. If you become a Lottofun.Com Gold member, subject to 5.2, each time Lottofun.Com accepts your order for lottery tickets, you will be deemed to have appointed Lottofun.Com, and Lottofun.Com will be deemed to have accepted, appointment as your agent for the purposes set out in this clause 5 and on the basis set out in these T.O.S.

5.2. Notwithstanding anything else contained herein, Lottofun.Com will be validly appointed by you as your agent only if, at the time you place an order for lottery tickets and for the duration of the purchase and processing thereof:

5.2.1. Your order is not contrary to any law, regulation or the like to which you and/or Lottofun.Com is/are subject;

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5.2.2. Your order does not result in the contravention of any agreement, undertaking, Court order, law and/or regulation to which you and/or Lottofun.Com is/are subject;

5.2.3. Your membership is current, you are not in breach of these T.O.S., you are not in breach of the rules of any applicable lottery;

5.2.4. The representations and warranties you make in terms of 2.5 are true and correct.

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5.3 Lottofun.Com, acting as you agent, will

5.3.1. receive the moneys you advance together with any winnings you may gain and hold them on your behalf and/or if Lottofun.Com deems expedient may procure that such funds are held secure by a third party;

5.3.2. execute the accepted orders to purchase lottery tickets received from you using your funds;

5.3.3. purchase the lottery tickets you have ordered and hold them in fire-proof safe custody;

5.3.4. check your ordered numbers against the winning numbers in the relevant lottery draw and promptly apply to the lottery for any winnings that might be due to your ticket/s;

5.3.5. account to you from time to time (notionally into your member account withy Lottofun.Com) with your winnings as and when they are received from the lottery;

5.3.6. procure that your funds are paid as directed by you from time to time;

5.3.7. levy a service/administration fee for acting as your agent and providing the services you use and deduct same from your funds from time to time.

5.4. If Lottofun.Com accepts an order to purchase lottery tickets on your behalf on the mistaken assumption that it has been validly appointed as your agent, Lottofun.Com shall nevertheless be entitled, but not obliged, to fulfill the order and, if it does, Lottofun.Com may use your funds to pay the costs and expenses associated with same."

There are other clauses which also make the agency relationship clear eg 9.1, 9.8, 14.1 and 19. At the end of the Terms and Conditions the disclaimer is again repeated. The Member Log-on page contains the same disclaimer as do the Contact Details page, the Main Help menu, the Privacy and Security page and the About Lottofun page. It is also clear that any reasonably intelligent appreciation of the process of ordering and paying for lottery tickets requires attention to the Terms and Conditions.

[51] It is clear from the foregoing that not only is a relationship of agency for the purpose of purchasing lottery tickets on the customer's behalf established by the contractual provisions but also that no potential customer who applies reasonable care (and even superficial attention) to the acquisition of tickets by means of the Lottofun sites will be left in doubt as to the nature and purpose of that relationship.

[52] It is in that context that the affidavits of Amanda Rissik and Alwyn van Heerden must be judged. The respondents relied on these deponents to support their case that On-Line was conducting its business in such a manner as to deceive and create confusion in the mind of the public. Both witnesses were disgruntled customers of Lottofun. They were in some sort of business partnership. They frequently purchased lottery tickets,

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Ms Rissik says "from" Lottofun, Mr Van Heerden says "through" Lottofun. The former deposed, without laying any factual basis for the statement, that "I have always thought that the applicant was officially selling lottery tickets as part of the National Lottery in the same way as the ordinary outlets". The latter deposed as follows:

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"5. At all times up to Monday, 4 October 2004 I believed that there was a connection between the entity trading as 'LottoFun', which entity I have now been informed is the applicant, and the National Lottery. This belief was based on the use made by the applicant of the word 'lotto' in its trading name.

6. I became a member of the applicant more than a year ago. I have since then purchased in excess of R5 000 worth of National Lottery tickets through the applicant. For many years prior to my becoming a member of the

applicant I, on a regular basis, purchased tickets for the National Lottery from ordinary lottery ticket outlets.

7. The reason I became a member of the applicant was because the applicant offered me an opportunity to purchase tickets for the National Lottery without having to stand in queues. This was attractive to me as I often found it difficult, due to my business commitments, to attend at a retail outlet to purchase the National Lottery tickets myself.

