

Proof of distinctiveness now a lottery in South Africa

South African trademark law has historically followed a similar path to EU legislation. However, a recent ruling from the Supreme Court on distinctiveness through extensive use appears to signify a dangerous departure from European precedent

The South African Supreme Court of Appeal's decision to cancel the trademark LOTTO earlier this year seems innocuous at first glance (*On-line Lottery Services (Pty) Ltd v National Lotteries Board* (536/2008) [2009] ZASCA 86, September 7 2009). However, the ramifications of this perplexing judgment are far-reaching and suggest that one might face an uphill struggle when arguing that a mark, which is otherwise an ordinary descriptive word, is also distinctive or capable of distinguishing. It indicates that the approach to distinctiveness taken by South African courts differs from that taken by the courts in the United Kingdom and elsewhere in Europe. The ruling also appears to depart from the principles established in the South African Trademarks Act 1993.

Facts and key arguments

The National Lotteries Board (the Board) registered the mark LOTTO in 1991 in Classes 36 and 41 of the Nice Classification. The Board is the state authority under whose auspices the South African national lottery is conducted. The Board filed a claim of trademark infringement and passing off against On-line Lottery Services (Pty) Ltd in relation to the latter's use of the name Lottofun in connection with the sale of tickets for the national lottery. On-line Lottery counterclaimed for cancellation of certain of the Board's registered marks. At first instance, the counterclaim was dismissed. On-line Lottery then appealed to the Supreme Court.

On-line Lottery's expungement application was based on the contention that the LOTTO marks were wrongly entered and wrongly remaining on the register in terms of Section 24(1) of the Trademarks Act, which states: "In the event of... an entry wrongly made in or wrongly remaining on the register... any interested person may apply to the court, or... to the registrar, for the desired relief, and thereupon the court or the registrar, as the case may be, may make such order for... removing or varying the entry as it or he may deem fit."

On-line Lottery also relied on Section 27(1)(b) of the Trademarks Act, which reads: "Subject to the provisions of Section 70(2), a registered trademark may, on application to the court... be removed

from the register in respect of any of the goods or services in respect of which it is registered on the ground... that up to the date three months before the date of the application, a continuous period of five years or longer has elapsed from the date of issue of the certificate of registration during which the trademark was registered and during which there was no *bona fide* use thereof in relation to those goods or services by any proprietor thereof or any person permitted to use the trademark."

The court considered the requirements for registrability of a mark as set out in Section 9 of the Trademarks Act and noted that, where a mark is not capable of distinguishing within the parameters of this section, it is not registrable.

As mentioned by the court, this is subject to the Section 10 proviso that a "mark shall not be refused registration by virtue of the provisions of Paragraph 2 (ie, that the mark is not capable of distinguishing; that it is descriptive of the characteristics of the goods or services; or that it has become generic in the trade), or *if registered, shall not be liable to be removed from the register by virtue of these provisions if, at the date of the application for registration or at the date of an application for removal from the register, as the case may be, it has in fact become capable of distinguishing within the meaning of Section 9 as a result of use made of the mark*" (emphasis added).

The court reasoned that use does not necessarily equal distinctiveness, and a single proprietor's use of a common word, which is naturally capable of use in relation to the goods or services of any trader, does not render that word capable of distinguishing.

Having considered both parties' submissions, and the meaning of the word 'lotto' as set out in various dictionaries published before and around the time of registration of the LOTTO marks, the court found that "the word 'lotto' was alive in South African language usage at the time of registration in 1991 and had been for many years".

Furthermore, it was clear that "the concept of lotto" embraced "a variety of species" of games of chance, and that "just as the term 'motor car' generally embraces many different manifestations, both in design and name, none of which entitled anyone to the sole trading use of the generic name, so it was with 'lotto' at the relevant time".

In light of this, the court concluded that "by adopting the word simpliciter (without adaptation or qualification) as a trademark for lottery services, the registering party simply appropriated to itself a word already in general circulation which possessed an ascertainable generic and descriptive meaning over which it could have no monopoly and which should have been open to use by all competitive undertakings in the gaming industry".



