

IN THE HIGH COURT OF NEW ZEALAND
AUCKLAND REGISTRY

Before: Mr Justice Rodney Hansen

**PATIENCE & NICHOLSON (NZ) LTD v. CYCLONE HARDWARE
PTY LTD**

March 7–9, 14–17, 20–22 and June 26, 2000¹

[2002] F.S.R. 40

- H1 *Passing off—Goodwill—Trade name P&N—Formerly connected businesses now in separate ownership—Geographical extent of goodwill—Survey evidence—Fair trading.*
- H2 Trade Marks Act 1953 (NZ), ss.2, 37(1), (2).
Fair Trading Act 1986 (NZ), s.9.
- H3 The plaintiff owned a New Zealand cutting tool manufacturing business. This business was founded during the Second World War by an established Australian manufacturer of cutting tools, Patience & Nicholson Ltd (“Patience & Nicholson Australia”). In 1961, Patience & Nicholson Australia decided to set up a manufacturing plant in New Zealand and so incorporated a wholly-owned New Zealand subsidiary, Patience & Nicholson (NZ) Ltd (a different company to the plaintiff but its predecessor in title to the New Zealand business) to conduct its business in New Zealand. Both parent and subsidiary marketed their products in their respective markets under the trade name P&N, and conducted business relatively autonomously. The P&N name was registered by Patience & Nicholson Australia as a trade mark in both Australia and in New Zealand. Since its foundation, the New Zealand subsidiary used the trade mark under licence from Patience & Nicholson Australia, and was, for most of that time, registered as user.
- H4 In 1982, McPhersons Ltd, an Australian company, gained control of Patience & Nicholson Australia and its New Zealand subsidiary. McPhersons sold the business of Patience & Nicholson Australia in 1987, to Boral Cyclone Ltd, which later transferred the business to its sister company, the first defendant. However, McPhersons did not sell Patience & Nicholson (NZ) Ltd or its business to Boral Cyclone. It also retained ownership of the New Zealand P&N trade mark.
- H5 After the 1987 sale, the Australian and New Zealand Patience & Nicholson businesses operated independently and under different

¹ Paragraph numbers in this judgment are as assigned by the court.

ownership. The first defendant continued the Australian business, marketing its products in Australia under the P&N brand name. Moreover, although small quantities of its products did reach the New Zealand market, it made no substantial use of the P&N name in New Zealand. This was principally due to the sales policy of a Mr Lindley, the first defendant's national marketing manager, who held the view that the Australian business either could not or should not trade under the P&N name in New Zealand. After 1987, the New Zealand business continued to use the P&N name in New Zealand. However, it used the name on a much smaller scale than before, focusing its marketing on several new brand names.

H6 In 1994, McPhersons sold the New Zealand business to the plaintiff, then known as Sutton Tools (NZ) Ltd (it was renamed with its present name after the purchase), a nominee of an Australian company, Sutton Tools Pty Ltd, the major Australian competitor of the first defendant in the cutting tool market. The New Zealand P&N trade mark was not transferred to the plaintiff as part of the sale, since it was not owned by the New Zealand subsidiary. It subsequently lapsed in 1996 when renewal fees were not paid.

H7 In 1995, after a change in management, the first defendant decided to trade in New Zealand using the P&N brand name and appointed Fox & Gunn Ltd, the second defendant, as its distributor. It applied to register P&N as a trade mark and commenced actively marketing under the name in 1998. The plaintiff objected. It opposed the first defendant's application, filing an application itself. These trade mark applications were pending when the current proceedings, for passing off and under the Fair Trading Act, were brought by the plaintiff. The plaintiff claimed that it was entitled to the benefit of the goodwill and reputation in New Zealand associated with the name P&N. It sought injunctive relief and a declaration that it was the proprietor of the trade mark/business name in New Zealand. The first defendant responded by saying that any right the plaintiff had to the use of the P&N name ended when the trade mark lapsed. It counterclaimed for passing off and under the Fair Trading Act, claiming that it, not the plaintiff, owned the New Zealand goodwill.

H8 *Held*, allowing the claim and dismissing the counterclaim:

H9 (1) The basic principles underlying an action for passing off were well-established: it was necessary for a plaintiff to show that the defendant had misrepresented its goods in such a way that it was a reasonably foreseeable consequence of the misrepresentation that the plaintiff's business or goodwill would be damaged.

A. G. Spalding & Bros v. A. W. Gamage Ltd (1915) 84 L.J. Ch. 449; *Dominion Rent A Car v. Budget Rent A Car Systems (1970) Ltd* [1987] 2 N.Z.L.R. 395; *Norman Kark Publications Ltd v. Odhams Press Ltd* [1962] R.P.C. 163, Ch D referred to.

H10 (2) Neither the first defendant nor the plaintiff could rely upon the goodwill derived from the use of the trade mark P&N in New Zealand: the first defendant because, in 1987, the goodwill associated with the P&N New Zealand trade mark was not sold to Boral Cyclone by McPhersons, as the terms and commercial object of the 1987 sale agreement make clear; the plaintiff because, prior to 1987, Patience & Nicholson Australia, although it had given its New Zealand subsidiary considerable independence, had retained control over its subsidiary. Goodwill under the trade mark had therefore accrued to the Patience & Nicholson Australia, not its New Zealand subsidiary.

MCGREGOR Trade Mark [1979] R.P.C. 36 referred to.

H11 (3) In 1987, both parties owned goodwill associated with the name P&N as distinct from goodwill deriving from its use as a trade mark. Patience & Nicholson Australia did not own all the goodwill in the name in New Zealand, notwithstanding the parent/subsidiary relationship, the registered user agreement and the unique nature of the trading relationship between Australia and New Zealand. Although it would often be unrealistic to treat Australia and New Zealand as separate markets, given the close economic links between the two markets and increasing globalisation generally, the business nevertheless had independent existences and had built up separate goodwill in each market.

Star Industrial Company Ltd v. Yap Kwee Kor [1976] F.S.R. 256, PC; *Dominion Rent A Car v. Budget Rent A Car Systems (1970) Ltd* [1987] 2 N.Z.L.R. 395; *Habib Bank Ltd v. Habib Bank A.G. Zurich* [1981] 2 All E.R. 650, CA; *Fletcher Challenge Ltd v. Fletcher Challenge Pty Ltd* [1982] F.S.R. 1; *Chase Manhattan Overseas v. Chase Corp* (1985) 8 A.T.P.R. 40–661, HC of Australia; *Norman Kark Publications Ltd v. Odhams Press Ltd* [1962] R.P.C. 163, Ch D; *Cadbury Schweppes Pty Ltd v. Pub Squash Co. Pty Ltd* [1981] 1 All E.R. 213; *Wineworths Group Ltd v. Comité Interprofessionnel du Vin de Champagne* [1992] 2 N.Z.L.R. 327 referred to.

H12 (4) Although the plaintiff introduced new brand names for its products soon after 1987, it continued to use the P&N brand on existing stocks, on imported goods made for it by the defendant, in promotional material and articles (such as display cabinets which the plaintiff supplied to its stockists), and on its delivery trucks. The trade also continued to use P&N as an abbreviation for the plaintiff.

H13 (5) Survey evidence was admissible to prove a public state of mind on a specific question or that a designated opinion was held by the public or by a part of the public. The survey relied upon by the plaintiff was admissible and, notwithstanding its shortcomings, provided evidence of a strong association between the letters P&N and the plaintiff among stockists of cutting tools in the market in which the plaintiff and defendants competed and among end users of the goods manufactured by the plaintiff.

Auckland Regional Authority v. Mutual Rental Cars (Auckland

Airport [1987] 2 N.Z.L.R. 647; *Customglass Boats Ltd v. Salthouse Bros Ltd* [1976] 1 N.Z.L.R. 36; *Greynell Investments Pty Ltd v. Hunter Douglas Ltd* (unreported), HC of Australia; *Imperial Group plc v. Phillip Morris Ltd* [1984] R.P.C. 293; *Levi Strauss & Co. v. Kimbyr Investments* [1994] 1 N.Z.L.R. 332 referred to.

H14 (6) The trading activities of the plaintiff since 1987 consolidated its rights in relation to the P&N name in New Zealand. On the other hand, the first defendant had made no meaningful attempt to utilise the P&N name in New Zealand until 1998 and had not revived any residue of goodwill it acquired in 1987. The situation fell far short of what was required to establish concurrent goodwill. On the facts of the case, the Australian and New Zealand markets were distinct, notwithstanding their close economic relationship and the trend to globalisation.

Wineworths Group Ltd v. Comité Interprofessionnel du Vin de Champagne [1992] 2 N.Z.L.R. 327; *Dominion Rent A Car v. Budget Rent A Car Systems (1970) Ltd* [1987] 2 N.Z.L.R. 395 referred to.

H15 (7) The evidence established that the defendants' use of the initials P&N misrepresented their goods as those of the plaintiff.

Dominion Rent A Car v. Budget Rent A Car Systems (1970) Ltd [1987] 2 N.Z.L.R. 395; *Office Cleaning Services Ltd v. Westminster Window and General Cleaners Ltd* (1946) 63 R.P.C. 39, CA; *Wineworths Group Ltd v. Comité Interprofessionnel du Vin de Champagne* [1992] 2 N.Z.L.R. 327; *Electrolux Ltd v. Electrix Ltd* (1953) 70 R.P.C. 127; *Marengo v. Daily Sketch and Sunday Graphic Ltd* (1946) [1992] F.S.R. 1; *Allied Liquor Merchants Ltd v. Independent Liquor (NZ) Ltd* (1989) 3 T.C.L.R. 328 referred to.

H16 (8) The defendants' use of the P&N mark was likely, both in the short and long-term, to result in diversion of sales. This was an inevitable consequence of the deception in the circumstances. The defendants' use would also cause erosion of the distinctiveness of the mark and the reputation upon which the plaintiff's goodwill was built.

Dominion Rent A Car v. Budget Rent A Car Systems (1970) Ltd [1987] 2 N.Z.L.R. 395; *Taylor Brothers Ltd v. Taylor Group Ltd* [1988] 2 N.Z.L.R. 1; *Wineworths Group Ltd v. Comité Interprofessionnel du Vin de Champagne* [1992] 2 N.Z.L.R. 327; *British Broadcasting Corporation v. Talbot Motor Co. Ltd* [1981] F.S.R. 228 referred to.

H17 (9) The findings in relation to passing off led directly to the conclusion that the marketing by the defendants of goods under the P&N brand was misleading and deceptive for the purposes of the Fair Trading Act. Customers, potential customers and consumers in the cutting tool market had been and would continue to be misled by the defendants' use of the P&N brand into thinking their products were manufactured or sold by or on behalf of the plaintiff.

Unilever NZ Ltd v. Cerebos Greggs [1994] 6 T.C.L.R. 187, CA of NZ; *Chase Manhattan Overseas v. Chase Corp.* (1985) 8 A.T.P.R. 40-661, HC of Australia; (1986) 8 A.T.P.R. 40-750, Full Federal Court of Australia, referred to.

