

Reportable
Case No: 333/99

In the matter between:

NESTLÉ (SOUTH AFRICA) PTY LIMITED

Appellant

and

MARS INCORPORATED

Respondent

Coram: Nienaber, Harms, Mthiyane, JJ A. Nugent and Chetty, A JJ A

Heard: 14 May 2001

Delivered: 31 May 2001

Review: Advertising Standards Authority – obligation to consider complaints referred to it in terms of Code of Advertising Practice

J U D G M E N T

NUGENT, AJA:

[1] The Advertising Standards Authority of South Africa (ASA) is a voluntary association that is incorporated in terms of s 21 of the Companies Act 61 of 1973. It was established by participants in the advertising industry with the objective of creating a system of self-regulation within the industry. For that purpose it devised a Code of Advertising Practice and Procedural Guide to which its members are obliged to adhere.

A departure from the Code by any of its members may result in a complaint being made to the ASA which must be dealt with in accordance with the prescribed procedure. If there is merit in the complaint the ASA will rule accordingly and it may impose various sanctions upon the member concerned, the most important one being the withholding of advertising space or time.

[2] According to the Code the directorate of the ASA has the primary responsibility for its application but it may refer a complaint to one or other of its committees. The Code provides specifically that all matters related to "industry disputes" and in particular matters raised in terms of clauses 7, 8 and 9 of Section II of the Code will be considered by the Advertising Properties Committee.

[3] The parties to this appeal are both manufacturers of confectionery and sweets. Each of them manufactures a sweet variety that may best be described as a sugar-coated chocolate button. The respondent (Mars), which is incorporated in the United States, commenced manufacturing and selling its product in that country in 1954 under the name M&M's and it has since expanded its sales to other countries. The appellant (Nestlé) is a South African company which has sold its product for many years in this country under the name Smarties.

[4] Soon after Mars commenced producing M&M's it created a graphic representation of its product with human features for use in its advertising material. Its sweet was depicted with arms, legs and a face so as to

represent it as a little round man with the letter M depicted on his stomach. There is no dispute that this brand character in various forms has been extensively used by Mars in its advertising and promotional material for many years. The brand character has also been developed into a three dimensional model which serves as a dispenser of the sweets.

[5] In 1993 Mars introduced its product into this country. It is alleged that at about that time Nestlé devised a plastic dispenser for Smarties which was also in the form of a little round man (i.e. it had the appearance of a Smarties sweet with arms, legs, a face, and other human attributes). According to Nestlé it then developed that concept further by translating the character into two-dimensional form for use in its advertising and promotional material.

[6] In June 1995 Mars applied to register four different versions of its brand character as trade marks in terms of the Trade Marks Act 194 of 1993. In December 1997 and again in January 1998 the applications were advertised in the Patent Journal and they came to the attention of Nestlé. Nestlé's Swiss principal sought and obtained from the Registrar of Trade Marks an extension of time within which to register opposition to the applications and further extensions were sought and granted thereafter. At the time that the present proceedings were commenced its opposition to the application for registration of the trade marks had not yet been filed.

[7] In May 1998 a firm of advertising agents representing Mars lodged a complaint with the ASA and requested that it be referred to its Advertising Properties Committee. The complaint was against the use by Nestlé of its Smarties characters in its advertising and packaging. Although the

complaint was more broadly framed its gravamen was that Nestlé had copied the Mars brand character in breach of clause 9.1 of the Code. At the time the complaint was made that clause read as follows:

“An advertiser should not copy an existing advertisement, local or international, or any part thereof in a manner that is recognisable or clearly evokes the existing concept and which may result in the likely loss of potential advertising value. This will apply notwithstanding the fact that there is no likelihood of confusion or deception or that the existing concept has not been generally exposed.”□□□

[8] It was the ASA’s response to the complaint that led to the proceedings which are the subject of this appeal. On 17 September 1998 the ASA wrote to the parties in the following terms:

“The subject matter of the complaint is firstly a matter to be determined by trademark law. The Courts, as the final instance, have a superceding jurisdiction over the subject matter of the complaint, and can therefore overrule the ASA’s decision.

In the opinion of the ASA Directorate the ASA is not the appropriate forum to consider a matter where trademark law should firstly be determined.

Until the matter is finalised as a matter of law, the ASA cannot therefore consider the subject matter of the complaint in terms of a self-regulatory Code.”

