

# *Before the High Court*

## *Campomar Sociedad Limitada & Anor v Nike International Ltd & Anor*

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The High Court has granted leave to appeal in a matter which considers whether misleading or deceptive conduct under s52 of the *Trade Practices Act 1974* (Cth) ('TPA') can occur where two traders own the same trademark registered in different classes, and brand promotion by one of the parties causes consumers to conclude that there is an association between the goods of the party making the representation and the goods of the other trader. That is, is it possible, where two traders have the same trademark, that the use of one registered trademark in relation to the class of goods in which the trademark is registered and which the other trademark is not registered, can constitute conduct that is, or is likely, to mislead or deceive the public.

In this way, *Campomar Sociedad Limitada & Anor v Nike International Ltd & Anor*<sup>3</sup> invites the High Court to consider the limits of s52 of the TPA as well as the vexing issue of 'erroneous assumption' and the standard of skill and care expected of persons who have allegedly been misled by the conduct of others.

This case also discusses aspects of the former *Trade Marks Act 1955* (Cth), including whether a registered trademark may be liable to be expunged from the register of trademarks on the ground it is likely to deceive or cause confusion.

### *1. Facts of the Case*

The factual matrix within which this case is set began over 70 years ago. Perfumes Nike, a corporation founded in Spain in 1928 was in the business of manufacturing and distributing perfumes and related products. Perfumes Nike first registered the NIKE trademark in Spain in 1940 in Class 3 of the International Classification – that class covering perfumery products of all kinds. The trademark was later registered in various countries throughout the world though not in Australia.

In 1984, the appellant, Campomar Sociedad Limitada ('Campomar'), a Spanish company that manufactures, distribute and sells cosmetics and perfumes, acquired the business assets of Perfumes Nike. As part of the acquisition, the NIKE trademarks were assigned to Campomar. Soon after, Campomar applied to have the NIKE trademark registered in several other countries, including Australia. Campomar was successful in obtaining registration in Australia in 1986 with

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3 (1998) 156 ALR 316 (Burchett, Sackville and Lehane JJ). Special leave to appeal was granted on 12 March 1999.

respect to certain perfumery products within Class 3 of the International Classification. Later, the trademark was extended to permit the sale of the full range of products in Class 3 in Australia.

The respondent, Nike International Limited (Nike) is a member of a US based group of companies that are well known for the manufacture of athletic footwear, sports clothing and sporting accessories.

In 1985, the managing director of Campomar, Mr Ruiz approached Nike proposing collaboration in the production of a sports fragrance. After some deliberations Nike refused to participate on the grounds that perfume and cosmetics were not part of Nike's image. There was however correspondence between the parties in which Nike warned Campomar that Campomar should not suggest that their perfume or related products had the sponsorship or approval of Nike.

In 1989 Nike Cosmetics SA was incorporated and was granted an exclusive licence by Campomar to use its trademarks internationally. As part of an international expansion it was proposed to commence selling goods in Australia.

Campomar's trading in Australia was not lengthy. In 1993 they commenced the sale of products labelled 'Nike Sports Fragrance' through their distributor United Pharmaceuticals. The use of the term 'sports' with 'Nike' concerned Nike because although people traditionally associated Nike with athletic footwear, there was evidence that people were assuming that as the product was described as a sports fragrance there was an association with Nike. Further, the product was being displayed by pharmacists amongst other sports fragrances that were in fact marketed by sporting companies like, for example, Adidas.

Nike commenced two actions covering substantially the same areas. Firstly, Nike sought the expunction of Campomar's NIKE trademark because of the likelihood the use of the mark would cause deception and confusion between Campomar's products and those of Nike. Secondly, Nike sought relief under s52 and s75B of the *Trade Practices Act 1974*(Cth) and in passing off.

While the matter was pending Campomar withdrew the products from sale in Australia and entered undertakings that upon resuming sales, packaging of the NIKE fragrance would not include any reference to the words 'sports' or 'sports fragrance'.

## **2. *The Relevant Law***

### **A. *The Trade Mark Issue***

Nike sought that the Register of Trademarks be rectified by expunging Campomar's trademarks. Pursuant to s22(1) of the *Trade Marks Act 1955* (Cth) a prescribed court may, on the application of a person aggrieved or of the Registrar, order the rectification of the Register:

...

(b) by the expunging or amendment of an entry wrongly made in or remaining in

the Register...

Pursuant to s28 a mark:

the use of which would be likely to deceive or cause confusion;

.....

shall not be registered as a trade mark.'

Section 61 stipulates that in relation to legal proceedings relating to a trade mark registered in Part A of the Register, which includes applications under s22, the original registration of a trade mark under the Act shall, after the expiration of seven years from the date of the original registration, be taken to be valid in all respects *unless it is shown, inter alia, that the trade mark offends against the provisions of s28* (emphasis added).