H18 The following cases are referred to in the judgment:

- Allied Liquor Merchants Ltd v. Independent Liquor (NZ) Ltd* (1989) 3 T.C.L.R. 328.
Auckland Regional Authority v. Mutual Rental Cars (Auckland Airport) [1987] 2 N.Z.L.R. 647.
British Broadcasting Corporation v. Talbot Motor Co. Ltd [1981] F.S.R. 228.
Cadbury Schweppes Pty Ltd v. Pub Squash Co. Pty Ltd [1981] 1 All E.R. 213.
Chase Manhattan Overseas v. Chase Corp. (1985) 8 A.T.P.R. 40–661, HC of Australia; (1986) 8 A.T.P.R. 40–750, Full Federal Court of Australia.
Customglass Boats Ltd v. Salthouse Bros Ltd [1976] 1 N.Z.L.R. 36.
Dominion Rent A Car v. Budget Rent A Car Systems (1970) Ltd [1987] 2 N.Z.L.R. 395.
Electrolux Ltd v. Electrix Ltd (1953) 70 R.P.C. 127, Ch D.
Fletcher Challenge Ltd v. Fletcher Challenge Pty Ltd [1982] F.S.R. 1.
Greynell Investments Pty Ltd v. Hunter Douglas Ltd (unreported), HC of Australia.
Habib Bank Ltd v. Habib Bank A.G. Zurich [1981] 2 All E.R. 650, CA.
Imperial Group plc v. Phillip Morris Ltd [1984] R.P.C. 293.
Levi Strauss & Co. v. Kimbyr Investments [1994] 1 N.Z.L.R. 332.
Marengo v. Daily Sketch and Sunday Graphic Ltd (1946) [1992] F.S.R. 1.
McGregor Trade Mark [1979] R.P.C. 36.
Norman Mark Publications Ltd v. Odhams Press Ltd [1962] R.P.C. 163, Ch D.
Office Cleaning Services Ltd v. Westminster Window and General Cleaners Ltd (1946) 63 R.P.C. 39, CA.
Spalding (A. G.) & Bros v. A. W. Gamage Ltd (1915) 84 L.J. Ch. 49.
Star Industrial Company Ltd v. Yap Kwee Kor [1976] F.S.R. 256, PC.
Taylor Brothers Ltd v. Taylor Group Ltd [1988] 2 N.Z.L.R. 1.
Unilever NZ Ltd v. Cerebos Greggs [1994] 6 T.C.L.R. 187, CA of NZ.
Wineworths Group Ltd v. Comité Interprofessionnel du Vin de Champagne [1992] 2 N.Z.L.R. 327.

H19 *C. L. Elliott and A. E. McDonald*, instructed by *Baldwin Shelston Waters, Auckland*, appeared for the plaintiff. *D. J. Chisholm and S. Wheeldon*, instructed by *Kensington Swan, Auckland*, appeared for the defendants.

RODNEY HANSEN J.:

Introduction

- 1 This case concerns the right to the use of the initials “P&N” in the New Zealand cutting tool industry. The plaintiff is a cutting tool manufacturer whose name is sometimes abbreviated to the initials P&N. Until 1987 it was one of a group of companies which included an Australian company of the same name. Both marketed their products under the trade name P&N. The initials were registered as trade marks in Australia and New Zealand and elsewhere.
- 2 In 1987 the Australian operation was sold. Since then the Australia and New Zealand Patience & Nicholson businesses have operated independently and under different ownership. The Australian business has continued to market its products under the P&N brand name in Australia, whereas the New Zealand company has made little use of the trade mark P&N since 1987.

- 3 The Australian business is now owned by the first defendant (“Cyclone”). Until recently it had consciously determined not to market P&N branded product in New Zealand and did not do so to any great extent until 1995. As a result of changes in management and marketing strategy, a decision was made to cease using other brand names and to market only under the P&N name. Since 1998 it has been actively marketing its product in New Zealand under the P&N name through its distributor, the second defendant, Fox & Gunn Limited (“Fox & Gunn”).
- 4 The plaintiff claims to be entitled to the benefit of the goodwill and reputation in New Zealand associated with the name P&N and claims the defendants’ conduct passes off their goods as those of the plaintiff. Alternatively, it claims the use of the brand P&N to be misleading and deceptive and a breach of the Fair Trading Act. An injunction and other remedies are sought.
- 5 Cyclone says it has the rights to use the name P&N in New Zealand and counterclaims to restrain the plaintiff from using the mark also on the grounds of passing off and breach of the Fair Trading Act.

Background

- 6 Messrs Patience and Nicholson were partners who, in 1924, began business as engineers in a suburb of Melbourne. Shortly afterwards they relocated to the nearby town of Maryborough where the business has remained ever since. The firm soon became engaged in the manufacture of cutting tools and, by the late 1930s, was the largest manufacturer of cutting tools in the southern hemisphere. During the Second World War it began exporting cutting tools to New Zealand, marketing them through a distributor, Ajax Agencies Limited.
- 7 In 1961 a decision was made to establish a manufacturing plant in New Zealand. At the time there was an import licensing regime in force in New Zealand. Government policy was strongly geared to developing and encouraging local manufacturers. A licence to import manufactured goods could be obtained only if they were not being manufactured in New Zealand. There were no existing manufacturers of cutting tools in New Zealand. There was an opportunity on which Patience & Nicholson Australia capitalised to establish a business which had an effective monopoly.
- 8 On December 6, 1961, Patience & Nicholson New Zealand was incorporated as a wholly owned subsidiary of Patience & Nicholson Limited of Australia (“Patience & Nicholson Australia”). The New Zealand operation of Patience & Nicholson commenced business in mid-1962, aiming to replicate the successful operation in Maryborough. The pamphlet which was published on the occasion proclaimed proudly:

Patience & Nicholson Limited now comes to New Zealand—in a measure history repeats itself. A factory has been built and plant installed in the rural township of Kaiapoi. As in the case of Maryborough, Victoria, it is felt that the industry will be a community asset, providing employment, teaching skills and creating a civic interest in local production of a basic engineering requirement.

Patience & Nicholson (NZ) Limited will use methods, equipment and

laboratory control similar to that used by the parent company, and with a nucleus of experienced and highly trained personnel to guide operations, the high quality and reputation of P&N tools will be maintained.

With the opening of the plant of Patience & Nicholson (NZ) Limited, the board and staff of the company look forward to servicing New Zealand industry and to a happy association with the distributors and users of the product.

- 9 In 1961 Patience & Nicholson Australia registered the trade mark P&N in New Zealand. It entered into user agreements with Patience & Nicholson New Zealand and Ajax Agencies which, until 1974, distributed the goods of both companies in New Zealand. Patience & Nicholson New Zealand was registered as a user of the P&N trade mark in New Zealand on June 28, 1963. The registration was cancelled in 1972. A new user agreement was entered into on January 1, 1975, together with a companion technical assistance agreement. That user agreement was not registered.
- 10 In the mid-sixties, Fletcher Trust and Investment Company Limited had acquired 25 per cent of the New Zealand company. It disposed of its shares on June 30, 1982, when both Patience & Nicholson Australia and Patience & Nicholson New Zealand became subsidiaries of a publicly listed Australian company, McPhersons Limited (“McPhersons”). The shares in Patience & Nicholson New Zealand were held by Ajax McPherson Limited, a New Zealand listed company in which McPhersons had a substantial interest. Patience & Nicholson Australia and Patience & Nicholson New Zealand became part of what was described as “the tool group” of McPhersons. Other members of the group included subsidiaries with the Patience & Nicholson name in Singapore and Canada. These subsidiaries had been operating as part of the Patience & Nicholson group for some years.
- 11 Coinciding with the acquisition by McPhersons, on July 1, 1982, Patience & Nicholson Australia and Patience & Nicholson New Zealand entered into a new technical assistance agreement and an agreement permitting Patience & Nicholson New Zealand to use the P&N trade mark in New Zealand. The user agreement was registered in March 1983.
- 12 On February 3, 1987, McPhersons sold the business of Patience & Nicholson Australia to Boral Cyclone Limited. It was transferred within the Cyclone group to the first defendant in 1993. I will refer to both holding companies as “Cyclone”. The New Zealand business was not included. I will examine the terms of the agreement in more detail later as there is an issue as to whether the goodwill associated with the New Zealand P&N trade mark was included in the assets transferred. It is not in dispute that the trade mark itself was not. The Australian business began to operate as a division of Cyclone. It continued to market in Australia and in overseas markets other than New Zealand using the P&N mark.
- 13 Patience & Nicholson New Zealand remained a subsidiary of McPhersons becoming, in 1988, a wholly owned subsidiary of McPhersons (NZ) Limited. After 1987 it began to market most of its products under a new trade name, “Evacut”. The decision to introduce a new brand name was prompted in part by the acquisition by Cyclone of the trade mark P&N in Australia and other world markets except New Zealand. P&N New Zealand could no longer export to its traditional markets under the P&N name and made a decision

to rebrand its products across the board. Thereafter, it made little use of its right to use the P&N trade mark in New Zealand. It marketed some goods under the P&N brand which it imported from Patience & Nicholson Australia. It also supplied P&N branded hacksaw blades to P&N Australia. Although there are differences between the parties as to the precise use made of the P&N trade mark by P&N New Zealand, it is common ground that it was incidental to the main thrust of its marketing which was under the Evacut brand.

- 14 Under its new ownership, Patience & Nicholson Australia continued marketing outside New Zealand under the P&N brand. From 1990 it also marketed a range of cutting tools under the Frost and Osborn brands which it had acquired. Fox & Gunn had begun distributing these brands in New Zealand under an arrangement with the former owner, Aurora Tools Limited. Until 1996 Cyclone's official company policy was not to sell product in New Zealand under the P&N mark. Cyclone's national marketing manager, a Mr Lindley, was of the view that Patience & Nicholson Australia either could not or should not market under the trade mark P&N in New Zealand. Cyclone's export manager, Mr Sheridan, did not agree and on occasions ignored Mr Lindley. Until 1996, Mr Lindley's view generally prevailed. Except for sales through Patience & Nicholson New Zealand, only small quantities of P&N branded product reached the market. When, in 1990, the P&N mark was inadvertently used in promotional material in New Zealand by Cyclone's New Zealand distributor and Patience & Nicholson New Zealand objected, Cyclone responded as follows:

Thank you for your communication 4/10/90 regarding the unauthorised use of the P&N brand by Tetral Industries Ltd.

As mentioned in your letter we are well aware of our inability to use the brand in New Zealand and trust that we have not infringed in any way. If this is not so would you please advise.

I am sure that the use of the brand by our agents is not deliberate. However, should you not be satisfied with their response please advise and we can become involved.

Tetral Industries Limited, the distributors, wrote as follows on October 9, 1990:

Thank you for the copies of the advertisements. As you have said, the advertisements use the P and N trade mark which we do not own. I would like to stress that this company did not place the advertisement nor did it have anything to do with the preparation of the advertisements. We have told our customers concerned, NOT to use the trade mark, in any advertising whatsoever. As you will notice, Boral Cyclone have gone to great trouble with the manufacture of the product as well as the labelling/merchandising to ensure that the trade mark is not used.