The court then moved on to deal with the registration of the LOTTO mark in Class 36 for “services for, or in connection with, financial transactions”, again finding in favour of On-line Lottery’s submission that the mark was liable to be expunged from the register based on Section 27(1)(b) of the Trademarks Act. Accordingly, the court ruled that both LOTTO marks were “wrongly placed on the register and remain wrongly there”.

Flawed reasoning

A number of deficiencies and ambiguities appear to have crept into the judgment, or were perhaps the result of the parties failing to raise points which should have been raised and addressed. The first of these relates to the court’s order, which directs the registrar of trademarks to remove the LOTTO marks from the register only on the grounds that the entries are wrongly remaining there.

The problem with this is that the judgment focuses on the position relating to the word ‘lotto’ at the time when the marks were registered rather than subsequently, as one would expect in the case of a mark “wrongly remaining” on the register. This is apparent from the court’s analysis of the dictionary meaning of the word at the time of registration, and is borne out by its comments and conclusions in this regard.

Apart from the court’s findings set out above, one such comment appears in Paragraph 20 of the judgment: “The first thing to notice about the (Board’s) response and submission is that they depend not on the distinctiveness of the mark at the date of

registration, but upon the nuance said to be cast upon the word ‘lotto’ by the peculiar use to which the Board has put it. No such use was proved prior to the date of registration. Indeed, it is clear that such a public understanding (of the nuanced use of the mark) could not have arisen until eight or nine years after registration, if at all.”

It is clear that the court focused on the distinctiveness, or otherwise, of the mark in 1991, when it was registered. It ought, however, to have examined the question of whether in 2008 it was ‘wrongly remaining’ on the register, which came down to the question of whether in 2008 it was distinctive no matter what the position might have been in 1991. While it is arguable that the concept of “wrongly remaining” includes the notion that entries wrongly made in the register are, by necessary implication, also wrongly remaining on the register, regard must be paid to the intervening factors between these two dates. A mark that was non-distinctive in 1991 could, in principle, have acquired distinctiveness in the interim. This is what Section 10 of the Trademarks Act provides and corresponds with the approach of the courts in the United Kingdom. In essence, the Supreme Court actually concluded that the mark was wrongly registered and then went ahead and expunged it on the grounds that it was wrongly remaining on the register. This approach is, with respect, flawed.

Another concern is the court’s failure to deal with the so-called ‘seven-year rule’, and the consequences of the rule as applied to this case. The starting point of the seven-year rule is Section 42 of the previous Trademarks Act of 1963 (the 1963 Act), which provided that:

According to On-Line Lottery, the LOTTO marks were wrongly entered and wrongly remaining on the register



“In all legal proceedings relating to a trademark registered in Part A of the register, the original registration of the trademark in Part A of the register shall, after the expiration of seven years from the date of registration, be taken as valid in all respects, unless (a) the registration was obtained by fraud; or (b) the trademark offends against... Section [16 or 41].”

Section 42 has survived the repeal of the 1963 Act by virtue of Section 70(1) of the current Trademarks Act, which provides that: “Subject to the provisions of Section 3, and except as expressly provided in this act, the validity of the original entry of a trademark on the register of trademarks existing at the commencement of this act, shall be determined... [according] to the law in force at the date of such entry.”

This means that when the validity of the original entry of a mark registered under the 1963 Act is called into question, such validity will be determined according to the provisions of the 1963 Act. If seven years have passed since the date of registration under the 1963 Act, the mark is deemed to be valid, unless registration was obtained by fraud; the mark is deceptive (ie, use of the mark would be likely to deceive or cause confusion (Section 16 of the 1963 Act)); or the mark has become descriptive or commonly recognized as a name for the goods or services (Section 41 of the 1963 Act).

The upshot of this is that the original registration of the LOTTO marks, which were registered in 1991 under the 1963 Act, should have, according to the seven-year rule, been deemed to be valid, unless one of the exceptions applied. Whether or not the original entry of the LOTTO marks would have been immune from challenge on this basis is something which should have been argued by the parties, and decided by the court. If, however, this issue was decided in favour of the Board, On-line Lottery’s argument based on entry wrongly made, which was the founding stone of the court’s decision, would have fallen away.