Nike argued that since the registration of the Campomar trademark in class 3, that mark had become a mark the use of which would be likely to deceive or cause confusion due to Campomar's conduct in promoting their fragrances. Pursuant to s28 a mark which would be likely to deceive or cause confusion is not to be registered as a trademark. Moreover, the validity of a trademark under s61 can be challenged where the circumstances of the matter contravene s28. Section 22(1) deals with trademarks which for various reasons may be removed from the register. In the case of Nike it was argued that s22(1)(b) was applicable because, due to the conduct of Campomar, an entry (that of Campomar's trademark) wrongly remained in the Register.

The *Trade Marks Act 1955* (Cth) has been repealed by the *Trade Marks Act 1995* (Cth).

## **B. The Trade Practices Issue**

Section 52 simply states;

- (1) A Corporation shall not in trade or commerce engage in conduct that is misleading or deceptive or likely to mislead or deceive.
- (2) Nothing in the succeeding provisions of this Division shall be taken as limiting by implication the generality of sub-section (1)

In summary, the elements of the section are:

- the defendant must be a 'corporation' (although an individual may be rendered liable if the preconditions in sections 5 and 6 apply),<sup>4</sup>
- the defendant must have 'engaged in conduct',<sup>5</sup>

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4 Also the operation of s75B of the *Trade Practices Act 1974* (Cth) may render persons who are sufficiently involved in a contravention of Part IV or V to be called on to contribute to the recoupment of any loss suffered as a result of the contravention. Section 75B operates in combination with s82 and is not a source of liability in itself. To have a sufficient level of involvement, the circumstances must fit within those listed in s75B(a)-(d); and it has been noted that the word 'knowingly' (specifically mentioned in s75B(c)) significantly confines the section's operation: *Yorke v Ross Lucas Pty Ltd* (1983) 68 FLR 268; *Nella v Kingia Pty Ltd* (1985) 11 FCR 281; *Fencott v Muller* (1983) 152 CLR 570; *Enzed Holdings Pty Ltd v Wynthea Pty Ltd* (1984) 57 ALR 167.

- such conduct must have occurred ‘in trade or commerce’,<sup>6</sup>
- the conduct was ‘misleading or deceptive or likely to mislead or deceive’.<sup>7</sup>

(i) *What Does Misleading or Deceptive Mean?*

Decided cases have interpreted the term misleading as conduct that is inconsistent with the truth or which leads or is likely to lead the person to whom it is directed into error.<sup>8</sup> The term deceptive has been said to carry ‘a connotation of craft or overreaching’<sup>9</sup>

Initially, courts pronounced that, to offend s52, the conduct must ‘convey a misrepresentation’.<sup>10</sup> However later cases establish that s52 should not be approached on the basis that it is exclusively confined to circumstances which amount to a misrepresentation. Rather, the issue is whether the impugned conduct, of its nature, constitutes misleading or deceptive conduct.<sup>11</sup>

Amendments to s52(1) in 1977 saw the addition of the words, ‘or is likely to mislead or deceive’. Although it was initially suggested that the amendment would result in a wider ambit for the section,<sup>12</sup> it now appears the addition simply means that, in order to establish a contravention, it is unnecessary to prove that the conduct actually misled anyone.<sup>13</sup> Conduct that is likely to mislead or deceive requires a ‘real or not remote chance or possibility of the conduct having that effect regardless of whether that chance is more or less than 50 percent’.<sup>14</sup>

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5 Section 4(2) of the *Trade Practices Act 1974* (Cth) defines the terms conduct and engaging in conduct for the purposes of a number of provisions of the *Trade Practices Act* including s52. Conduct means the doing or refusing to do any act, making a contract or arrangement, giving effect to a provision of a contract or arrangement, arriving at an arrangement, giving effect to a provision of an understanding and giving or acquiring a covenant. Engaging in conduct has the same meaning as conduct. *Trade Practices Commission v TNT Management Pty Ltd* (1985) 6 FCR 1; *Accounting Systems 2000 (Developments) Pty Ltd v CCH Australia Ltd* (1993) 42 FCR 470.

6 Section 4(1) of the *Trade Practices Act 1974* (Cth) defines the phrase in trade or commerce for the purposes of the Act and refers to trade or commerce within Australia or between Australia and places outside Australia. For a discussion of the courts interpretation of the phrase see generally *Re Ku-ring-gai Co-operative Building Society (no 12) Ltd* (1978) 36 FLR 134 at 139 (Bowen CJ) and at 167 (Deane J). The scope of the term is restricted by the word ‘in’: *Concrete Constructions (NSW) Pty Ltd v Nelson* (1990) 169 CLR 594.

7 The phrase ‘misleading or deceptive’ will be discussed in the paragraph below.

8 *Henjo Investments Pty Ltd v Collins Marrickville Pty Ltd (No 1)* (1988) 39 FCR 546; *Hornsby Building Information Centre Pty Ltd v Sydney Building Information Centre Ltd* (1978) 140 CLR 216; *Parkdale Custom Built Furniture Pty Ltd v Puxu Pty Ltd* (1982) 149 CLR 191.

9 *Parkdale*, n8 at 191.

10 *Taco Company of Australia Inc & Anor v Taco Bell Pty Ltd* (1982) 42 ALR 177.