Please apologize to Patience and Nicholson (NZ) Limited on our customer's behalf, but again I would stress it was outside our control.

- 15 In 1994 McPhersons sold the Patience & Nicholson New Zealand business to Sutton Tools (NZ) Limited, a nominee of Sutton Tools Pty Limited ("Sutton"). Sutton is an Australian company and the major Australian competitor of Cyclone in the cutting tool market. Sutton Tools (NZ)

Limited changed its name to Patience & Nicholson (NZ) Limited. I will distinguish between the two Patience & Nicholson New Zealand companies by continuing to refer to the first, or original company, as Patience & Nicholson New Zealand and to its successor simply as “the plaintiff”.

16 Under the agreement between McPhersons and Sutton, all the business assets including the goodwill of Patience and Nicholson New Zealand were sold. Goodwill included business names and trade names which were subsequently assigned. The trade names were Evacut, Duracut and Black Jet. The P&N mark was not referred to. Patience & Nicholson New Zealand was not, of course, the proprietor, merely the registered user. There was no attempt to assign its rights as user. That could not have been done, in any event, without the proprietor’s consent. In the event, this omission was of no consequence because registration of the P&N trade mark in New Zealand lapsed on April 7, 1996 as a result of renewal fees not being paid. This appears to have been an oversight. The plaintiff did not receive notice that registration would lapse unless renewed.

17 By this time Cyclone had resolved to market under the P&N name in New Zealand. It had appointed the second defendant, Fox & Gunn, to replace Tetral as its distributor. It began marketing P&N branded product in 1995, although not in a way that attracted the notice of the plaintiff.

18 The failure of Patience & Nicholson New Zealand to renew the P&N trade mark did not pass unnoticed. On August 21, 1997, Cyclone applied for registration of the P&N “stylised and device” trade mark in Classes 7 and 8 in New Zealand. The applications were advertised in February 1998. The plaintiff filed a notice of opposition in June. On August 24, it filed its own trade mark application. The question of which of the parties is entitled to registration is not directly an issue in this proceeding and has been put to one side pending its determination.

19 The plaintiff learnt that the defendants were marketing goods under the P&N brand in New Zealand in August 1998. They objected immediately on the grounds of passing off and breach of the Fair Trading Act. The defendants rejected the complaint, claiming that any right the plaintiff had to the use of the P&N mark ended when registration of the trade mark lapsed in 1996. Proceedings were issued in December 1998 seeking an injunction to restrain the defendants from selling under the P&N brand in New Zealand and for other relief.

Passing-off—Introduction

20 The principles underlying an action for passing off are well established and were not in dispute. A plaintiff is required to show that the defendant has misrepresented his goods in such a way that it is a reasonably foreseeable consequence of the misrepresentation that the plaintiff’s business or goodwill will be damaged. Since *A. G. Spalding & Bros v. A. W. Gamage Ltd* (1915) 84 L.J. Ch. 449; [1914–15] All E.R. Rep. 147, it has been accepted that it is the damage to the plaintiff’s business goodwill which must be established. I refer to the judgment of Cooke P. in *Dominion Rent A Car v.*

Budget Rent A Car Systems (1970) Limited [1987] 2 N.Z.L.R. 395, page 405 who described that approach as “virtually unquestioned”.

- 21 In short, the plaintiff’s case is that by virtue of the historical and widespread use of the initials as an abbreviation of its company name and from its use of the trade mark P&N, the letters have become so closely associated with its business in New Zealand that the marketing of goods branded P&N misrepresents them as the goods of the plaintiff and causes damage as a result. The plaintiff is seeking to protect a trade name which is not a registered mark. I adopt the words of Wilberforce J. in *Norman Kark Publications Limited v. Odhams Press Limited* [1962] R.P.C. 163, page 169 as to the approach to be taken in such cases:

The principle to be applied, in my judgment, is that which lies at the foundation of all cases where the plaintiff seeks to protect a trade name (such name not being a registered trade mark), namely that the plaintiff must show that at the end of the use by the defendant of which he complains, he has a proprietary right in the goodwill of the name, or, in other words, that the name remains distinctive of some product of his, so that the use by the defendant of the name is calculated to deceive.

- 22 There is an issue as to whether the plaintiff can rely on goodwill derived from the prior use of the trade mark as, by virtue of section 37(2) of the Trademarks Act (“the Act”), the use of a registered trade mark is deemed to be the use of the proprietor. The plaintiff has sought to circumvent this by arguing that its use of the trade mark was not permitted use in terms of section 37(1) of the Act because it did not comply with the conditions of use laid down in the agreement. Alternatively, the plaintiff claims that the goodwill in the trade mark accrued ultimately to its holding company, McPhersons, which assigned it to the plaintiff at the time of the sale to Sutton in 1994. Regardless of whether, by either of the means mentioned, goodwill in the trade mark ultimately resides in the plaintiff, it is argued that it is possessed of common law rights in the mark.
- 23 The defendants contest the plaintiff’s claim to goodwill associated with the trade mark P&N. They claim that goodwill relating to the trade mark was acquired by Cyclone when it bought the P&N business in Australia and, if that is not so, say it was retained by the registered proprietor. They rely on section 37(2) and reject the suggestion that there was not a permitted use of the mark. The defendants also dispute that the goodwill in the mark could have found its way into the ownership of New Patience & Nicholson New Zealand by the means contended by the plaintiff.
- 24 The defendants acknowledge that the existence of the registered user agreement gave Patience & Nicholson New Zealand the legal right to use the trade mark in New Zealand and to restrain Cyclone from using the name in New Zealand. But they say that the New Zealand company did not use the trade mark bona fide, instead focusing all of its marketing on the brand Evacut and (later) Sutton. Any use of the trade mark P&N has been *de minimis* over recent years and a belated response to Cyclone’s initiative.
- 25 In the result, the defendants argue that the plaintiff has no goodwill in the trade mark. They concede that the plaintiff has goodwill in the business

name P&N and that some members of the trade refer to the company by that name. Their position, however, is that there is no evidence that consumers are being or are likely to be misled by their use of the name P&N. They rely too on the goodwill in the P&N name which they claim Cyclone acquired when it bought the Australian business in 1987.

26 The defendants further submit that there would be confusion in the minds of consumers if both parties sold product branded P&N. They claim to be apprehensive that the plaintiff will attempt to do so and on a *quia timet* basis counterclaim for an injunction to restrain the plaintiffs from using the mark P&N in association with their product. The plaintiffs raise the defence of estoppel based on the letters written by Cyclone and its agent in 1990 when they acknowledge that they had no right to the use of the mark.

27 It is necessary first to determine the source and nature of the claims of both parties to goodwill associated with the name P&N. This requires first an analysis of the respective rights of the parties following Cyclone's acquisition of the Australian business in 1987 and then a consideration of how, if at all, the position changed as a result of subsequent events.

Goodwill in 1987—derived from the trade mark

28 On behalf of the defendants, it was submitted that following the disposal of the Patience & Nicholson Australia business to Cyclone in 1987, the goodwill of Patience & Nicholson New Zealand was confined to the goodwill it generated from its business as a manufacturer and distributor. It was submitted that Patience & Nicholson New Zealand had no interest in the P&N name *vis-à-vis* Cyclone which had acquired the goodwill associated with the name and the registered trade mark in New Zealand.

29 The parties to the sale and purchase agreement by which Cyclone acquired the Patience & Nicholson business in Australia were Patience & Nicholson Limited and P&N Wiltshire Sales Pty Limited (“Wiltshire”) as vendors, their parent company McPhersons, and Boral Cyclone Limited as purchaser. Wiltshire was an associated company which manufactured files from a separate location referred to in the agreement as the Mulgrave Site.

30 The agreement provided for the sale of the plant and equipment, goodwill and trading stock of the vendor. Goodwill was defined as follows in cl.1(h):

“Goodwill” means the goodwill of the Business and includes:

- (i) the Trade Marks (including the goodwill associated therewith);
- (ii) the Patents and Designs (including the copyright therein);
- (iii) the Technical Data;
- (iv) the benefit of all contracts and orders referred to in clause 17, the Business Contracts and all transferable licences, consents, permits or authorities held by the Vendors in connection with the Business;
- (v) all rights which the Vendors have to and in the names “Patience & Nicholson” and “P&N”.

31 “Business” was defined in clause 1(b):

“Business” means the P&N cutting tool business carried on by the Vendors at the Maryborough Site and at the Mulgrave Site.

32 Trade marks were listed in a schedule to the agreement. The schedule

included the registered trade mark P&N and other marks registered in Australia and in the overseas countries in which Patience & Nicholson marketed its product. The P&N mark registered in New Zealand was not included. This was a conscious omission and, it may be thought, logical in the circumstances. According to Mr Grant Stevens, the former managing director of McPhersons, who was directly involved in the sale process, McPhersons was not in a position to sell Patience & Nicholson New Zealand at the time and Boral Cyclone was interested only in the Australian operation. He explained that Patience & Nicholson New Zealand was owned by Ajax McPherson, a New Zealand publicly listed company. McPhersons owned 49 per cent of the shares in Ajax McPherson and therefore did not have direct control of Patience & Nicholson New Zealand. It was only after McPhersons bought back the shares in Ajax McPherson in July 1988 that it was in a position to sell Patience & Nicholson New Zealand. Mr Stevens said that McPhersons continuing interest in the New Zealand business (through its holding in Ajax McPherson) meant that it was not in its interests to give Boral Cyclone rights in relation to the use of the trade mark P&N in New Zealand.

33 On behalf of the defendants it was contended that, although the New Zealand registered P&N trade mark was excluded from the sale, goodwill associated with the trade mark and in the New Zealand business was not. The goodwill associated with a trade mark is property to be distinguished from the trade mark itself; it is possible for the goodwill associated with a trade mark and the trade mark to be owned by different entities—*Kerly's Law of Trademarks and Trade Names* (12th ed.) para. 11–18. Mr Chisholm relied on the words of sub-paragraph (v) of the definition of goodwill. He submitted that the definition of goodwill was comprehensive and that the rights in sub-clause (v) were additional to the trade mark rights referred to in sub-clause (i).

34 Mr Chisholm relied also on extrinsic evidence which showed an intention that all goodwill associated with the Australian business should be transferred. He submitted there was no reason why any element of goodwill should be retained by Patience & Nicholson Australia as it did not intend to trade. He also pointed to correspondence which indicated that the New Zealand trade mark had not been transferred because of a misunderstanding as to its ownership. A letter from Boral Cyclone's solicitors said in part:

We have been informed that in New Zealand the "P&N" trade mark is owned by a company in which McPhersons Limited has only a 49% interest, and thus it is not in a position to assign that trade mark to our client. However, we would note items 31 and 32 of the Register.