Secondary meaning

The main shortcoming of the judgment relates to the proviso to Section 10 of the Trademarks Act, as explained above, and the failure of the court to apply it. In terms of the proviso, which is relevant to the question of whether the marks were wrongly remaining on the register, a registered mark cannot be expunged if it is, at the date of application for expungement, *de facto* capable of distinguishing by virtue of prior use. This is the position in the United Kingdom, where a mark is not liable to be expunged if it is *de facto* distinctive when expungement is sought.

The court may have intended to dispose of this issue by appealing to the fact that use of a mark does not alone render the mark distinctive. The Board does not seem to have furnished evidence relating specifically to the issue of acquired distinctiveness of the LOTTO marks, but it did argue that its use of the mark in relation to the specific type of game concerned imbued the mark with a distinctive character which differed from the general, everyday meaning of ‘lotto’.

It has become internationally fashionable to contend that mere use of a mark does not necessarily render that mark distinctive. Rather, the use must have resulted in the mark developing a secondary meaning, which renders it capable of distinguishing. In other words, if use of a mark does not result in that mark alone being a guarantee that goods bearing the mark emanate from a single source, the mark will not have become distinctive through use.

This was the position taken by the High Court of England and Wales in *British Sugar plc v James Robertson & Sons Ltd* ([1996] RPC 281 (ChD)), and referred to with approval by the South African Supreme Court of Appeal in *Beecham Group plc v Triomed* ([2002] 2 All SA 193 (SCA)). Likewise, the court in the instant matter referred

with approval to this approach, repeating Justice Jacob’s dictum in *British Sugar* that there “is an unspoken and illogical assumption that ‘use equals distinctiveness’”.

Be that as it may, the argument that use does not equate to distinctiveness is becoming something of a cliché in current trademark law and one must question its appropriateness in all circumstances. The longstanding approach of establishing the existence of repute and distinctiveness through proving use – by means of sales figures of goods sold under the mark, and details of promotional revenue in respect of such goods, coupled with furnishing specimens of labels and promotional material – seems to be becoming discredited.

One wonders why because, before the advent of market surveys as admissible evidence of use, this was virtually the only way of establishing the existence of repute in a mark. Courts were happy to accept that a logical deduction or inference could be made, from evidence of extensive use, that a commensurate repute had come into existence.

In the author’s opinion, use would indeed normally equate to acquired distinctiveness unless there are other circumstances present that cause the effect of the proven use to be deflected in another direction. The fact that the mark has been used as a trademark, as was the case in *On-line Lottery Services*, is a significant factor in deciding whether use equates to repute and distinctiveness. It is difficult to discern any other relevant circumstances in the present matter which would have served to deflect the consequence of extensive use away from rendering the word distinctive, and in some other direction. However, in *On-line Lottery Services*, the court’s decision seems to suggest that a mark is not capable of becoming distinctive and thus registrable at all if it is a common, descriptive word, despite the proviso to Section 10 and regardless of the extent of use which has been made of the mark. This proposition cannot be defended or supported. One must apply the theory that use does not equate to repute with a large measure of discernment and it is submitted that this was not done in this instance.

Point of divergence

Many courts around the world have been prepared to accept that a *prima facie* descriptive and non-distinctive word can, through extensive use, acquire *de facto* distinctiveness and thus qualify as a registrable trademark. The EU’s First Trademark Directive (89/104/EEC), which preceded the current UK Trademarks Act, specifically countenances this possibility. The 1993 South African Trademarks Act was also based on the directive and follows suit. It is in keeping with modern trademark thinking and practice that *de facto* distinctiveness is the true criterion for eligibility for registration as a trademark.

In expungement proceedings based on the grounds of a mark wrongly remaining on the register, the distinctiveness of the mark and its registrability must be determined as of the present. In reality the historical situation is irrelevant and it should by no means be the determining factor.

The court in the present matter appears to have lost the plot and, in the process, laid down a flawed principle which is binding on all lower courts. South African trademark law has been led astray and has parted company with European law on this issue. [WTR](#)

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