11 *Henjo*, n8; *Rhone Poulenc Agrochimie SA v UIM Chemical Services Pty Ltd* (1986) 12 FCR 477.

12 *McDonalds System of Australia Pty Ltd v McWilliams Wines Pty Ltd* (1979) 28 ALR 236 at 242, and on appeal (1980) 33 ALR 394.

13 *Parkdale*, n8 at 198; *McDonalds System of Australia Pty Ltd v McWilliams Wines Pty Ltd* (1980) 33 ALR 394 at 411 and 413.

14 *Tillmans Butcheries Pty Ltd v Australasian Meat Employees’ Union* (1979) 27 ALR 367 at 380 (Deane J); *Global Sportsman Pty Ltd v Mirror Newspapers Ltd* (1984) 2 FCR 82 at 87.

Whether conduct is misleading or deceptive or likely to mislead or deceive is a question of fact to be determined in the context of the evidence of the alleged conduct and the relevant surrounding facts and circumstances. When determining whether conduct is misleading or deceptive the courts have stated that the overall effect of the conduct is the major consideration.<sup>15</sup>

(ii) *The Taco Bell Decision*

The seminal decision in relation to determining whether conduct is misleading or deceptive under s52 is the *Taco Bell* case.<sup>16</sup> In the course of the judgement<sup>17</sup> in that case, the Federal Court outlined a number of steps that would be of assistance when determining whether certain conduct was misleading or deceptive for the purpose of s52.

The steps are:

- to identify the relevant section of the public by reference to whom the question whether conduct is or is likely to be misleading or deceptive falls to be tested;
- examine the matter by reference to all those that come within that class. Evidence that a person has formed an erroneous conclusion is admissible but does not conclusively establish that the conduct is misleading or deceptive or is likely to be misleading or deceptive.<sup>18</sup> The court must determine the question for itself by utilising an objective test;
- inquire why the proven misconception has arisen. It must be determined whether the person/s misled have been misled because of misleading or deceptive conduct on the part of the respondent or because of other extraneous factors including, for example, an erroneous assumption on the part of the person misled.

In *Campomar* it was alleged that the high profile and extensive market recognition of Nike in the sale of sporting footwear and clothing, in combination with increased public awareness of the practice of brand expansion, would render the use of the *Campomar* trade mark misleading or deceptive within s52, even without its use in combination with the term 'Sports'.

*Campomar* raised the issue of erroneous assumption in an attempt to rebut Nike's argument. Counsel for *Campomar* argued that *Campomar* was merely using its registered trademark, as it was, of course, entitled to do. If consumers drew the conclusion that there was an association with Nike such a conclusion was the result of the consumer's own erroneous assumption and did not arise from any conduct on the part of *Campomar*.

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15 In *Parkdale*, n8 at 191 Gibbs CJ noted; 'The conduct of the defendant must be viewed as a whole. It would be wrong to select some words or acts, which, alone, would be likely to mislead if those words or acts, when viewed in their context, were not capable of misleading. It is obvious that where the conduct complained of consists of words it would not be right to select some words only and to ignore others which provided the context which gave meaning to the particular words'.

16 *Taco*, n10.

17 *Id* at 200.

18 *Id* at 198.

### 3. *The First Instance Decision – Sheppard J*

Justice Sheppard of the Federal Court delivered the trial judgement. In relation to the trademark issue, Sheppard J considered the issues to be:

- Whether Nike was a ‘person aggrieved’ within the meaning of s22 of the *Trade Marks Act 1955* (Cth);<sup>19</sup>
- If so, whether Campomar’s registration was wrongly made or wrongly remained in the Register, within the meaning of s22(1)(b) and s28(a); and
- Had Campomar been guilty, either at the time of registration or subsequently, of ‘blameworthy conduct’ in relation to its use of the trademark.

His Honour held that Nike was a person aggrieved for the purposes of s22 of the *Trade Marks Act 1955* (Cth) because of the reasonable possibility that Nike would be legally or practically disadvantaged if the Campomar trademarks remained on the register. It was noted that in determining whether to order the expunction of a trademark from the register it must be alleged that conduct on the part of the registered owner of the trademark after the trademark was registered has caused deception or confusion. Such deception or confusion must be caused by the ‘blameworthy conduct’ of the registered proprietor of the trademark sought to be expunged.

In His Honour’s opinion the elements of s22 were made out. Nike had a very high profile and an established reputation in the areas of athletic footwear and sportswear. Sheppard J concluded that many people, upon seeing NIKE cosmetics and perfumes, would associate the product with Nike whether it be through the assumption that the goods were produced by Nike or that the manufacturers were authorised by Nike to market the goods under the Nike name. Sheppard J concluded that Campomar engaged in a course of conduct that led to the products being marketed in a manner which would be likely to cause confusion on the part of consumers and retailers as to the association of the product with Nike and thus trade on Nike’s established reputation in the sportswear industry. This was, in his Honour’s view, blameworthy conduct within the terms of the Act. The trademarks were ordered to be expunged from the register.