Would you ascertain as a matter of urgency the correct position as to the New Zealand trade mark. If the advice from McPhersons is correct that it is not in a position to control a New Zealand trade mark, that there is no means by which goods manufactured in New Zealand under the 'P&N' trade mark can be imported into Australia. [*sic*]

35 The letter was wrong as a matter of fact. The P&N trade mark was owned by Patience & Nicholson Australia as the reference to items 31 and 32 of the

Register confirms. It appears, however, that the solicitors' misconception was not shared by Boral Cyclone itself. The exchange of letters between the parties which led up to the agreement and which predated the solicitor's letter, recorded that Patience & Nicholson Australia was the registered proprietor of the trade mark.

36 Mr Chisholm also referred to the provisions of cl.15 of the agreement which required the vendors and any related corporation, the names of which included the words "Patience & Nicholson" or "P&N", to change their names. This, he said, confirmed an intention that any goodwill associated with those words should pass to the purchaser. He acknowledged, however, that this did not create an obligation to procure Patience & Nicholson New Zealand to change its name as under the applicable Victorian law, Patience & Nicholson New Zealand was not at the time a related company.

37 In my opinion, the goodwill associated with the trade mark P&N New Zealand was not sold to Boral Cyclone. I do not think "goodwill", as defined in the agreement, included goodwill in the trade mark, notwithstanding the broad terms of sub-paragraph (v). The words of sub-clause (1)(h) read as a whole militate against such a construction. Sub-paragraph (i) deals with rights in respect of trade marks. Such rights are to be distinguished from rights associated with names which is what sub-paragraph (v) is concerned with. I see no reason to extend the words of sub-paragraph (v) to encompass rights which are clearly intended to be dealt with by sub-paragraph (i).

38 In my view, the retention by Patience & Nicholson Australia of all rights associated with the New Zealand trade mark P&N, including goodwill, is consistent with the commercial object of the agreement. As proprietor of the trade mark, Patience & Nicholson Australia was party to the registered user agreement with Patience & Nicholson New Zealand. Associated with this was an agreement which provided for the provision of technical assistance by the Australian company in consideration of a fee of 2.5 per cent of net sales. This arrangement had been introduced when the New Zealand business was first established. The current agreements had been made on July 1, 1982, when Patience & Nicholson New Zealand was about to become a wholly owned subsidiary of Ajax McPherson Limited. These interrelated agreements created reciprocal rights and obligations. The consent of Patience & Nicholson Australia would have been required to their assignment to Boral Cyclone. It would make no sense for Patience & Nicholson Australia to dispose of its rights to the goodwill associated with the trade mark while retaining its association with Patience & Nicholson New Zealand and the benefit and burden of the other contractual arrangements.

39 On the other hand, the retention by Patience & Nicholson Australia of all rights relating to the P&N mark in New Zealand was not contrary to Boral Cyclone's interests. The correspondence exchanged at the time makes it clear that Boral Cyclone's concern was not to secure or protect rights in the New Zealand markets but to ensure that Patience & Nicholson New Zealand could not market under the P&N name in Australia or other overseas markets. The heads of agreement recorded that McPhersons would

use its best endeavours to prevent Patience & Nicholson New Zealand from exporting P&N branded products into countries where the P&N mark had been transferred to Boral Cyclone. That did not find its way into the final agreement, presumably because the ownership of the marks themselves would provide sufficient protection.

- 40 This interpretation of the sale and purchase agreement means that Patience & Nicholson Australia retained ownership of the trade mark P&N in New Zealand and the goodwill associated with it. This includes goodwill deriving from its use by Patience & Nicholson New Zealand which accrued to the registered proprietor pursuant to section 37(2) of the Act, which provides:

The permitted use of a trade mark shall be deemed to be use by the proprietor thereof, and shall be deemed not to be use by a person other than the proprietor, for the purposes of section 35 of this Act and for any other purpose for which such use is material under this Act or at common law.

- 41 However, for the plaintiff it was submitted that section 37(2) did not apply because the use by Patience & Nicholson New Zealand of the trade mark was not a permitted use as that term is defined in section 37(1), which provides in part:

... The use of a trade mark by a registered user thereof in relation to goods [or services] with which he is connected in the course of trade and in respect of which for the time being the trade mark remains registered and he is registered as a registered user, being use such as to comply with any conditions or restrictions to which his registration is subject, is in this Act referred to as the "permitted use" thereof.

- 42 Mr Elliott submitted that the use of the trade mark by Patience & Nicholson New Zealand did not comply with the conditions of the user agreement and that, consequently, goodwill arising from Patience & Nicholson New Zealand's use of the trade name did not accrue to Patience & Nicholson Australia. He said that as the use of the trade mark was not permitted, it could not be deemed use by the registered proprietor under section 37(2).

- 43 It is to be noted that section 37(1) requires compliance with any conditions or restrictions to which registration is subject. Argument proceeded on the basis that a breach of the user agreement was non-compliance with section 37(1). That would be so only if registration were subject to the terms of the user agreement: *Kerly on Trademarks*, para. 13.28. I will assume this to be so, although there was no evidence put before me to confirm that this was the case.

- 44 The particular conditions of the user agreements which the plaintiff submitted Patience & Nicholson New Zealand had not complied were obligations on Patience & Nicholson New Zealand:

- (a) To manufacture in accordance with the specifications and standards of quality approved from time to time by the registered proprietor. (This was common to all three agreements.)
- (b) Not to publish advertisements, pamphlets or other trade literature which contain reference to the trade mark without the approval of

the registered proprietor. The 1962 agreement required approval to be in writing. The later two agreements dispensed with that requirement.

- (c) Not to stamp or etch the trade mark on the approved products in conjunction with any other word or words, device or numeral, without the approval in writing of the registered proprietor. (1975 and 1982 agreements only.)

45 There was a great deal of evidence given as to the extent of control exercised by Patience & Nicholson Australia over Patience & Nicholson New Zealand during the period to 1987, it being recognised that if the New Zealand company was under the effective control of Patience & Nicholson Australia, authority to depart from the strict terms of the agreement may be implied. The general manager of Patience & Nicholson New Zealand from 1962 until 1988, Mr Hodgkinson, said that the New Zealand company had a high degree of independence. He said that there were some periods when Patience & Nicholson Australia largely forgot about the New Zealand operation and nothing was heard from them. He said that after the sale of 25 per cent of the New Zealand company to Fletcher Trust and Investment Company Limited in the mid-1960s, a somewhat more formal management structure was introduced but the New Zealand company still operated largely autonomously in many respects. It independently carried out its own research and development, most significantly in relation to methods of manufacture. It introduced the flute grinding method of manufacture after carrying out its own extensive independent research, whereas Australia continued to manufacture by the hot roll forging method.

46 Mr Hodgkinson said that Patience & Nicholson Australia exercised little control over the use of the trade mark by Patience & Nicholson New Zealand in advertising material. He claimed to have created himself a letterhead with P&N superimposed over a map of New Zealand without the knowledge or consent of the Australian office. He said that no guidelines or controls were laid down for the use of the trade mark and the New Zealand office basically did as it pleased. There was reference to a hacksaw blade case which incorporated the P&N logo and was independently designed by Patience & Nicholson New Zealand. There was also evidence that the P&N trade mark was used by Patience & Nicholson New Zealand in conjunction with the slogan "Get the Edge". There was no evidence of this having been approved by Patience & Nicholson Australia in writing or otherwise.

47 The plaintiff's witnesses also referred to the development by Patience & Nicholson New Zealand of independent marketing strategies which included selling some product directly into the Australian market. These included bandsaw blades which were patented in the name of Patience & Nicholson New Zealand.

48 Mr Elliott (the former managing director of McPhersons) acknowledged that although approval from Patience & Nicholson Australia for major decisions was required, these were mainly in the nature of a "rubber stamping exercise". The actual decisions about product manufacture,

specifications and the use of the trade mark were made by Patience & Nicholson New Zealand.

49 Having reviewed the evidence, including the many documents referred to which bore on the degree of control exercised by Patience & Nicholson Australia over Patience & Nicholson New Zealand, I am satisfied that the use made of the mark by Patience & Nicholson New Zealand was generally in accordance with the terms of the agreement and any departure therefrom was authorised by Patience & Nicholson Australia. The issue of compliance must be judged against the commercial realities, including the fact that until 1982 the agreements operated between a parent company and its subsidiary. It is to be expected that approvals would be granted and control effected by arrangements made at a high level of management. It would be unrealistic to expect close monitoring once systems were in place which ensured that delegated authority was effective.

50 It is clear that the New Zealand operation quickly achieved a significant degree of independence. That was no doubt attributable to the quality of its management and the success of its operation. Within limits, it was given freedom to develop its own manufacturing and marketing techniques. But I see no persuasive evidence that Patience & Nicholson Australia surrendered control. Rather, it developed mechanisms which avoided the need for any unnecessary interference while ensuring that it knew what was going on. There was considerable evidence that the two businesses operated very much as an integrated unit while Patience & Nicholson was a subsidiary and also after the two companies became part of the McPhersons group. Company records make recurring reference to the need for “rationalisation” between Maryborough and Kaiapoi. One outcome was that from 1981 all hacksaw blades were made at the Kaiapoi plant. Packaging of the blades was to be “designated by the packaging committee”. The need for closer liaison and better communication to achieve efficient outcomes was often emphasised.

51 I am satisfied that at all stages specifications and standards of quality were approved by Patience & Nicholson Australia. The agreement did not call for detailed monitoring. I am also satisfied that publication of the trade mark and its use on products was approved by way of general authority under working arrangements if not specifically in particular cases.

52 The situation is quite unlike *MCGREGOR Trade Mark* [1979] R.P.C. 36 to which I was referred. In that case the conditions of use required that the goods be manufactured “in accordance with directions as to materials and methods ... given from time to time by the registered proprietor”. The agreement was made between two unrelated companies. No directions in fact were given. Effectively the user was given *carte blanche*. The mark was held to have become deceptive. Under section 28 of the United Kingdom Trademarks Act 1938 (the equivalent of section 37 of the New Zealand Act) there had not been permitted use.

53 I am satisfied that before the sale of its business in 1987, Patience & Nicholson Australia never abandoned its rights as registered proprietor of the mark in New Zealand. A connection in the course of trade was

maintained, a requirement implied by the definition of trade mark in section 2 of the Act—see discussion in Brown and Grant, *The Law of Intellectual Property in New Zealand*, para. 2.80. It exercised control and gave any necessary approvals by way of the normal incidents of a parent and subsidiary relationship until 1982 and thereafter, through the closely integrated management control exercised within the McPherson tool group. At no point could it be said that the mark had become deceptive.

54 The position may well have changed after 1987. I think there is force in Mr Elliott's submission that after 1987 the conditions of control were not met. Patience & Nicholson Australia ceased to trade. It changed its name. It became the passive repository for the P&N trade mark in New Zealand. The royalty payable under the technical assistance agreement was not paid. It may well be that the necessary connection in the course of trade ceased. The point is, however, somewhat academic as after 1987 there was little use of the trade mark by Patience & Nicholson New Zealand. And, in 1994, when Patience & Nicholson New Zealand sold its business to Sutton, the registered user agreement was not assigned, no doubt because of section 37(12) of the Act which provides that the registered user of a trade mark has no assignable or transmissible right to its use.

