FACT SHEET

An overview of Passing Off

We work with von Muenster Legal as our industry partner in providing up-to-date, relevant guidance for marketing communications specialists. Backed by the collective experience of von Muenster Legal and Advertising Council Australia, this guidance is an important tool in ensuring campaigns meet regulatory standards.

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An introduction to advertising and passing off

The goods and services of some businesses are perceived as being better than others but quality comes at a price. The materials or processes used by one manufacturer may be more expensive than those used by another, even though the finished products may be similar.

The public’s perception about the relative merits of a product, or the invisible force that makes them want to purchase it, can be described as its “goodwill”. Consider the perception of an Apple iPad vs another brand’s tablet and Heinz Baked Beans vs a shop’s own brand. These brands add massive value to the company because they have a powerful ‘reputation’ and ‘goodwill’.

Advertising influences the reputation of a brand by creating and reinforcing a reputation for quality, value and prestige. Advertising also costs money, sometimes a great deal of money.

The common law tort of passing off arises in Australia when, in the course of trade with potential customers, a trader misrepresents that their products or services are of, or are associated with, those of another trader. This often results in or is likely to result in actual damage to the other trader’s business or goodwill.

The law of passing off also prevents businesses from making false claims that the product or services of another are its own or associated with its own.

The Australian advertising industry has seen many passing off cases. These can arise in a number of ways, for example: the copying of products and packaging; comparative advertising; the use of artworks as ‘inspiration’; and several cases involving unauthorised references to celebrities.

What is passing off?

The tort of passing off can be used by one trader against another if:

• the innocent trader’s get-up, including the brand name or business name is recognised by consumers as having a distinct and established reputation;

• there has been a misrepresentation by the offending trader to consumers leading consumers to believe that the products offered by the offending trader are in fact the innocent trader’s products, or that their goods or services have an association or connection with those of the innocent trader; and

• the innocent trader has suffered or is likely to suffer damage to its business by reason of the erroneous belief created by the offending trader’s misrepresentation.

The most classic example is the sale of counterfeit goods.

The law has also developed to cover other types of activity too, such as the use of a celebrity in advertising which falsely implies that they are endorsing the goods or services being advertised.
Relationships to trade marks

Very often a trader who is passing off his goods or services as those of another trader will be using the other trader’s branding in order to do so. In these circumstances, legal proceedings are often brought simultaneously for both passing off and trade mark infringement.

For example, the owner of the solar inverter and associated installation services market-leading brand SUNNY BOY was successful in establishing trade mark infringement, breach of consumer protection laws and passing off at common law against a competitor SOLAR BOY for use of its SUNNY ROO brand in Australia, even though the intention of the SUNNY ROO brand owner had never been to trade off the reputation of SUNNY BOY. In respect of passing off, the SUNNY ROO brand owner’s knowledge of the market was important and it would have been reasonably foreseeable that confusion would occur, which was supported by substantial evidence of actual confusion. It was held on the same basis that the SUNNY ROO brand owner had engaged in misleading or deceptive conduct in breach of consumer protection laws. Trade mark infringement was also established in relation to certain installation services on the basis that the use of SUNNY ROO as a brand (badge of origin) was deceptively similar to the registered trade mark SUNNY BOY.

Relationships to consumer protection laws

As noted in the above SUNNY BOY/SUNNY ROO case, breach of consumer protection laws and the common law action of passing off are often claimed together. However a passing off action can be distinguished from the consumer protection laws as it is designed to prevent a trader from damaging another trader’s reputation or goodwill by causing potential consumers to associate one trader’s product or business with another trader’s where no such association exists.

What is required to bring an action for passing off?

To succeed in an action for passing off, a brand owner/advertiser needs to establish three basic elements:

1. Goodwill
2. Misrepresentation
3. Damage to goodwill/likelihood of damage

Quick Thought

Goodwill is the reason why consumers give their custom to an advertiser’s business.

Goodwill

The existence of goodwill is the starting point for any passing off action. The “goodwill” attached to a brand is what makes it recognisable by the public, and what enables them to identify it as being from one specific source.

The claimant must, therefore, demonstrate that they have the necessary goodwill/reputation.

Misrepresentation

A misrepresentation occurs if consumers are led to believe that the goods or services of Trader A and Trader B are the same or associated (when they are not).

To succeed, it must be shown that Trader B has represented their goods or services as being those of Trader A. This representation must have been communicated to the public with the effect that the representation created a false belief of an association or connection between the two brands, products or services in the minds of consumers.

Sometimes, Trader A may find out about Trader B’s intention to launch a new similar product or service before it actually goes public. If there is a likelihood of confusion among the public between the products were the launch to proceed, then Trader A may be able to get a Court order (injunction) to prevent it.
Forms of misrepresentation

Forms of misrepresentation include using the following without permission:

- Another trader’s trade mark
- The ‘get-up’ of another trader’s product or service
- Another trader’s advertising theme
- The design or shape of another trader’s product or its packaging
- In celebrity cases - the name, likeness, image or voice of a celebrity to endorse a product or service

Is intention necessary?

No. Success in a passing off claim does not depend on the intent of Trader B in making the misrepresentation.