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19 Section 22(1) of the *TradeMarks Act 1955* (Cth) states:

‘Subject to this Act, a prescribed court may, on the application of a person aggrieved or of the Registrar, order the rectification of the Register:

- (a) by the making of an entry wrongly omitted to be made in the Register;
- (b) by the expunging or amendment of an entry wrongly made in or remaining in the Register;
- (c) by the insertion in the Register of a condition or limitation affecting the registration of a trade mark which ought to be inserted; or
- (d) by the correction of an error or defect in the Register.’

Section 28 of the *TradeMarks Act 1955* states:

‘A mark:

- (a) the use of which would be likely to deceive or cause confusion;
  - (b) the use of which would be contrary to law;
  - (c) which comprises or contains scandalous matter; or
  - (d) which would otherwise be not entitled to protection in a court of justice;
- shall not be registered as a trade mark’.

In relation to the action under s52 of the TPA, the court had to consider whether, by their actions, Campomar had engaged in misleading or deceptive conduct. In deciding that the conduct was misleading or deceptive Sheppard J discussed the notion of brand extension and the fact that it is common today for high profile corporations to become involved in marketing or licensing of other products not necessarily in the class where that company is usually associated. His Honour noted that persons would immediately associate a product containing the words NIKE with Nike International in some way. They would be likely to think that the product had Nike's approval or was sponsored by it. Indeed, some would be likely to consider that it was a product made or distributed by Nike itself.

Sheppard J noted, however, that consideration must be given to what actually caused consumers to be misled. Were customers misled or deceived by some actions on the part of Campomar or were they misled as a result of their own erroneous assumption? Sheppard J examined whether customers believing that Campomar products were in some way connected with Nike were misled into thinking as they did by the actions of Campomar or whether the erroneous assumption they made was because they misled themselves. It is certainly arguable that because trademarks legislation permits the registration of the name Nike in two different classes and in relation to two different companies, any confusion may not be the result of misrepresentation by Campomar but rather the result of the policy of the legislation in relation to registration of the same trademarks.

It was held that this was not a case where the person or people who had been misled had made an assumption they were not entitled to make. Indeed Shepherd J decided that the persons were making the very assumption that Campomar intended them to make. His Honour stated that this was not a case:

in which the evidence establishes that those who were misled or deceived misled or deceived themselves by making an assumption they were not entitled to make. Those making the assumption did so because they were intended by Campomar to make it. I think that it must have been well appreciated by Campomar that a sports fragrance such as was marketed would be placed alongside other sports fragrances in pharmacies and other outlets and that this, because of the use of the name 'Nike', would give the product an advantage that it would not otherwise have had.<sup>20</sup>

#### ***4. The Appeal – Burchett, Sackville and Lehane JJ***

On appeal to the Full Bench of the Federal Court, the decision of Sheppard J was upheld with a majority of 2:1. Justices Sackville and Lehane agreed with the decision of the trial judge and dismissed the appeal. Justice Burchett was in dissent.

In relation to the trade mark issue Sackville and Lehane JJ agreed with Sheppard J in concluding that Nike had sufficient standing as a person aggrieved to seek removal of Campomar's trademarks from the Register.<sup>21</sup> It was found that

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<sup>20</sup> (1996) 35 IPR 385 at 409.

Nike may suffer appreciable disadvantage if the marks were not removed from the Register and the removal of the marks would prevent further deception. The court held further that s28(a) envisaged that considerations of deception and confusion were applicable to not only the time when the trade mark was registered, but also was applicable to circumstances where, in the period since its registration,<sup>22</sup> it had become a mark the use of which would be likely to deceive or cause confusion.<sup>23</sup> Because Campomar had been guilty of blameworthy conduct through its actions, the mark could be expunged pursuant to s22(1).

In relation to the trade practices issue, the majority held that Campomar's use of the name NIKE whether or not in combination with the word 'sports' was conduct which was liable to mislead or deceive under s52 of the TPA. The majority agreed with Sheppard J that this was not a case where consumers and retailers had been misled through their own erroneous assumption. Indeed they had been misled by the assumption that Campomar intended consumers to make as a result of the marketing campaign.

## 5. *Comment*

The appeal provides the High Court not only with the opportunity to clarify the legal position of Campomar and Nike but also to address some contentious issues in the area of misleading or deceptive conduct, particularly the vexing question of 'erroneous assumption'.

The question common to both the s52 and trade mark issues is in what circumstances can the high profile of a corporation result in another corporation with the same or a similar name being held to engage in conduct that misleads or deceives or causes confusion to a sufficient extent that expungement from the Register is justified.