55 Mr Elliott submitted that the goodwill which Patience & Nicholson Australia had in the mark was assigned to the plaintiff as part of the sales process because Patience & Nicholson Australia was a wholly owned subsidiary of McPhersons which was a party to the sale in 1994 to Sutton. I am unable to accept this submission. Patience & Nicholson Australia would have had to have been a party to any effective assignment of the goodwill in the mark.

56 I proceed on the basis that neither party can rely on the goodwill derived from the use of the trade mark P&N in New Zealand.

Goodwill in 1987—associated with the name

57 I now consider the respective claims of the parties to goodwill associated with the name P&N as at 1987 as distinct from goodwill deriving from its use as a trade mark.

58 Mr Chisholm submitted that until 1987 Patience & Nicholson Australia owned not only the goodwill derived from the use of the P&N trade mark in New Zealand, but also any goodwill attaching to the use of the P&N name in New Zealand. He retreated from a submission that Patience & Nicholson New Zealand had no independent goodwill, acknowledging that it had built up goodwill in its own right. His position was that by virtue of the parent/subsidiary relationship which had existed for much of the New Zealand company's history, the control exercised by the Australian company, the existence of the registered user agreement and the unique nature of the trading relationship between Australia and New Zealand, any goodwill associated with the name P&N resided with Patience & Nicholson Australia and was acquired by Cyclone.

59 The traditional view was that, as goodwill is legal property with no

physical existence, where a business is carried on in more than one country or jurisdiction, there must be a separate goodwill for each: *Star Industrial Company Limited v. Yap Kwee Kor* [1976] F.S.R. 256, PC. Lord Diplock said in the course of his judgment at page 269:

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. So when the business is abandoned in one country in which it has acquired a goodwill the goodwill in that country perishes with it although the business may continue to be carried on in other countries.

- 60 In *Dominion Rent-a-Car v. Budget Rent-a-Car* [1987] 2 N.Z.L.R. 395, Cooke P. sounded a cautionary note, suggesting that the *dicta* of Lord Diplock should be read in light of the particular facts of the case. He said at page 405:

The weight of judicial opinion appears to recognise the possibility that an international business may have one individual international goodwill, the reputation of any local branch or agency being that of association with the international organisation . . .

He went on to say at page 406:

In accordance with what appears to be the general trend of judicial opinion, I think that an Australian company's reputation and goodwill can extend to New Zealand (and vice versa) and, at least if there is a sufficient business connection with this country, will be entitled to protection here. Except in special cases, such as the *Star Industrial Company* case, it seems to me artificial to analyse such a state of affairs by saying that the company has one goodwill in Australia and another in New Zealand. Rather the goodwill transcends territorial boundaries.

- 61 Somers J. also discussed the circumstances in which an overseas company may acquire goodwill in New Zealand. He said at page 420:

In the end the question of the existence and extent of reputation and of goodwill must be a matter of fact. In the case of a business having international reputation which extends to New Zealand, not much in the way of activity in New Zealand would I think be required to establish a goodwill. In such cases the reputation itself may be almost tantamount to goodwill, activity having importance in localising that reputation in New Zealand.

- 62 In *Habib Bank Limited v. Habib Bank AG Zurich* [1981] 2 All E.R. 650, Oliver L.J. said at page 661:

Where an internationally known business establishes a branch in this country through a limited company, either incorporated here or abroad, it may be that technically the goodwill and reputation of that business 'belongs' to the limited company in the sense that the company may be the proper and only plaintiff in an action taken here to protect it. But it does not cease to be the goodwill and reputation of the international business because it is also the goodwill and reputation of the local branch. And that reputation inheres, as it seems to me, equally in any other local branch which the international business may set up in the same place.

- 63 While a parent/subsidiary relationship subsisted between the Australian

and New Zealand companies, it is not difficult to accept that Patience & Nicholson Australia would have acquired goodwill in New Zealand by virtue of its previous trading activities as well as the operations of what fairly could be regarded as its New Zealand branch. That would have continued after Patience & Nicholson New Zealand ceased to be a wholly owned subsidiary in the mid-60s when the Fletcher company took a 25 per cent interest. After 1982, when the two companies became operational units of a larger group, the analogy of the New Zealand company as a local branch is less apt. While the Australian company undoubtedly retained an independent reputation in New Zealand, the business goodwill of the New Zealand operation would largely have accrued to Patience & Nicholson New Zealand. From the mid-1970s it distributed all P&N products. Most were manufactured in New Zealand in any event. Patience & Nicholson Australia had little in the way of an independent relationship with New Zealand customers.

64 The independent character of the two business operations was recognised by the sale of the Australian business in 1987 and underlined by the terms of the sale. The shares of the two companies were in separate ownership. There was a conscious decision to sever the remaining legal tie between the two companies, the trade mark and technical assistance agreements not being assigned. There was a demonstrated intention to leave the New Zealand company with the benefit of the Patience & Nicholson reputation and goodwill in New Zealand.

65 I acknowledge that it will often be lacking in realism to treat Australia and New Zealand as separate markets for the purpose of determining business reputation and goodwill. I respectfully acknowledge the force of the remarks made in the *Dominion Rent A Car* judgments, those of Oliver L.J. in *Habib* and cases such as *Fletcher Challenge Limited v. Fletcher Challenge Pty Limited* [1982] F.S.R. 1 and *Chase Manhattan Overseas v. Chase Corp.* (1985) 8 A.T.P.R. 40–661, where Australian courts have recognised the rights of New Zealand companies with a sufficient reputation in Australia. I would acknowledge also the artificiality of a finding that in this case all of the goodwill associated with the P&N business in New Zealand resided with one company to the exclusion of the other. In my view, the commercially realistic view is that, apart from its rights as registered proprietor of the mark, the Australian company had goodwill in New Zealand deriving from its long association with the market but that by 1987, having regard in particular to the changed nature of the relationship between the two companies during the preceding four to five years, the greater part of the goodwill associated with the Patience & Nicholson business in New Zealand was owned by the New Zealand company. In a sense the issue is academic as it is the position in 1998 that has ultimate relevance: *Norman Kark Publications Limited v. Odhams Press Limited* (*supra* at para. 21)—see also *Cadbury Schweppes Pty Limited v. Pub Squash Co. Pty Limited* [1981] 1 All E.R. 213, 221; *Wineworths Group Limited v. Comité Interprofessionnel du Vin de Champagne* [1992] 2 N.Z.L.R. 327, 338. A determination of that issue requires a consideration of the activities of both parties in New Zealand after 1987.

Patience & Nicholson New Zealand—use of the P&N name after 1987

66 As earlier mentioned, soon after 1987 Patience & Nicholson New Zealand began to phase out the general use of the P&N trade mark, replacing it with Evacut. The plaintiff's evidence was that the decision to replace the P&N mark was dictated by its inability to use it in its traditional export markets. The defendants questioned this but I do not think the motivation for the change has any bearing on the question I am required to decide.

67 The new trade name was launched with some fanfare. Articles appeared in trade journals announcing the change of name. The following is an extract from an insertion in the New Zealand Hardware Journal of January 1988:

P + N changes brand name! Now it's Evacut.

Patience & Nicholson (NZ) Limited has been manufacturing cutting tools in New Zealand for 25 years.

Originally a subsidiary company of Patience & Nicholson Limited Australia, Patience & Nicholson (NZ) Limited is now a New Zealand owned company and EVACUT is the newly registered brand of the company, replacing the Australian owned P & N trade mark.

68 The reference in the opening sentence to "P + N" is significant because, while Evacut became the name under which most Patience & Nicholson New Zealand products were marketed, the name P&N survived and continued to be associated with the business in various ways. Mr Grogan, the current chief executive officer of the plaintiff's parent company, who has had a long association with the New Zealand Patience & Nicholson business, said that at an early stage he decided that the P&N name should be preserved and he deliberately set out to develop a dual branding strategy. He said he wanted to establish continued use of the name. He believed in its intrinsic worth to the business.

69 Although the name Evacut was introduced into export markets with immediate effect, there was a lengthy transition period in the domestic market. There was a large volume of P&N branded product in stock. Some slow-moving categories took 5–6 years to clear. Small quantities of some lines are still held.

70 Until 1994, Patience & Nicholson New Zealand continued to import some P&N branded product from Cyclone in Australia. It was branded with the same stylised P&N trade mark as had formerly been used on the New Zealand product. This was part of a co-operative trading relationship which continued until Sutton acquired the New Zealand business. Goods also flowed in the other direction, Patience & Nicholson New Zealand continuing to meet the hacksaw blade requirements of the Australian business.

71 The P&N initials also continued to be used as part of promotional devices in the New Zealand market. Patience & Nicholson New Zealand supplies display cabinets to many of its stockists. Some of these, originally supplied in the 80s, prominently feature the P&N initials. I was told that at least 50 remain in the marketplace. I was informed that some displays include

packaging with the P&N mark but I gather these are exceptional. Most product is sold under the Evacut and Sutton marks.

72 Two of the three courier trucks which operate out of Kaiapoi are still emblazoned with the P&N logo and show a package of hacksaw blades in the traditional P&N getup. Mr Grogan said a conscious decision was made to leave the P&N artwork on the trucks.

73 Now and then P&N initials have appeared in promotional material. I was referred to brochures produced by Paykel Engineering, a major engineering supplier with 18 branches throughout New Zealand, which contained illustrations of P&N branded hacksaw blades. Evacut came to be the dominant brand of hacksaw blades sold in New Zealand but, over recent years, small quantities of blades bearing the P&N mark have reached the market.

74 I was referred to a trade directory, A'Courts, which is published annually and includes a product list by brand. It has a number of entries under "P&N" showing that brand to be stocked by named stockists. The entry for Patience & Nicholson New Zealand lists P&N as one of its brands. There were indications from the evidence that the directory is not regularly updated and tends simply to reproduce the entries of previous years. I see the reference to the brand "P&N" as indicating the loose way in which the P&N initials are sometimes used, to denote any product manufactured by Patience & Nicholson New Zealand.

75 In 1995, the plaintiff introduced new packaging in which the "P" and the "N" in the words Patience & Nicholson were highlighted. Mr Grogan said this was a deliberate move to emphasise the association of the company name with the initials P&N. Cyclone (through its subsidiary Azon which then owned the Patience & Nicholson cutting tool business in Australia) objected to the new packaging being used in Australia. The plaintiff agreed to change the packaging design to remove the name Patience & Nicholson (NZ) Limited from the front to the back and to change the letters P&N to normal block printing.

76 Other miscellaneous usage of the P&N initials referred to in evidence included their appearance as stylised initials in a situations vacant advertisement in 1995.

77 It is clear that since 1987 the initials P&N have continued to be widely used as an abbreviation for the company, Patience & Nicholson New Zealand. Company personnel themselves habitually abbreviate the company name to P&N. Witnesses from the trade confirmed that the initials P&N continue to have strong currency as an abbreviation for Patience & Nicholson New Zealand. Mr John McGeachie, the managing director of Trade Tools, New Zealand's largest cutting tool supplier, said simply, "The two to my mind, mean the same." He emphasised, and I accept, that although called by the plaintiff, he was not taking sides in the dispute; his firm stocked tools from both suppliers.