8. Despite having purchased many tickets for the National Lottery through the applicant, I have never been furnished with any of the tickets for the National Lottery that I have purchased. After purchasing lottery tickets from the applicant I would receive confirmation via e-mail from the applicant of the combinations of numbers I had chosen and that these numbers had been recorded. Whenever I won a prize the applicant would inform me of this, indicate my winning combination(s) of numbers and the amount I had won and confirm that the corresponding amount had been credited to my account with the applicant. On those occasions that I have won a prize the amounts with which I have been credited have varied but have never been more than approximately R400.

9. In addition to the notifications that I have received from the applicant as set out in the previous paragraph, on those occasions when I have won a prize the applicant has informed me of this and of the amount that I have won by way of short message service ('sms') on my cellular telephone.

. . .

14. On Monday, 4 October 2004, as both Ms Rissik and I believed that the second respondent was connected with the applicant, Ms Rissik contacted the second applicant via its helpline. Ms Rissik was advised by the people she spoke to that there was no link between the applicant and the first and second respondents. Ms Rissik informed me of this.

15. I was extremely surprised to learn that there was no link between the applicant and the first or second respondents. I had, at all times, thought that, due to the fact that the applicant was trading under the name and style of 'LottoFun', the applicant was officially settling tickets as part of the National Lottery."

[53] It is not difficult to take a robust view of the value of this evidence. Mr Van Heerden "became a member" of Lottofun; he regularly purchased tickets using its website; he participated, apparently without objection in the *modus operandi* of its business *viz* the retention of the tickets, the crediting of winnings to an account in his name, and the notification of success through the SMS process. He states simply that the basis for his belief in "a connection" between Lottofun and the National Lottery was the use of the word "lotto" in the trading name

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"Lottofun". He fails

entirely to explain how he reconciles his belief and conclusions with the contents of the website (which he and any other competitor must necessarily peruse in order to know how and on what terms to participate in the Lottofun service), nor does he deal with the unequivocal aspects of the Lottofun contract and the manner of running its business which are entirely different from those of ordinary lottery ticket outlets, such as the opening of a trust account in his name. Most important perhaps is his silence on cardinal issues: whether he read or understood the terms of the contract, particularly those in which the agency relationship and the commission liability were established, the express disclaimer of any sale of tickets by Lottofun, and the repeated disclaimers of a relationship between Lottofun and the National Lottery. The overwhelming sense which one obtains is of an affidavit drafted with the deliberate intention of avoiding those questions to which the deponent could offer no convincing response.

[54] On an overall assessment of the evidence presented to the court below the learned Judge should, given that he was dealing with an attempt to obtain final relief in motion proceedings, have proceeded on the basis that:

(*a*) the persons potentially served by the Lottofun business must necessarily possess a degree of sophistication and intelligence;

(*b*) the allegations that On-Line's contract was a sham were entirely without foundation;

(*c*) the business carried on by On-Line (Lottofun) was the purchase of tickets on behalf of its members ie as agent and not as principal and the payment over and above the retail price of a ticket represented commission and not a part of that price;

(*d*) the business did not involve the sale of tickets to its members or to members of the public;

(*e*) there was no reason for any member of the public to believe that the business was connected with the national Lottery, the Board or Uthingo; the business-name "Lottofun" was sufficiently different from the named used by Uthingo in connection with the "Lotto game" to put any reasonable man on serious enquiry as to whether there was such a connection; any person sufficiently interested in acquiring tickets on line by means of Lottofun would, even if initially confused, be disabused of that confusion before committing himself to the acquisition of tickets;

(*f*) any person who became a member of and purchased a lottery ticket through Lottofun and nevertheless continued to believe that he or she was buying the ticket from Lottofun or that Lottofun represented an authorized outlet for the sale of tickets in the National Lottery would necessarily be the victim of his own carelessness or indifference.

[55] If such were the findings of fact on which the learned Judge should have relied to decide the case before him it is plain that the justification did not exist for any relief directed against the sale or disposing of the Lotto

game tickets or any document pertaining to the National Lottery by On-Line. In addition the learned Judge should have concluded

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the deception or confusion which is an essential element of the delict of passing off had not been shown. The relief that depended on such proof was, therefore, unwarranted. The absence of any well-founded criticism of the manner and terms under which the Lottofun business was operated also puts paid to the order based upon allegations that the *modus operandi* was *contra bonos mores*.