### A. *Brand Extension*

The public is aware of the practice of brand extension where high profile corporations may diversify and market products that are outside of, but related to, the area in which they have made their name or by licensing other corporations to do so. In this case Campomar held a registered trademark over the name NIKE in class 3. Nike held trademarks in other classes though not in class 3. Nevertheless it was held at first instance and on appeal that Nike's reputation was so extensive that the mere use of the Nike name, even when it was not used in the context of a sports fragrance, was enough to cause consumers and retailers to be misled. Even Campomar's undertaking that the Nike name would not be used in conjunction with a reference to sports did not satisfy Nike. Nike's contention went much further – that the Nike name had become so well known that the public would assume that any product utilising the word Nike must have an association with

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21 *Ritz Hotel Ltd v Charles of the Ritz Ltd* (1988) 15 NSWLR 158, 88 ALR 217; *Kraft Foods Inc v Gaines Pet Food Corp* (1996) 65 FCR 104, 136 ALR 68.

22 *Berlei Hestia Industries Ltd v Bali Co Inc* (1973) 129 CLR 353, 1 ALR 443; *Murray Goulburn Co-operative Co Ltd v New South Wales Dairy Corp* (1990) 24 FCR 370, 92 ALR 239.

23 *Southern Cross Refrigerating Co v Toowoomba Foundry Pty Ltd* (1954) 91 CLR 592.



Nike International. Therefore mere use of 'NIKE' would constitute misleading or deceptive conduct, even without utilising the name in combination with a reference to sports.

Clearly this takes issues relating to erroneous assumption to new heights. Campomar's initial conduct, that of utilising the term sports in combination with Nike, and altering the font style, size and colour on the packaging, would clearly have been objectionable. However the abortive attempt to trade on the Nike name was over almost as soon as it began and Campomar undertook not to engage in that conduct again. Although there were clearly reservations as to Campomar's earlier conduct and the fact that Mr Ruiz adopted this approach only a short time before the hearing there did not appear to be any concern on the part of the court that Campomar would renege on its undertakings. Therefore when considering the appeal it appears the court's attention was on Nike's wider argument, that simply using the Nike name, which Campomar had every right to do due to the registration in class 3, would be sufficient to mislead or deceive.

The case raises the following issues:

- Is the lawful use of a name to be regarded as misleading or deceptive because of the nature of public perception?
- Is erroneous assumption a factor that will vitiate causation for the purposes of a contravention of s52?
- If so, what standard is to be used to ascertain whether an assumption is in fact erroneous?

In relation to the first point, it must be asked whether the perceptions of the public, even widely held perceptions, can render the use of a registered name misleading or deceptive?

Conduct is defined in s4(2) of the *Trade Practices Act* as, inter alia, 'the doing or refusing to do any act'. Engaging in conduct has the same meaning as the term conduct. The term applies to positive conduct as well as circumstances where a person refrains, otherwise than inadvertently, from doing an act.<sup>24</sup> It appears therefore that just by utilising their registered name Campomar would be engaging in conduct for the purposes of s52.

Cases in this area of law centre on the effect of the use of the name on consumers. In this case, it was thought that consumers, on seeing the Nike name, would simply assume that there was a connection with Nike International. The court clearly stated that this was not a case where consumers were making an assumption they were not entitled to make. Indeed it was found that Campomar hoped that such a connection be made. However, is the use of one's own registered mark, even in combination with the hope or expectation that the public would assume a connection with another corporation, enough to amount to misleading conduct on the part of Campomar?

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<sup>24</sup> See generally s4(2)(a),(c), *Accounting Systems*, n5.

### **B. Erroneous Assumption**

In this case, Nike argued that their high profile would cause the public to assume that any product utilising the name Nike must have a connection with Nike International.

Contentions of this nature show that the time has come for courts to examine the whole issue of the responsibility of the consumer in relation to misleading and deceptive conduct under s52 of the TPA. Only when it can be established what the requisite standard of care is for the class of persons to whom the representation is directed can we draw conclusions as to whether or not such an assumption is erroneous.

#### *(i) The Necessity for Causation*

As established in the *Taco Bell* decision, it must be established that the misleading conduct actually caused the loss or damage. In *Hornsby Building Information Centre Pty Ltd v Sydney Building Information Centre Pty Ltd* Stephen J noted that:

... to determine whether there has been any contravention of s52(1) it is necessary to inquire why the misconception has arisen in the minds of others.<sup>25</sup>

Therefore, if the reason the plaintiff was misled was really through confusion or an erroneous assumption, a breach of s52 will not be made out.

An erroneous assumption arises where a consumer does, or is likely to, draw the wrong conclusions from a set of circumstances. There must be a causal link between the impugned conduct and the fact a person has been misled or deceived. If however, the person has been misled out of his/her own erroneous beliefs, the requisite link will not be made.

The problem facing the court in *Campomar* is summed up in the words of Lehane J:

... to speak of a principle about "erroneous assumption" may itself mislead, because it diverts attention both from the real question to be answered, which is one of characterising conduct (in a case such as the present) of a manufacturer or distributor not that of a consumer, and, again, from the character of the question as one of fact.<sup>26</sup>

In *McDonald's System of Australia Pty Ltd v McWilliams Wines Pty Ltd*<sup>27</sup> the use of the term 'Big Mac' in connection with wine was held not to be misleading or deceptive because any confusion as to a business connection between a hamburger chain and a wine manufacturer was caused by erroneous assumptions that only McDonalds could use the term 'Big Mac'. Smithers J, with whom Northrop and Fisher JJ agreed, stated that:

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<sup>25</sup> *Hornsby Building Information Centre*, n8.