78 To similar effect was the evidence of Mr Allan Nees, the Marketing Manager of Mitre 10, one of New Zealand's largest hardware retailers. He said that in his company the abbreviation P&N was used to refer to Patience

& Nicholson New Zealand. He also said that there was a strong association between the name and the product, despite the discontinuance of the trade mark. He said if he wanted to identify a particular product manufactured by Patience & Nicholson New Zealand, he would refer to it as a P&N drill of a particular size, not by reference to one of the trade names under which Patience & Nicholson New Zealand now market their drills. Other witnesses called by the plaintiff gave evidence to similar effect.

79 Defence witnesses also acknowledged that P&N was widely used in the trade as an abbreviation for Patience & Nicholson New Zealand.

Market survey evidence

80 The plaintiff also relied on the results of a market survey carried out by A. C. Nielsen. The survey was commissioned for the purpose of determining the extent to which the letters P&N were associated with Patience & Nicholson New Zealand and its products in the market for cutting tools. 181 stockists and end users were contacted, of which 100 stockists and 30 end users said they had heard of P&N. They were asked “What does P&N mean to you?”, 69 per cent of the stockists and one half of the end users answered “Patience & Nicholson”. A separate question established that the reference to Patience & Nicholson was to Patience & Nicholson New Zealand.

81 The majority of both categories associated P&N with products of the kind manufactured by Patience & Nicholson New Zealand. Three-quarters mentioned drills or drill bits. When stockists were asked about the brands of cutting tools they stocked, P&N was the one most commonly mentioned.

82 Mr Robin Ransom, the director of research at AC Nielsen, was responsible for designing and executing the survey. He said the results indicated that there was a high level of association between P&N and Patience & Nicholson New Zealand among stockists and end users. Professor Roderick Brodie of the Department of Marketing at the University of Auckland, commenting on the survey, said that it had been conducted in accordance with the Code of Standards of the New Zealand Market Research Society and was appropriate for the issue being investigated. In his opinion, the findings were valid and reliable.

83 For the defendants, Mr Chisholm submitted that the market survey evidence was inadmissible. Alternatively, he argued that the results were of limited relevance to the issues.

84 It is well settled that market survey evidence is admissible as proving a public state of mind on a specific question or that a designated opinion is held by the public or a part of the public: *Auckland Regional Authority v. Mutual Rental Cars (Auckland Airport)* [1987] 2 N.Z.L.R. 647 which followed the decision of Mahon J. in *Customglass Boats Limited v. Salthouse Bros Limited* [1976] 1 N.Z.L.R. 36. In the *ARA* case, Barker J. quoted from two cases which had laid down detailed requirements for the admissibility of survey evidence—*Greynell Investments Pty Limited v. Hunter Douglas Limited*, an unreported decision of Lockhart J. in the Federal Court of Australia, and *Imperial Group plc v. Phillip Morris Limited* [1984] R.P.C. 293. Of the requirements identified in both cases, of elementary importance

is that interviewees are selected so as to represent a relevant cross-section of the public or the class or section of the public being interviewed. In the terminology of the market research industry, the proper universe must have been examined and a representative sample drawn from that universe. See also the discussion of Williams J. in *Levi Strauss & Co. v. Kimbyr Investments* [1994] 1 N.Z.L.R. 332 at 363–366.

85 The interviewees were drawn from two sources. Stockists were selected from a list maintained by Patience & Nicholson New Zealand, end users from a customer list provided by Trade Tools which, as previously noted, is New Zealand’s largest cutting tool supplier. The responses of interviewees in each of the two groups were separately collated. Mr Kevin Donovan, the Sales Manager of the plaintiff, was responsible for providing the list from which stockists were selected. He said it was not confined to Patience & Nicholson New Zealand customers, present and past. He described the list as a “full Who’s Who” of the cutting tools retailing market in New Zealand. He said it included customers whom Patience & Nicholson New Zealand no longer supplied and potential customers they had never supplied.

86 The defendants argued that the list from which stockists were selected was not representative of the cutting tool market as it was substantially a list of the plaintiff’s customers. As the plaintiff’s market share was considerably less than the 80 per cent it believed it to be, the list was said to be wholly unrepresentative of the cutting tool market in New Zealand. I was asked to accept alternative estimates of market shares based on statistics of imports of cutting tools. I found that evidence confusing and inconclusive. I am unable to make any final determination of market shares. But on my view of the evidence, it is not necessary for me to do so in order to determine that the list provided by the plaintiff was an adequate resource for the purpose. I accept Mr Donovan’s evidence that the list comprised the target market for Patience & Nicholson New Zealand products. He said that he personally took responsibility for maintaining the lists. He impressed me as someone who would discharge his duties with care and skill. I see no reason not to accept that it comprised all firms who were either existing customers or seen as potential customers of Patience & Nicholson New Zealand.

87 Mr Pat Brunton of Colmar Brunton Research gave expert evidence for the defendants. He was critical of the use of the Patience & Nicholson list because it did not allow for market shares to be represented. He said that the use of yellow pages or trade directories would have produced a list which was more fairly representative of the market.

88 I am not persuaded that the means used to select the universe in this case were seriously flawed. All expert witnesses accepted that the process is an art, not a science. The list produced by Patience & Nicholson New Zealand would not have comprised every single purchaser of cutting tools in New Zealand. It would not have included many of the end users who would be found on the customer lists of the engineers suppliers and distributors who are among Patience & Nicholson New Zealand’s principal customers. But this did not purport to be a survey of all purchasers of cutting tools. What was being surveyed was what Professor Brodie referred to as a “business to

business market”. In such circumstances, he said that it was important to ensure that the most important customers were in the list and that there was a good representation of any segments of the market, such as wholesalers and retailers. He concluded that the list represented a sufficiently large proportion of the target market to produce what he referred to as “robust results”. Professor Brodie also said that it is less important to have a comprehensive list where the purpose of the survey is to measure brand association as opposed to brand awareness. The survey was of respondents who had heard of the initials P&N. Any who were not in this category were excluded at the outset.

89 In my view, the results of the survey of stockists is relevant and admissible. There is no doubt that the list from which respondents were drawn could have been compiled in another way and from other sources. There is no single right way of compiling the list. But substantially for the reasons given by Professor Brodie, it seems to me that, provided the results are accurately represented and appropriately qualified, they are relevant and admissible.

90 Mr Chisholm was also critical of the way the list of end users was compiled. The list produced by Trade Tools comprised those customers who purchased a common range of drills. Most of the drills in that range stocked by Trade Tools are supplied by Patience & Nicholson New Zealand. It is probable therefore that most, if not all, of the end users surveyed, bought Patience & Nicholson drills. The attempt to select a representative group of end users was unwittingly foiled by the product group selected for the purpose.

91 Again it does not follow, in my view, that the evidence is inadmissible. I think the results have relevance as responses from end users who purchase Patience & Nicholson goods. Their value is diminished but not extinguished by reason of the exclusion of customers who do not buy from the plaintiff. As with the survey of stockists, the information may be used provided that it is accurately represented and appropriately qualified. I see it as simply helping to round out the overall picture.

92 In final submissions, the admissibility of the market survey evidence was also challenged because it was said the defendants did not have an adequate opportunity to check the names on the plaintiff’s customer list and because the names of actual interviewees were not disclosed. The customer list was confidential but I gather from the evidence that arrangements were made which gave the defendants’ solicitors access to it. The interviewees were chosen by a random process. There seems no dispute that the method would have been effective to produce a representative sample of those who appeared on the list. It was not suggested that the defendants asked for the names of interviewees and were refused access. Their concerns in this respect focused on the way the list was compiled in the first place.

93 In his evidence Mr Brunton also criticised some aspects of the way the survey was undertaken. One criticism which was the subject of final submissions concerned the repeated references to P&N in the questions and the likely effect that would have had on a question in the survey which asked respondents to list the brands of product they stocked. P&N brand was the most common of those referred to.

- 94 Both expert witnesses for the plaintiff rejected the suggestion that repeated references to P&N undermined the validity of the question on brands. Professor Brodie acknowledged that the references could have led to some bias but he regarded it as insufficient to invalidate the responses.
- 95 Another criticism was that interviews were carried out by telephone rather than face-to-face. This was regarded as appropriate by both experts called by the plaintiff because the name or mark was literally the letters P&N which could be and were verbalised in the business-to-business context being examined.
- 96 I found Professor Brodie to be a careful and thoughtful witness and on the few issues on which he and Mr Brunton were critically at odds, I preferred his view. He concluded that the survey as a whole showed a very strong association between the company Patience & Nicholson New Zealand and the letters P&N. In his view, that outcome was valid even if it was assumed that the source list was biased towards Patience & Nicholson customers and did not represent a high proportion of the target market. Subject to the qualifications already discussed in relation to the universe examined, I accept that the survey is admissible evidence of a strong association between the letters P&N and Patience & Nicholson New Zealand among stockists of cutting tools in the market in which the plaintiff and defendants compete and also among end users of goods manufactured by the plaintiff.

Cyclone—business in New Zealand after 1987

- 97 After it purchased Patience & Nicholson Australia's business, Cyclone continued to supply Patience & Nicholson New Zealand with P&N branded product. It took no other steps to market cutting tools in New Zealand until 1989 when it began marketing through Tetral. These included drill sets marketed under the brand P&N. This resulted in the complaint from Patience & Nicholson New Zealand referred to earlier. The marketing of product under the P&N brand came to the attention of Patience & Nicholson through an advertisement in a Placemakers' flyer. After that, Cyclone drill sets marketed in New Zealand were generally branded Boral Cyclone. A special package referred to as a Dial-a-Drill set was marketed under the P&N brand and, according to Mr Sheridan, some drill bits for a short period after 1992.
- 98 Over the period 1989–1995, the volume of Cyclone drill sets distributed by Tetral steadily diminished. In the first full year for which figures are available, the year ended May 31, 1991, the wholesale value was just over \$100,000. This reduced over successive years to \$8,000 in 1995–1996. Mr Hyland, the general manager of Tetral, estimated that 40 per cent of sales were of Dial-a-Drill sets and marketed under the P&N brand. Comparisons with invoices produced cast doubt on this figure. I suspect the proportion of Dial-a-Drill sales could be considerably less.
- 99 Mr Hyland was anxious to market the full range of P&N cutting tools in New Zealand. An agreement to do so was finalised with Mr Sheridan. It was aborted at the last moment when Mr Lindley got wind of the plan. He

directed Mr Sheridan to withdraw all P&N product from the market in New Zealand. Mr Sheridan said he did not obey the directive, permitting Tetral to sell the stocks they were holding.

100 In anticipation of the launch, Tetral distributed P&N promotional material in New Zealand including wall charts with the P&N logo, T-shirts and a supply of P&N catalogues. Tetral also distributed promotional material of its own. Examples were produced which depicted drill sets. One flyer included the P&N logo but this seems to have been exceptional and may have been an oversight. The P&N mark also appeared in a publication known as the Blackwood's catalogue which is published by a large Australian engineering supply company. It has had branches in New Zealand since 1993 which used the same catalogue. The most recent catalogue published in 1998 refers to Cyclone products under the P&N brand. The P&N logo has also appeared in magazines periodically published by Blackwood's.