[56] What remains to be considered is whether a contravention of section 57(2)(*g*) of the Lotteries Act was proved. Did the Lottofun business directly or indirectly provide for "betting, wagering or gambling or any other game of risk on the outcome of any lottery" (ie the Lotto game, in this case)? I think it is clear from the factual findings that the essential nature of the business was the facilitation of the purchase of tickets, and thereby doing for and on behalf of the Lottofun members what they were lawfully entitled to do for themselves. That business did not even indirectly provide for betting etc on the outcome of the Lotto game. In this respect also the relief should have been refused.

[57] In the result On-Line has been successful in all substantive aspects of the appeal. However, there remains the question of the striking out order made in the court below which related not merely to substantial parts of On-Line's affidavits in both applications but also to voluminous supporting documents. Although the leave to appeal granted by this Court covered that order no submissions were addressed by counsel in that regard and, indeed, On-Line did not seek to rely in the appeal on any portion of the impugned matter. Yet the record prepared for the appeal unnecessarily included, by the agreement of the parties, all that matter. It would be appropriate to penalise On-Line for the unnecessary costs and inconvenience which resulted. The costs order in the appeal is accordingly tailored to meet that censure.

[58] The following order is made:

1. The appeal succeeds with costs including those consequent upon the employment of two counsel save that no costs shall be allowed in respect of the preparation and perusal of 40% of the record on appeal.
2. The orders of the court *a quo*, other than the orders in the striking out applications, are set aside and replaced by the following:
   - 2.1 In case number 15574/04 the application is dismissed with costs including the costs of two counsel.
   - 2.2 In case number 21917/04 the following order is made:
     - 2.2.1 The Registrar of Trade Marks is directed to rectify the Register of Trade Marks by the expungement therefrom of registration number 91/020702/01 LOTTO in class 36 and registration number 91/02702 LOTTO in class 41, both entered in the name of National Lotteries Board, on the grounds that such entries wrongly remain on the Register within the meaning of section 24(1) of the Trade Marks Act 194 of 1993.

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     - 2.2.2 The first and second respondents are to pay the costs of the application including the costs of two counsel.

(Harms DP, Brand, Ponnan JJA and Tshiqi AJA concurred in the judgment of Heher JA.)

For the appellant:

P Ginsburg SC and *O Salmon* SC instructed by *Adams & Adams*, Pretoria

For the respondent:

L Bowman SC and *B Du Plessis* instructed by *Spoor & Fisher*, Pretoria

Footnotes

1 A trade mark is registered as on the date of the lodging of the application for registration, which date is deemed for the purposes of the Act to be the date of registration (s 29(1)). So also under the Trade Marks Act 62 of 1963 (s 37(1)).

2 In relation to its business name and domain addresses it seems to employ the style "Lottofun" or "lottofun".

3 With a reference to Andre P Brink's 1972 translation of *Die Seemeeu*, the play by Chekhov, first published in Russia in 1896. In the translator's introduction he refers to Act 4 of the drama "waar al die mense saam om 'n tafel sit en lotto speel". In the translated text Arkadina says:

> "As die lang herfsaande aanbreek, dan speel ons hier lotto. Kyk, dis 'n ou stel waarmee my ma nog gespeel het toe ons klein was. Voel jy lus om 'n potjie saam te speel voor ete? Dis 'n vervelige speletjie, maar mens raak daaraan gewoond. [Deel drie kaarte uit.]"

The stakes are then placed and numbers called out until Trigorin claims victory. In the English translations (of *The Seagull*) available to me (*The Oxford Chekhov* (1967) and the *Everyman* edition (1937)) the word "lotto" is also used, which leads one to assume that it probably appeared in the original Russian.

4 Cf *Jeryl Lynn Trade Mark*, above, at 504 *in fine*.

5 Eg *Truck and Car Co Ltd v Kar-N-Truck Auctions* 1954 (4) SA 552 (A) [also reported at [1954] 4 All SA 354 (A) - Ed]

("Truck and Car"); *Burnkloof Caterers Ltd v Horseshoe Caterers Ltd* 1976 (2) SA 930 (A) ("Bar-B-Que Steakhouse"); *Appalsamy v Appalsamy and another* 1977 (3) SA 1082 (D) ("City Heat Geysers"); *Selected Products Ltd v Enterprise Bakeries (Pty) Ltd* 1963 (1) SA 237 (C) [also reported at [1963] 1 All SA 352 (C) - Ed] ("coconut cookies"); *Sea Harvest Corporation (Pty) Ltd v Irvin and Johnson Ltd* 1985 (2) SA 355 (C) ("prime cuts").

6 This is On-Line's designation of the account into which a member's subscription is paid and winnings deposited.