<sup>26</sup> *Campomar*, n3 at 353.

<sup>27</sup> See *McDonalds*, n13.

... it is a question therefore whether any misapprehension which has arisen is a consequence of McWilliam's conduct or of other factors, namely that the advertisement was read and interpreted by reference to erroneous concepts and assumptions. And the further and critical question is whether conduct otherwise neither misleading nor deceptive acquires deceptive quality because persons under the influence of erroneous ideas draw erroneous inferences concerning it.<sup>28</sup>

His Honour concluded by saying:

It is difficult to think that conduct is truly misleading or deceptive if it tells the truth and is such that if it is observed by persons who have no false ideas concerning extraneous matters nobody will be misled. And that is the case with this advertisement. A person not under the influence of erroneous ideas such as those discussed above may well be surprised to see the words "BIG MAC" being used for a wine pack, he may wonder whether McWilliam's was entitled to use them, he may wonder whether McWilliam's had to get permission to use them. But he cannot proceed from wonder to conclusion or even to probability on those matters.<sup>29</sup>

In *Taco Company of Australia Inc v Taco Bell Pty Ltd*<sup>30</sup> Deane and Fitzgerald JJ noted that they regarded as mistaken a tendency to view some of the statements by the Full Court in *McDonald's System of Australia Pty Ltd v McWilliams Wines Pty Ltd*<sup>31</sup> as establishing a general proposition of law:

... to the effect that intervention of an erroneous assumption between conduct and any misconception destroys a necessary chain of causation with the consequence that the conduct itself cannot properly be described as misleading or deceptive or as being likely to mislead or deceive.<sup>32</sup>

Their Honours stated:

In truth, of course, no conduct can mislead or deceive unless the representee labours under some erroneous assumption. Such an assumption can range from the obvious, such as a simple assumption that an express representation is worthy of credence, through the predictable, such as the common assumption in a passing-off case that goods marketed under a trade name which corresponds to the well-known trade name of goods of the same type have their origins in the manufacturer of the well-known goods, to the fanciful, such as an assumption that the mere fact that a person sells goods means that he is the manufacturer of them. The nature of the erroneous assumption which must be made before conduct can mislead or deceive will be a relevant, and sometimes decisive, factor in determining the factual question whether conduct should properly be categorised as misleading or deceptive or as likely to mislead or deceive. Beyond that, generalisations are themselves liable to be misleading or deceptive. Thus, one might generalise that the need for a simple assumption that an express

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28 *Id* at 403.

29 *Taco*, n10.

30 *Id* at 200.

31 *McDonalds*, n13.

32 *Taco*, n10 at 200.

representation is literally true could never be a factor militating against a finding that conduct which has misled or deceived is of its nature misleading or deceptive. Such a generalisation would, however, ignore the part that irony can legitimately play in human communications. On the other hand, conduct which could only mislead or deceive if the representee were to make a fanciful assumption and which ordinarily would be innocent, may be misleading or deceptive if it appears that the person engaging in the conduct knew that the person to whom the relevant conduct was directed was convinced of the validity of that assumption.<sup>33</sup>

In *Hornsby Building Information Centre Pty Ltd v Sydney Building Information Centre*<sup>34</sup> a building information centre had operated under that name for many years. It was held that while it was possible for an action to be brought under s52 in relation to a registered business name the use of the term 'building information centre' had not become synonymous with that particular business and thus would not necessarily lead people when seeing the name to automatically conclude there was an association between the two businesses. Similarly, the use of the name of a television personality with a photograph of a person who looked nothing like the personality would not lead to an assumption by the audience that there was a reference or association with the personality.<sup>35</sup>

Cases such as these support the proposition that an applicant will fail if the cause of error claimed to give rise to a contravention of s52 was an erroneous belief on the part of consumers 'for which the defendant was not responsible.' Nevertheless, the decision in *Campomar* states there is no proposition of law to the effect that intervention from erroneous assumption between conduct and misconception will always destroy the necessary chain of causation with the consequence that the conduct cannot be regarded as likely to mislead or deceive.<sup>36</sup>

### C. *The Target Audience*

The case will cause the High Court to examine the circumstances where a breach of s52 may be avoided because of the erroneous assumption of the target audience. s52 is concerned with the effect or likely effect of conduct upon the minds of those to whom it is directed<sup>37</sup> However the focus of the section is whether conduct of the corporation is misleading. Therefore is it necessary to pay heed to the target audience. The judgement in *Taco Bell* requires consideration of whether the misleading conduct caused a person to be misled or deceived. What, however, is the situation if it was not the conduct of the corporation that caused the person to be misled but the erroneous assumption of the person witnessing the representation?

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33 *Ibid.*

34 *Hornsby*, n8.

35 *Shoshana Pty Ltd v 10th Cantanae Pty Ltd* (1988) 79 ALR 279, 18 FCR 285, ATPR 40-833, 11 IPR 249.