[9] Shortly thereafter the view that had been adopted by the directorate of the ASA was reiterated in a letter written by its attorneys in which the following was recorded:

“We submit that the issue here of the infringement of Section 9(1) of the code and the trademark infringement are one and the same as the issue substantively is whether Nestle have copied your client’s figures. Accordingly, it is our client’s submission that the ASA should not hear the matter and the matter should be decided by the Registrar of Trademarks. We submit further that the reason that you are approaching the ASA for a ruling is as a form of interim relief when you should approach the High Court for interim relief.

It is thus the decision of ASA that they will not hear this matter, but should you wish to take our client on review, our client will abide the decision of the court in that regard.”

[10] The stance that was adopted by the ASA as reflected in these letters prompted Mars to apply to the Witwatersrand Local Division on notice of motion for an order having the effect of compelling the ASA to reconsider and rule upon its complaint. The matter came before Schabert J who upheld the claim (the judgment is reported as *Mars Inc v Advertising Standards Authority of South Africa and Another* 2000 (4) SA 511 (W)) but granted Nestlé leave to appeal to this Court.

[11] Before turning to the merits of the appeal there is a preliminary matter. It was submitted on behalf of Nestlé in the Court below and in this Court that the evidence does not establish that the application was authorised by Mars. It is a little surprising that the point was taken at all, let alone that it was pursued on appeal, because it is abundantly clear that at the time the application was heard Mars, even if it had not authorised them at the outset, had at least ratified the commencement of the proceedings as it was entitled to do (*Smith v Kwanonqubela Town Council* 1999 (4) SA 947 (SCA) 953B). It was submitted on behalf of Nestlé that the resolution relied upon by Mars (which does not expressly state when it was adopted) cannot be construed as ratifying events that had already occurred. If that is so it only lends support to the inference that the resolution must have been adopted before the proceedings were commenced. But if it was not adopted before the proceedings were commenced then it is capable of no meaning but that Mars intended to ratify what had already been done. Whichever way the resolution is construed it is clear that the proceedings were authorised by Mars and there is no merit in the point.

[12] It was not disputed that by subscribing to the terms of the Code the ASA and its members became contractually bound *inter se* to adhere to the respective obligations imposed upon them (cf *Marlin v Durban Turf Club & Others* 1942 AD 112 at 126-128). That meant that the ASA was obliged to consider and to rule upon complaints that were made to it in accordance

with the procedure contained in the Code. It was also not disputed that in the event of the ASA failing to comply with that obligation it would be competent for a court to order it to do so.

[13] The ASA did not oppose the application nor did it file any affidavits in explanation of its decision. We have nothing but its letter as amplified by the letter from its attorney to determine the nature of the decision that it reached and the grounds upon which it did so.

[14] It appears from those letters that the decision that is now in issue was made by the directorate of the ASA rather than the Advertising Properties Committee (to which the complaint had been directed) but I do not think it is material for present purposes which of those two bodies was properly required to consider the complaint.

[15] Nestlé's principal submission was that the circumstances that arose in the present case were analogous to those that would give rise to a defence of *lis alibi pendens* in a court of law. It was submitted that the ASA was not obliged to consider the complaint because the matter that formed the subject of the complaint was awaiting adjudication before what was referred to as another forum of competent jurisdiction (i.e. the Registrar of Trade Marks). In my view the analogy is misplaced.

[16] The defence of *lis alibi pendens* shares features in common with the defence of *res judicata* because they have a common underlying principle which is that there should be finality in litigation. Once a suit has been commenced before a tribunal that is competent to adjudicate upon it the suit

must generally be brought to its conclusion before that tribunal and should not be replicated (*lis alibi pendens*). By the same token the suit will not be permitted to be revived once it has been brought to its proper conclusion (*res judicata*). The same suit, between the same parties, should be brought only once and finally.

[17] There is room for the application of that principle only where the same dispute, between the same parties, is sought to be placed before the same tribunal (or two tribunals with equal competence to end the dispute authoritatively). In the absence of any of those elements there is no potential for a duplication of actions. In my view none of those elements is present in this case. Indeed, it is difficult to see how they can exist where the matters in issue have been placed before two quite different tribunals (as in this case), the one operating consensually and the other by force of statute, each having its own peculiar functions, powers and authority. For in such a case each tribunal will, by definition, be inquiring into and ruling upon different matters, and neither will be capable of ruling authoritatively on the issue that falls within the competence of the other.