It is enough that the misrepresentation is likely to harm Trader A’s interest, even where Trader B did not mean to misrepresent the facts and did not intend to cause harm.

Damage

There are two ways in which a trader may suffer damage as a result of the public’s confusion resulting from the misrepresentation:

- potential sales may be diverted to the other trader;
- if the other trader’s products or services are inferior, then the reputation of the genuine products or services may be tarnished.

Examples of misrepresentation

In 2009, the Full Federal Court of Australia found that while the get-up or trade dress of Mars’ Maltesers product can be protected as a trade mark, if the Maltesers brand name is the distinguishing feature, a similar product – Malt Balls – that is otherwise clearly labelled with a competitor’s own brand, will not necessarily breach consumer protection laws or constitute passing off. The word ‘Maltesers’ was found to be the distinguishing feature and its other features (such as the red colour and pictures of the malt balls) were found on evidence to be common on confectionary packaging. The Full Federal Court of Australia affirmed the trial judge’s finding that: “Because the principal component in the Maltesers get-up is the word “Maltesers”, it is highly unlikely that any ordinary consumer of chocolate confectionery could mistake something which is not called a Malteser for a Malteser. In that sense, Mars is a victim of its own success.”

On the flip side, in 2011 the Full Federal Court of Australia found that DKSH’s sale of its Euroline branded coffee plunger was misleading and deceptive in breach of consumer protection laws and constituted passing off. The Full Federal Court found that Bodum’s advertising of its coffee plunger was successful in establishing a reputation of its ‘naked’ features and shape without use of the Bodum name as a trade mark. This case highlights that a trader selling a copy product must ensure it uses sufficient labelling to adequately distinguish itself from another well-known product in order to avoid infringing consumer protection laws and engaging in passing off.
What remedies exist for passing off?

If the claimant proves his case in passing off, the Court can grant various ‘remedies’ to the injured party (i.e. the claimant).

One type of remedy is an “injunction”, which is a Court order usually prohibiting a defendant from doing certain things. But, it can be used to require a defendant to do a positive act. If the defendant then breaches the Court order, he will be in “contempt of Court”, which is punishable by a fine and/or imprisonment. Claimants often ask for “injunctive relief” to prevent suspected or anticipated passing off from occurring in the first place and/or as a final remedy at the conclusion of a trial.

In addition to injunctive relief, the claimant may also seek financial compensation, and can choose between asking the Court for either:

• damages;
• account of profits.

Damages

Damages are awarded in amounts intended to reflect the harm done to the claimant’s goodwill or business in the form of lost sales as a result of diversion of custom to the defendant, loss of reputation ultimately leading to loss of sales, loss of a business opportunity or loss of an opportunity to extend or expand a product range (by taking advantage of the claimant’s established brand name’s reputation).

The claimant must prove the amount of damages that are appropriate. It can be difficult to determine this because it is not always clear the extent to which the harm caused is attributable to the conduct of the defendant. Expert evidence may therefore be used at trial to aid the judge in quantifying the harm done to the claimant’s goodwill or business and the amount of damages to be paid by the defendant. Generally, damages should only be awarded in passing off cases where the defendant intentionally sought to deceive the public.

Account of profits

An account of profits involves a payment by the defendant to the claimant of the profit made (if any) from the passing off. An account of profits may be appropriate where e.g. large quantities of goods or services have been sold by the defendant that have generated large profits, rather than harming the claimant’s goodwill or reputation.

It is important to remember that a claimant cannot obtain both an award of damages and an account of profits. An account of profits is different to an award of damages as it responds to the gain of the wrongdoer rather than the loss of the wronged party.
Domain names and passing off

The unauthorised registration of a domain name that includes the famous name of a company, an individual, or of a trade mark, and use of that domain name to identify an active website in such a way as to mislead members of the public into believing that the user is associated with some other entity, could injure the goodwill in that name or mark. If the registrant were to use the domain name to sell goods or services without permission then that is likely to be passing off.

Registering domain names in bad faith with a view to diverting traffic, obtaining ‘click through’ revenue or seeking to hold a brand owner to ransom by charging large amounts for the transfer of the domain name can also constitute ‘passing off’. Such cases are known as ‘cybersquatting’.

The issue with bringing a passing off action against cyber-squatters is that they usually do not actually use the domain names and their websites remain passive until sold to the party likely to be associated with the name by consumers. It is questionable in such circumstances whether there is a misrepresentation to consumers likely to cause damage to the claimant’s goodwill.

What other types of passing off exist in practice?

Passing off can also arise in cases concerning the particular quality of a product or service, where association with a different type of product harms a brand owner’s goodwill.

Passing off is also increasingly used by celebrities whose images or names have been used without permission. Most commonly, this is where an unauthorised endorsement is implied, provided the celebrity has the requisite ‘goodwill’.

A film star who is regularly paid substantial sums to appear in advertising may succeed where a politician who has never been paid to endorse a product, but is merely the butt of a joke in a one-off advertisement, may not.

Passing off can even extend to the use of a ‘copycat’ work, such as a famous sculpture in an advertisement.

*So the advice is – be careful out there! Passing off can be very costly indeed.*

QUICK THOUGHT

As often happens with the registering of company names, companies may buy related domain names in order to protect themselves in the future.