36 *Taco*, n10 at 200; *Campomar*, n3 at 344-5.

37 *Global Sportsman*, n14 at 87.

Persons with differing characteristics are unlikely to attach the same significance to the statements of another<sup>38</sup>The train of thought which acts or omissions provoke will often be influenced by individual perceptions determined by levels of care, skill and knowledge.

The problem of erroneous assumption is bound up in this – what standard is required of the person to whom the conduct is directed? In what circumstances are we dealing with an erroneous assumption and when are we dealing with misleading or deceptive conduct?

We should also examine the different circumstances where an erroneous assumption may occur. It may occur in circumstances where the person makes an association that they were not entitled to make, for example in the area of two very different products or industries. Clearly the argument is strong in such circumstances that the assumption was erroneous. However what about circumstances where the situation is not so clear. *Campomar* is an example of this in that the public is aware that corporations engage in brand extension. Therefore where the products are in similar classes or related in such a way that brand extension is a logical possibility, there is a blurring between what, in fact, may be an erroneous assumption but still be an assumption which on the facts is justifiable, and conduct which is misleading.

In *Campomar* Lehane J noted a number of factors which could assist in determining whether an assumption was erroneous. Such factors may be:

- Whether the goods are the same, similar or in disparate categories: *R & C Products Pty Ltd v Abundant Earth Pty Ltd*;<sup>39</sup> *Lego Australia Pty Ltd v Paul's (Merchants) Pty Ltd*;<sup>40</sup> *McIlhenny Company v Blue Yonder Holdings Pty Ltd*;<sup>41</sup>
- The class of those to whom the conduct is directed, for example whether that class is consumers generally or, on the other hand, a limited and sophisticated class with some knowledge of marketing practice: *Taco Bell*; *Parkdale*; *McIlhenny Company v Blue Yonder Holdings Pty Ltd*;<sup>42</sup>
- The extent and strength of the reputation in a name or brand (or its 'power');
- The 'fit' between one category of products and another, for the purpose of brand extension. In *Campomar* Lehane J noted that a strong brand applied to athletic footwear is readily extendable to products such as 'toiletries'; on the other hand, there is no such obvious 'fit' between a powerful and well established brand applied to a spicy sauce and the service of designing promotional stands for use at trade fairs and exhibitions.<sup>43</sup>

It is suggested that it may also be relevant to consider the intention of the corporation. For example, did *Campomar* intend and wish that consumers would see an association between their products and those of the Nike International?<sup>44</sup>

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38 *Pappas v Soulac* (1983) 50 ALR 233 at 233.

39 (1984) 55 ALR 38.

40 (1982) 42 ALR 344.

41 (1997) 149 ALR 496.

42 *Ibid.*

43 *Ibid.*

44 *Twentieth Century Fox Film Corporation v The South Australian Brewery Co Ltd* (1996) 66 FCR 451 at 466.

Although intention is not an element of s52 it may be relevant in determining whether the actions of the corporation were accidental or overt.

**D. Examining the class of persons who have made the erroneous assumption**

Although erroneous assumption relates principally to the issue of causation, it is submitted that a determination as to whether an assumption is erroneous could be assisted by reference to an objective standard. It is suggested that assistance could be drawn from tests already utilised in relation to determining whether conduct is misleading or deceptive.

The first step in the *Taco Bell* case requires us to identify the relevant sections of the public who may be misled or deceived by the conduct. Having identified the particular class the next step is to look within that class and determine with reference to the members of that class whether the conduct was misleading or deceptive. As s52 is concerned with the effect or likely effect upon the minds of those hearing or observing the conduct<sup>45</sup> a problem area has been the fact that impugned conduct may make different impressions on different persons. Therefore by what standard of skill and care is the impugned conduct to be examined?

The High Court considered the matter in *Parkdale* but did not reach a consensus as to the appropriate standard. In that case furniture was manufactured which was identical in appearance to that of another, more expensive, manufacturer. The cheaper copies were appropriately labelled; however, the labels were removed after the furniture left the manufacturer. In finding the manufacturer of the cheaper goods had not engaged in misleading or deceptive conduct, three judges applied different standards.

Gibbs CJ was of the view that:

Section 52 does not expressly state what persons or class of persons should be considered as the possible victims for the purpose of deciding whether conduct is misleading or deceptive or likely to mislead or deceive. It seems clear enough that consideration must be given to the class of consumers likely to be affected by the conduct. Although it is true, as is often said, that ordinarily a class of consumers may include the inexperienced as well as the experienced, the gullible as well as the astute, *the section must in my opinion be regarded as contemplating the effect of the conduct on reasonable members of the class.* The heavy burdens that the section creates cannot have been intended to be imposed for the benefit of persons who fail to take reasonable care of their own interests.<sup>46</sup>

On the other hand Mason J stated:

It seems unlikely that the *ordinary purchaser* would notice the very slight differences in the appearances of the suites, especially if the prospective purchaser had not earlier inspected the respondent's "Contour" suite in detail.<sup>47</sup>

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<sup>45</sup> *Global Sportsman*, n14 at 87.