101 In the late 1980s Cyclone had also commenced supplying its standard P&N product range to a Christchurch merchant, Hylton Parker, which distributed to end users. Initially, P&N packaging was used but this was discontinued. I was given no information about total values. Sales continued until 1994 when Hylton Parker began purchasing Frost branded tools from Fox & Gunn.

102 From 1995 Fox & Gunn became Cyclone's sole New Zealand distributor. It had distributed product under the Frost and Osborn marks since 1990 when Cyclone took over Aurora Tools. There were some products in the P&N range which were not in the Frost or Osborn range. These were also marketed by Fox & Gunn. Mr Russell of Fox & Gunn said that in 1995 and 1996 Fox & Gunn made an effort to cross out the P&N mark on any P&N products sold. He said that this was to "appease" Mr Lindley. He and Mr Sheridan had agreed to "essentially ignore his [Mr Lindley's] point of view". They did so even when in April 1996 Mr Lindley, on hearing of a Fox & Gunn proposal to develop a marketing strategy to sell P&N product in New Zealand, gave an unambiguous direction to cease any planning and return any P&N product held in stock by Fox & Gunn.

103 In 1998 Cyclone decided to phase out its Frost and Osborn brands and to market solely under the P&N brand. The directive, in the interests of "brand rationalisation", came from Cyclone's P&N products from about April 1998. It began distributing P&N price lists and catalogues later that year and its own promotional flyers promoting P&N product. Cyclone P&N products have a distinctive yellow and green getup. Cyclone publicity material which include drill selection charts and tables, is similarly distinctive. Most include a reference to "Cyclone Hardware".

104 The information on turnover, some of it confidential, supplied to the Court indicates that sales of P&N branded product were minimal until the first half of 1999. For the 1998 calendar year sales totalled \$42,000 approximately. That escalated rapidly during 1999 as the P&N brand took over from Frost and Osborn. There has not been any significant increase in sales overall. Mr Russell estimated Fox & Gunn's market share to be 10–15

per cent. He believed Patience & Nicholson's market share to be 25–30 per cent, acknowledging that it is the market leader.

Goodwill—Findings

105 I expressed the view earlier in this judgment that in 1987 the goodwill of the Patience & Nicholson business in New Zealand, excluding goodwill associated with the trade mark, substantially resided in the New Zealand company. It is arguable that Patience & Nicholson Australia was possessed of some goodwill by virtue of its long trading association, much of it as an overseas principal or as the parent of a New Zealand subsidiary. I concluded, however, that its goodwill would have been secondary to that which the New Zealand company had developed over 20 years or more as the major manufacturer and sole distributor of Patience & Nicholson goods in New Zealand.

106 The terms of the sale of the Australian business were designed to protect both Australian and New Zealand businesses against attack from their former associates. Each retained the right to the use of the P&N name in their respective markets. By this means, any pre-existing concurrent rights to the use of the name in New Zealand were brought to an end. That change was recognised and respected by the proprietors of both companies. The two businesses enjoyed an amicable and mutually beneficial trading relationship.

107 That was brought to an end by the confluence of three developments. The first was the acquisition of Patience & Nicholson's business by Sutton, a major competitor of Cyclone in Australia. The second was the retirement of Mr Lindley from the Patience & Nicholson business in Australia. Although defied from time to time by his subordinates, he was largely successful in ensuring that Cyclone did not market under the P&N name in New Zealand. The third event was the plaintiff's failure to ensure that registration of the P&N mark in New Zealand was renewed.

108 In my view, the trading activities of Patience & Nicholson New Zealand and the plaintiff since 1987 consolidated their rights in relation to the P&N name in New Zealand. The use of the initials as an abbreviation for the company name is widespread and entrenched. The results of the market survey simply confirmed the picture which had emerged from witnesses called by both sides. The phasing out of P&N as the principal trademark of the New Zealand business meant that the P&N name ceased to be uniquely descriptive of the company's product as well as its name. But it continued as an alternative and distinctive means of identifying both. The evidence of witnesses from the trade as well as the responses to the survey established that the P&N name was closely associated with both the company's products and its name.

109 On the other hand, no meaningful attempt was made by Cyclone to utilise the P&N name in New Zealand until 1998. Although intermittently P&N product reached the market, other than by way of sales on behalf of the New Zealand company, volumes were relatively low and there was no systematic marketing. For practical purposes, sales under the P&N brand occurred only

as a result of error or temporary evasion of company policy. Until 1997 it was recognised that the use of the P&N mark would have constituted an infringement of the rights of the registered proprietor and user. Accordingly, the main thrust of Cyclone's marketing in New Zealand was through the Frost and Osborn brands. In my view, there was insufficient activity to revive any residue of goodwill in relation to the P&N name which Cyclone had acquired in 1987. It falls far short of what has been required in the few cases in which concurrent goodwill has been established:

Generally very special circumstances have been involved. Long concurrent use has been the essential factor.

Wineworths Group Limited v. Comité Interprofessionnel du Vin de Champagne [1992] 2 N.Z.L.R. 327, 343 *per* Gault J.

- 110 Mr Chisholm submitted that evidence of "reputation spill-over" was particularly relevant having regard to the close trading relationship with Australia and the *dicta* already referred to in cases such as *Dominion Rent A Car v. Budget Rent A Car* [1987] 2 N.Z.L.R. 395. I accept that closer economic relations between Australia and New Zealand and the trend to globalisation will lessen the cases in which goodwill is confined by territorial boundaries. But the Courts must continue to determine each case on its own facts and according to received principles. As Gault J. said in the *Wineworths* case, there appears to be no authority:

... requiring the established rights of traders in New Zealand to be overridden so as to permit importation from Australia of goods in respect of which inconsistent rights exist there. Any such broad policy would be contrary to the treaty obligations of both countries to ensure equal treatment for the nationals of other countries under the Paris Convention for the Protection of Industrial Property. (p. 344)

- 111 In my opinion, the facts do not support a finding of concurrent goodwill in New Zealand in the name P&N. The deliberate steps taken in 1987 and since to reserve rights in respect of the P&N name in New Zealand to the New Zealand company are fatal to any claim to shared or concurrent goodwill. Whatever the position may have been in 1987, the evidence is clear that the relevant section of the public now associates the name with the New Zealand company. The plaintiff has established its right to protection.

Misrepresentation

- 112 It does not automatically follow that the commencement of business in New Zealand under a name the same as, or similar to, that of an existing business will amount to passing off—*Dominion Rent A Car v. Budget Rent A Car* at p. 420. It is still necessary to consider whether the use by the defendants of the trade name P&N is a misrepresentation in the sense that they have, innocently or deliberately, described their goods in a way calculated to injure the business or goodwill of the plaintiff by leading

persons doing business with them to suppose that they are doing business with the plaintiff.

- 113 In each case it is essentially a question of fact for the trial judge to determine, on all the material before him, whether the likelihood of deception and damage has been established by the plaintiff: *Office Cleaning Services Limited v. Westminster Window and General Cleaners Limited* [1946] 63 R.P.C. 39, 42. In determining those questions I bear in mind the advice of Gault J. in *Wineworths* that:

It is necessary to keep firmly in mind that it is in the market or trade setting that the issues arise for determination. It is the point at which goods or services are bought and sold, where business dealings are transacted that the elements of the tort are to be investigated. It is concerned with trade or business goodwill and with conduct in trade or commerce establishing or injuring that goodwill. The manner in which a name is presented in trade will dictate the goodwill that is generated. It is the understanding of those engaged in trade that will dictate whether or not they are, or will be, misled. (at pages 336–337.)

- 114 In light of the evidence pointing to a close association between the name P&N and Patience & Nicholson New Zealand, it is perhaps not surprising that when Fox & Gunn began actively promoting the P&N brand, some customers assumed that it was product manufactured by Patience & Nicholson New Zealand. Four of the witnesses called by the plaintiff spoke of receiving price lists from Fox & Gunn which referred to P&N drill bits. All assumed from the reference to P&N that the drill bits were manufactured by Patience & Nicholson New Zealand. Each contacted Patience & Nicholson New Zealand because they noticed and wanted to query apparent discrepancies in the prices.

- 115 Another witness, a Mr Hunt who worked for a hardware supplier in Wellington, also received a price list from Fox & Gunn referring to P&N product, together with an order form. He also assumed it was Patience & Nicholson New Zealand product and faxed an order on the form supplied to Patience & Nicholson New Zealand. He was asked why he did not send the order form to Fox & Gunn. His reply was:

I think just seeing the P&N logo at the top of the page, I just sort of naturally assumed it was Patience & Nicholson.

- 116 Two witnesses gave evidence of mistaking P&N branded drill bits for product manufactured by Patience & Nicholson New Zealand. A Mr Langley who worked for a Christchurch supplier to the industrial and construction sectors, returned 20 jobber drills to Patience & Nicholson New Zealand. Although the evidence was not conclusive, I am satisfied on the balance of probabilities that the drills he returned were in the P&N brand package produced. I infer that he mistakenly concluded, from the packaging, that the goods were manufactured by Patience & Nicholson New Zealand.

- 117 A plumber who owned a drill set made by Patience & Nicholson New Zealand said that he bought a replacement drill labelled P&N. When it did not perform to his expectations, he returned it to Patience & Nicholson New Zealand. The drill and package were not produced but the witness's

description strongly suggested that the drill was manufactured and distributed by the defendants.

118 The defendants submitted that there was no likelihood of deception. They pointed to the evidence of a distinctive getup and the fact that the defendants' packaging generally shows the country of origin as Australia and the manufacturer as Cyclone. They say the getup is clearly distinguishable from the Evacut and Sutton brands used by the plaintiff. They also point to the evidence that Fox & Gunn has taken steps to distinguish the P&N branded product from that of the plaintiff. For example, promotional material also refers to the country of origin and the name of the manufacturer.

119 The defendants referred also to the nature of the market. The major direct customers of both plaintiff and defendants are wholesalers, retailers and major end users. Most end users acquire product from the wholesalers or retailers. It was submitted that most major distributors were aware that the plaintiff's brand was Evacut and Sutton and they ordered from catalogues which identified product in that way. I was referred also to evidence which indicated that many end users were not brand conscious in the sense that they distinguished between the major brands. They were satisfied if the brand was one they recognised.

120 On behalf of the defendants, it was submitted that most of the evidence of the plaintiff's witnesses went no further than, to borrow a phrase used in the Fair Trading Act context, causing customers to wonder whether the defendants' product was that of the plaintiff. Mr Chisholm pointed out that only one of those who mistook Fox & Gunn promotional material as referring to the plaintiff's products, ended up acting on it by faxing an order. This "marginal" evidence he said is all there is to show after twelve months' trading. Fox & Gunn reported only one example of someone who was "a little confused" to see Fox & Gunn supplying the plaintiff's product.