[18] In my view that is amply demonstrated in the present case. The Registrar of Trade Marks is called upon to decide whether the trade marks qualify for registration in terms of sections 9 and 10 of the Act and if so upon what conditions. The ASA, on the other hand, is called upon to decide whether Nestlé has copied the advertising of Mars or any part thereof in the manner and with the consequences referred to in clause 9.1 of the Code. The questions before them are quite different and no ruling made by the one will preclude a ruling by the other. Furthermore, the parties to the respective proceedings are not the same. Although Mars is a

party to both proceedings the complaint to the ASA was made against Nestlé while the opposition to the trade marks is to be brought by its Swiss principal. There is no prospect of a defence of *res judicata* in the proceedings before the ASA once the Registrar had made his ruling (and *vice versa*) and by the same token a plea of *lis alibi pendens* is thus bound to fail.

[19] It was argued on behalf of Nestlé that in the course of reaching his decision the Registrar will be required to decide whether the trade marks are capable of distinguishing Mars' goods from the goods of others (as required by s 9(1) of the Act); and whether Mars has a *bona fide* claim to proprietorship of the trade marks (as required by s 10(3)); and whether the trade marks will be likely to cause deception or confusion (as contemplated by s 10(12)). All those issues, it was submitted, will require the Registrar to decide whether Nestlé has acquired the right in this country to what was referred to as the "advertising goodwill" in the characters, which is a matter that the ASA will similarly be called upon to decide. I cannot see that the so-called "advertising goodwill" or reputation in the characters concerned is relevant to the inquiries that the Registrar will be called upon to make, which relate to the nature of the respective marks and the manner and extent of their use rather than to the reputation that they might or might not have acquired. Furthermore, it is difficult to see what relevance the parties' respective rights to the "advertising goodwill" might have in relation to the complaint that is before the ASA. The ASA is called upon to decide whether Nestlé has copied the advertising material of Mars. The fact that Nestlé might subsequently have acquired "advertising goodwill" in the material seems hardly relevant to that inquiry.

[20] However, in my view, we are not called upon in this appeal to decide whether or to what extent the respective inquiries to be conducted by the Registrar and the ASA might correspond for in my view the attempt to find some correspondence between the two proceedings is in any event misconceived and tends to divert attention from what is the true issue in this appeal.

[21] The Registrar of Trade Marks and the ASA are both obliged to perform their respective functions and neither is entitled to abdicate in

favour of the other even if some aspects of their respective inquiries might coincide. There was some debate as to whether the ASA divested itself wholly of the complaint that had been placed before it or whether it merely deferred its consideration of the complaint until the Registrar has reached his conclusion. If it divested itself wholly of the complaint, which was the construction that was placed on its conduct by Mars, then clearly it was not entitled to do so, but I am willing to accept for purposes of this judgment that it did no more than to defer consideration of the complaint until such time as the Registrar has made his ruling (which was the construction that Nestle placed upon its letter).

[22] The ASA might well be entitled in an appropriate case to defer consideration of a complaint until the occurrence of an event that might be relevant to its inquiry but the problem in the present case is not confined to the deferment of the complaint. In the absence of a contrary explanation, the inference is irresistible that the ASA has not merely deferred the matter but has done so to permit the Registrar to make a decision in its stead on one or other issue which the ASA considers to be relevant to its inquiry (precisely what the issue might be, and its relevance to the inquiry has been left unexplained). To that extent at least it has purported to divest itself, even if only partly, of matters that it is obliged by the Code to consider and to rule upon itself. I agree with the Court *a quo* that the ASA was not entitled to do that. It was obliged to consider and to rule upon the

complaint that was before it and not to shift that responsibility to the Registrar either wholly or in part.

[23] Finally, it was submitted that the proceedings in the Court *a quo* were premature in that Mars ought to have exhausted the remedies provided in the Code by placing the decision before the Appeal Committee in terms of clause 2.7 which provides as follows:

“Any party who feels aggrieved by a ruling of the Advertising Standards Committee or Advertising Properties Committee may appeal against such ruling to the Appeal Committee.”

There is no suggestion that the decision that is now in issue was made by either of those committees and in those circumstances it was not subject to appeal in terms of that clause. Moreover, I think that the reference to those committees makes it clear that the decisions that are contemplated by that clause are decisions relating to the merits of a complaint, rather than a decision not to hear a complaint at all as in the present case. Accordingly I do not think that Mars was obliged, nor even entitled, to refer the matter to the Appeal Committee and in those circumstances the proceedings were not premature.

The appeal is accordingly dismissed with costs which are to include the costs occasioned by the employment of two counsel.

R W Nugent
Acting Judge of Appeal

Nienaber, JA)
Harms, JA)
Mthiyane, JA)
Chetty, AJA) concur