<sup>46</sup> *Parkdale*, n8 at 199.

<sup>47</sup> *Parkdale*, n8 at 210.

Murphy J took a wider view stating:

The prudent buyer may not be misled but not all buyers are prudent. The Act aims to protect the imprudent as well as the prudent. What degree of imprudence is protected? In applying a similar provision of the *Consumer Protection Act 1969* (NSW) the Industrial Commission said that an advertiser's responsibility extended to readers 'both shrewd and ... ingenious, ... educated and ... uneducated and...inexperienced in commercial transactions' ... In the United States the standard adopted under the *Federal Trade Commission Act 1914* in relation to a somewhat similar provision takes into account 'the ignorant, the unthinking and the credulous who, in making purchases, do not stop to analyse, but are governed by appearances and general impressions.'<sup>48</sup>

Subsequent decisions have been divided in their support of the various standards set down in *Parkdale*. In the *Taco Bell* case it was noted that the issue should be dealt with by reference to all persons who come within the relevant section of the public including the astute and the gullible, the intelligent and the not-so intelligent, the well educated and the poorly educated, men and women of various ages pursuing a variety of vocations. This appears to accord more with the view of Murphy J in *Parkdale* and therefore the standard of vigilance will be lower than, for example, the adoption of a reasonable person test in relation to the members of the particular class.<sup>49</sup>

Nevertheless some decisions support the view that persons should be obliged to take reasonable care of their own interests in a view more akin to that of Gibbs CJ.<sup>50</sup> Lockhart<sup>51</sup> notes that perhaps due to the incompatibility of these two approaches there has also been judicial support for a more moderate standard akin to that of Mason J. Examples of this approach can be seen in cases which take the view that s52 will be contravened if a 'significant section' of a particular class would be misled by the impugned conduct<sup>52</sup> or where the court takes into account all likely responses of persons within the class other than those unusually stupid or foolish.<sup>53</sup>

A related issue is to what extent are persons misled responsible for their error? Should a person be able to hear a statement and take it at face value or is there an obligation for that person to make inquiries as to the veracity of the statement and take steps to protect their own interests? Although it has been held that 'the *Trade Practices Act 1974* should not be used to encourage companies ... to refuse to check any information given to them, on the basis that they can afterwards sue if such information turns out to be misleading or deceptive,'<sup>54</sup> generally, the failure

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48 *Id* at 214–215.

49 *Finucane v New South Wales Egg Corporation* (1988) 80 ALR 486 (Lockhart J).

50 *WEA International Inc v Hanimex Corp Ltd* (1987) 17 FCR 274; *Commercial Dynamics Pty Ltd v M Hawke Nominees Pty Ltd* (1996) ATPR 41–503.

51 Lockhart C, *The Law of Misleading or Deceptive Conduct*, (Butterworths Australia, 1998) at para 3.23.

52 *Siddons Pty Ltd v Stanley Works Pty Ltd* (1991) 29 FCR 14 at 20.

53 *Annand and Thompson Pty Ltd v Trade Practices Commission* (1979) 40 FCR 165; *Tobacco Institute of Australia Ltd v Australian Federation of Consumer Organisations* (1992) 38 FCR 1.

54 *Squibb & Sons Pty Ltd v Tully Corporation Pty Ltd* (1986) ATPR 40–691.

to take reasonable care of their own interests or the failure to check the accuracy of statements has not precluded persons from succeeding under s52.<sup>55</sup>

Once we determine what standard of care is required this may assist in our discussion of erroneous assumption. Although one matter relates to the standard of care within a particular class of persons and the other relates to causation it is submitted that it is impossible to properly assess whether an assumption is erroneous without working to some objective standard.

## 6. Conclusion

The case offers the High Court the opportunity to confront a number of vexing issues relating to s52. Is the section to be interpreted in such a way that it will extend to prevent the use of a registered trademark in another class due to the high profile of another product with the same trademark but registered in a different class and which does not deal in goods in that area? To do so does seem inordinately wide, as it would appear that any owner of a registered mark will not be safe from the high profile of others with the same or similar names. The conduct of Campomar initially may not have been ideal. However Campomar entered undertakings that it would not use the name in association with sports. Nike International countered this by claiming that the word Nike had become so synonymous with Nike International, and its market recognition had become so extensive that it went outside the bounds of the particular class in which it was registered by Nike International, that it would be misleading to utilise it at all.

In this regard, the High Court's decision may clarify whether circumstances such as those in Campomar can give rise to claims for misleading and deceptive conduct under s52 of the TPA. The appeal will also provide the High Court with an opportunity to define the ambit of 'erroneous assumption' within s52 and perhaps provide guidance regarding the standard to be applied to those persons who are privy to the impugned conduct.

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55 *Siddons Pty Ltd v Stanley Works Pty Ltd* (1991) 29 FCR 14; *Sutton v AJ Thompson Pty Ltd (in liq)* (1987) 73 ALR 233; *Trade Practices Commission v Optus Communications Pty Ltd* (1996) ATPR 41-478.