121 In my opinion, what was compendiously but not entirely accurately referred to as evidence of confusion, cannot be so lightly dismissed. Generally, it was given by witnesses with many years experience in the cutting tool trade, not people who would be easily fooled. In each case, their error was not exposed until they made contact with the plaintiff. It does not seem to me to make any difference that in only one case did this contact take the form of a misplaced order and that it was to the plaintiff's advantage. The point is that in all cases the references to P&N were taken by the reader to mean that the product was manufactured or supplied by the plaintiff. The action the witnesses took pursuant to that misunderstanding is nothing to the point. These were not instances merely of doubt or uncertainty being raised in the minds of customers. They were examples of customers being misled and remaining so until the error came to the notice of the plaintiff.

122 On behalf of the defendants, it was submitted that there were relatively few examples of confusion or deception in relation to the period during which the defendants have actively promoted the P&N brand. But it is in the nature of things that not all cases of deception will come to the notice of the plaintiff. And examples of confusion which might have come to the notice of

the defendants will not be so readily picked up or reported and any sales diverted to the defendants are generally unlikely to be detected by either party. I remind myself that:

Evidence of actual deception is not essential. It is, of course, the best evidence of likely future deception. It is notoriously difficult to obtain. It has been said “the more complete the deception, the less likely its detection”; *per* Lloyd-Jacob J. in *Electrolux Limited v. Electrix* (1953) 70 R.P.C. 127, 132.

Wineworths at 342 *per* Gault J.

123 I bear in mind also that evidence of confusion is not the decisive question. Confusion is not the same as deception and may arise without any misrepresentation. As Lord Green M.R. said in *Marengo v. Daily Sketch and Sunday Graphic Limited* (1946) [1992] F.S.R. 1 at page 2:

No one is entitled to be protected against confusion as such. Confusion may result from the collision of two independent rights or liberties and where that is the case neither party can complain; they must put up with the results of the confusion as one of the misfortunes which occur in life. The protection to which a man is entitled is protection against passing-off which is quite a different thing from mere confusion.

124 In my view, the evidence establishes that the defendants’ use of the P&N mark in New Zealand has resulted in deception and is likely to continue to do so. For upwards of 30 years now, the initials P&N in New Zealand have stood for Patience & Nicholson. Until 1987 that association was reinforced by the use of the same initials as the trademark for all products marketed by Patience & Nicholson New Zealand. Although other trademarks have now taken its place, the association of P&N and Patience & Nicholson has remained alive. The new trademarks have provided an additional source of distinction but have not replaced the letters P&N as a common means of identifying the company and its products. The evidence of both plaintiff’s and defendants’ witnesses satisfied me that it is the usual, if not the invariable, means of referring to the company. The results of the public opinion survey are entirely consistent with the other evidence.

125 It is true, as Mr Chisholm pointed out, that much of the use of the initials is oral rather than written. But I do not see this as diminishing the importance of their association with the plaintiff. In fact, it may be to the opposite effect. In oral communications or where the written word is not accompanied by other indicia of the defendants’ goods, the risk of deception is undiminished. This was shown by the occasions on which the plaintiff’s witnesses acted on the references to P&N in promotional material. The distinctive getup of the defendants’ packaging will only reduce the risk of their product being mistaken for that of the plaintiff at the final stages of the distribution process. Even then the dominant message is conveyed by the mark which connotes the plaintiff. References on the packaging to the goods being manufactured by Cyclone in Australia are unlikely to be sufficient to counter the impact of the mark.

126 I accept that at the level at which packaging will be influential on consumer choice, there is much diminished brand awareness. Many end users are concerned most to buy a brand they recognise. That is not the

invariable rule, as the evidence of the plumber showed, but will lessen the impact of the use of the mark at retail level. But further up the distribution chain, the distinctive getup and other aspects of the packaging will not help to distinguish the P&N product of the defendants and the goods manufactured and sold by the plaintiff. Similar information may appear in promotional literature but, as the evidence shows, that cannot be relied on to correct the message conveyed by the mark itself.

- 127 The plaintiff has shown to my satisfaction that the use of the initials P&N does misrepresent the defendants' goods as those of the plaintiff. I would accept that in time customers will come to have an increased awareness of the distinction between P&N the product and P&N the company. But, as Gault J. said in *Allied Liquor Merchants Limited v. Independent Liquor (NZ) Limited* (1989) 3 T.C.L.R. 328 at 336:

... it is no answer to assert ... that misunderstandings occurring on introduction of a product will disappear as the product becomes known. No one is entitled to practice deception until the public get used to it.

I doubt that the public will ever get used to it. I see the problems created by the introduction of the mark as doomed to recur for as long as the plaintiff continues to trade under the Patience & Nicholson name.

Damage

- 128 The tort of passing off requires proof of damages as well as misrepresentation. There must be injury or likely injury to the plaintiff's business goodwill—*Dominion Rent A Car Limited v. Budget Rent A Car Systems (1970) Limited* [1987] 2 N.Z.L.R. 395; *Taylor Brothers Limited v. Taylors Group Limited* [1988] 2 N.Z.L.R. 1, 37. The usual form of damage is diversion of custom. It can also take the form of damage to reputation—see discussion of McGechan J. in *Taylor* at p. 21. Damage can also take the form of erosion of the distinctiveness of a name or mark—*Wineworths* at p. 343.
- 129 Wadlow, *The Law of Passing-Off* (2nd ed., 1995) at 3.11 contrasts those authorities which require proof of likelihood of damage in every case with those which go a long way to assuming likelihood of damage once deception has been proved. The author prefers the latter view, quoting Megarry V.-C. in *British Broadcasting Corp. v. Talbot Motor Co. Limited* [1981] F.S.R. 228 at 234 that:

It is the injury to the goodwill rather than the precise method of inflicting that injury that matters.

He concludes that it may be hard to pin down what damage the plaintiff will suffer or when, but it is sometimes even harder to believe that in the long term he will suffer none at all.

- 130 In my view, the defendants' use of the P&N mark is likely, in both the short and the long term, to result in diversion of sales. I take nothing from the absence of direct evidence that this has already occurred. I see it as an inevitable consequence of the deception in the circumstances. I consider also

that there has been, and will continue to be, erosion of the distinctiveness of the name P&N and to the reputation on which the plaintiff's goodwill is built.

131 Much was made in the course of the hearing of the competing merits of the roll forged method of manufacture of drills which had historically been used by the Australian business and the ground flute method preferred by the plaintiff. The consensus seemed to be that the ground flute method had advantages. It was suggested that damage could ensue to the reputation of the plaintiff by the attribution of an inferior method of manufacture. There was also evidence that, in respect of one product category, Cyclone packaging had incorrectly represented the product to be made by the ground method.

132 It appears that less than 8 per cent of Cyclone's range is now manufactured by the roll forged method. There appears to be only a limited awareness in the trade of the distinction between the two methods of manufacture and their merits. I do not see this alone as constituting a further head of damage. Rather, it seems to be an element of the injury to goodwill which I have found will ensue in any event from the defendants' use of the mark P&N.

Fair Trading Act—principles

133 The plaintiff's second cause of action is based on what were described by Cooke P. in *Taylor Brothers Limited v. Taylors Group Limited* [1988] 2 N.Z.L.R. 1, 39 as the "broad and simple terms" of section 9 of the Fair Trading Act which provides:

9 Misleading and deceptive conduct generally—

No person shall, in trade, engage in conduct that is misleading or deceptive or is likely to mislead or deceive.

134 As Cooke P. goes on to note, the Fair Trading Act has a wider scope than the action for passing-off; there is no need to show damage to goodwill.

The essential requirement of section 9 is simply misleading or deceptive conduct. It is not enough that the conduct causes a state of wonder or doubt in the minds of people about, for example, the identity or otherwise of two businesses. The line in the later respect can be a fine one, we think, for if the Court is satisfied (on the balance of probabilities) that some customers will wonder, it may at times not be difficult to take the further step of concluding that some are likely to be misled; but of course this is not necessarily so.

...

As to when conduct is to be characterised as misleading or deceptive, judicial exegesis probably can do little at a general level to expand upon the ordinary words of the section; and obviously it cannot be allowed to supersede them. In the end one must always return to them and apply them to the particular facts.

See also discussion in *Unilever NZ Limited v. Cerebos Greggs* [1994] 6 T.C.L.R. 187, 192, CA.

135 The reference in Cooke P.'s judgment to "a stage of wonder" derives from the judgment of Lockhart J. in *Chase Manhattan Overseas Corporation v. Chase Corporation* (1986) 8 A.T.P.R. 40–750, one of the judgments

delivered by the Full Court of the Federal Court on appeal from the judgment of Wilcox J. in *Chase Manhattan Overseas Corporation v. Chase Corporation* (1985) 8 A.T.P.R. 40–661. In relation to section 52 of the Trade Practices Act which is in the same terms as section 9 of the Fair Trading Act, Lockhart J. said at 48, 144:

Conduct does not contravene section 52 merely because members of the public would be caused to wonder whether it might not be the case that two products come from the same source or two services are provided by the same source or two business names suggest that they come from the same stable. . . . Conduct which merely causes some uncertainty in the minds of the public does not infringe section 52.

Fair Trading Act—Findings

- 136 My findings in relation to the passing off cause of action lead me to the conclusion that the marketing by the defendants of goods under the P&N brand is misleading and deceptive. The question of intention is, of course, irrelevant. Damage to goodwill is not required. The question is simply whether the conduct is misleading and deceptive. I bear in mind that a state of wonder or doubt is by itself insufficient. I am required to be satisfied that doubts, if they exist, are such as to lead to the conclusion that some are likely to be misled.
- 137 I am so satisfied. I am of the view that customers, potential customers and consumers in the cutting tool market have been, and will continue to be misled by the defendants' use of the P&N brand into thinking that their products are manufactured or sold by or on behalf of the plaintiff.

Counterclaim

- 138 The first defendant asserts that it is the owner of the common law rights to the trademark P&N in New Zealand in relation to cutting/hand tools and that any use by the plaintiff of that mark will constitute passing off and a breach of the Fair Trading Act. The plaintiff, of course, denies that Cyclone has any rights to the mark. It also pleads that Cyclone is estopped from relying on any rights by virtue of the representation made in correspondence in 1990 that Patience & Nicholson New Zealand had the right to the use of the mark in New Zealand.
- 139 In view of my findings on the plaintiff's claim, the counterclaim cannot succeed. The plaintiff is entitled to judgment.

Relief

- 140 The plaintiff seeks an injunction, a declaration that it is the proprietor in New Zealand of the trademark/business name P&N, an order for delivery up of P&N branded goods, an inquiry as to damages and interest and costs.
- 141 The plaintiff is entitled to injunctive relief. However, it will be evident that considerable hardship would be caused if I were to grant an injunction which had immediate effect. An order for the destruction of goods would also be unnecessarily draconian. The plaintiff may be entitled to a declaration but

not in the terms sought. In order to address the appropriate terms of relief, I direct that the parties file memoranda as to the terms on which relief, including costs, should be granted. The plaintiff should file its memorandum within 14 days, the defendants within a further 14 days.