



## 5 – PASSING OFF

### 5.1 Introduction

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 tablet, or Heinz Baked Beans vs a shop's own brand. These brands add massive value to the companies that own them 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 a trader misrepresents in the course of trade to prospective customers or consumers that their products or services are those of, or are associated with those of, another trader, where this results in or is likely to result in actual damage to the other trader's business or goodwill. It also prevents businesses misrepresenting 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.

#### When can the tort of passing off be invoked?

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.

#### Passing off & 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 such circumstances legal proceedings are often brought simultaneously for both passing off and trade mark infringement.

#### Passing off & consumer protection laws

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.

### 5.2 Legal Test for Passing off

#### Elements 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

#### 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.

### Types of misrepresentation

Types 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

### Intent

Intention is not a necessary element of passing off. 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; or
- If the other trader's products or services are inferior, then the reputation of the genuine products or services may be tarnished.

## 5.3 Remedies

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; or
- 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.

## 5.4 Other Issues

### Domain names

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 'cyber-squatting'.

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.

#### **Other situations where passing off can arise**

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.