



In the High Court of South Africa
(Western Cape Division, Cape Town)

In the matter between:

Case No.: 8995/2012

DISCOVERY HOLDINGS LTD

APPLICANT

(First Respondent in the counter-application)

And

SANLAM LTD

FIRST RESPONDENT

(First Applicant in the counter-application)

SANLAM LIFE INSURANCE

SECOND RESPONDENT

(Second Applicant in the counter-application)

THE REGISTRAR OF TRADE MARKS

THIRD RESPONDENT

(Second Respondent in the counter-application)

JUDGMENT DELIVERED ON 3 JULY 2014

GOLIATH, J:

INTRODUCTION

[1] What's in a name? Commenting on the tough task of finding a name for a fund, a portfolio manager pointed out in an article in the *Wall Street Journal*:

"[a]ll the Greek gods were taken ... [s]o were many animals, mountain ranges, rivers, roads - even solar systems ... It was harder than naming my children".

(**Ianthe Jeanne Dugan**, "Why Hedge Funds Hunt for Animals, Search the Stars – As Firms Proliferate, Finding The Right Name is Tough", Wall St. J., July 25 2005 at A1).

[2] In a globally competitive business world a trade mark can be the single most valuable asset for a company. A carefully selected and nurtured fund name continues throughout the fund's life and, as with any successful enterprise a fund may evolve into a reputable and recognisable brand. As in many other industries, financial service providers use branding as a strategically important way to distinguish their products. A trade mark with a good image and reputation enhances the goodwill of a company and provides it with a competent edge. *"Trademark law aims to aid consumers in identifying the source of goods by allowing producers the exclusive right to particular identifying words ... which they may attach to their products as a designator of source"*. **(Thomas & Betts Corporation v Panduit Corporation, 65 F.3d 654, 657 (7th Cir.1995).** This is a trade mark infringement case over the use of the terms "ESCALATOR FUNDS" and "ESCALATING FUND".

FACTUAL BACKGROUND

[3] The applicant is the holding company of the Discovery Group of Companies which operates in health and insurance (Discovery Health), life insurance (Discovery Life), financial services (Discovery Invest and Discovery Card) and wellness (Discovery Vitality). The applicant is also the proprietor of all intellectual property, including trademarks, licensed to the Discovery Group of Companies.

[4] The first respondent is Sanlam Limited, which is responsible for the centralised functions of the Sanlam Group of Companies, such as strategy, financial and risk management, marketing and communication, human resources and corporate social investment. The second respondent is Sanlam Life Insurance and part of the Sanlam

Group of Companies and offers life insurance, and financial services in relation to insurance, investment and financial products. Reference to the respondents is a reference to the first and second respondents.

[5] The Sanlam and Discovery Groups of Companies are direct competitors in the financial services market. The material facts of this case are undisputed. The Applicant (Discovery) is the proprietor of the registered trade mark, number 2007/23913 ESCALATOR FUNDS which is registered without disclaimer in class 36 in respect of “*insurance, insurance underwriting, including health insurance underwriting; financial affairs, including but not restricted to, medical aid schemes, medical retirement annuities, health care financing; monetary affairs; real estate affairs, services ancillary to the foregoing*”.

[6] During May 2011 the applicant conducted a search of the register of trademarks and discovered an application for the registration of a trade mark, number 2011/01572 SANLAM ESCALATING FUND in class 36, in the name of Sanlam Immaterial Property (Pty) Ltd. The application was filed for registration on 27 January 2011 in respect of “*insurance; financial affairs; monetary affairs; real estate affairs*”.

[7] The applicant also discovered through internet searches that the respondents had commenced the use of the name ESCALATING FUND/SANLAM ESCALATING FUND. It is alleged that from at least 22 July 2011 the respondents have been using the trade marks ESCALATING FUND and SANLAM ESCALATING FUND in relation to financial products called Constant Proportion Portfolio Insurance (“CPPI”). The

applicant immediately requested the respondents to voluntarily withdraw the trade mark application and to cease their use of the impugned offending marks. The respondents rejected the applicant's demands and confirmed that they would neither cease their use of the impugned marks nor voluntarily withdraw their trade mark application.

[8] In terms of section 34(1)(a) and/or 34(1)(b) of the Trade Marks Act, 194 of 1993 ('the Act'), the applicant now seeks to restrain the respondents' use of the term "escalating fund" or any mark confusingly or deceptively similar to the applicant's registered trade mark. Ancillary to this relief, the applicant also seeks an enquiry into damages for the alleged trade mark infringement. The applicant further advanced a claim seeking to interdict and restrain the respondents from passing-off their services and offerings as those of the applicant through their use of the name ESCALATING FUND, or any other name confusingly similar to the name ESCALATOR FUNDS.

[9] The respondents oppose the application and in turn have brought a counter-application in terms of the provisions of s 24(1) read with s 9,10(2)(a) and 10(2)(b) of the Act, seeking the removal of the applicant's trade mark from the trade marks register as an entry wrongly made, alternatively an entry wrongly remaining therein. In the alternative the respondents seek an order that the applicant's trade mark be endorsed with disclaimers to the effect that the applicant is not granted the exclusive rights to the descriptive words "escalate" and "funds" separately from each other and from the mark ESCALATOR FUNDS as a whole.

[10] The respondents raised the following defences in response to the applicant's claims based on trade mark infringement and passing off:

- 10.1. The respondents' use of the allegedly offending phrase "escalating fund" is not trade mark use, but the descriptive use of a particular service offering or product of the second respondent;
- 10.2. On a proper comparison of the two trademarks used by the parties, the applicant failed to establish any likelihood of confusion or deception in the relevant class of the purchasing public for the services in question as required by s 34(1) (a) and/or (b) of the Act;
- 10.3. The applicant's mark is incapable of distinguishing its goods from those of other traders, or consists exclusively of a sign or an indication that may serve in trade to describe the goods as contemplated in s 10(2)(b) of the Act, and accordingly forms the basis of the respondents' counter-application for the cancellation of the mark; alternatively a disclaimer should be entered against the applicant's registration of ESCALATOR FUNDS to the effect that it will not grant the applicant exclusive rights in the words "escalate" or "fund";
- 10.4. As regards to the applicant's case based on passing off, the respondents deny that the applicant has demonstrated the requisite reputation in the mark ESCALATOR FUNDS brand (separately from its DISCOVERY trade mark) or that it has established a likelihood of deception or confusion arising between the respondents' product and that of the applicant.

THE COMMON PRODUCT: CPPI

[11] Constant Proportion Portfolio Insurance is a form of investment risk management. It is common cause that the parties on either side are currently using their disputed trade marks in relation to CPPI products. It is a portfolio insurance trading strategy that dynamically manages capital between a risky and risk free asset with the goal of providing a maximum guarantee at maturity. It allows an investor to maintain an exposure to the upside potential of a risky asset while providing a capital guarantee against downside risk. The strategy actively allocates between two asset classes, a riskless asset (normally money market fund) and a risky asset which could be equity, hedge funds or commodity indices. In rising markets the strategy allocates more towards the risky asset, while in falling markets the strategy allocates more towards the riskless asset. The investor determines a floor which is defined as the lowest acceptable portfolio value. As the total value moves down and closer to the floor, the allocation to the riskless asset increases. The risk of violating the floor protection is the gap risk, namely the risk that the portfolio value will not meet the guarantee at maturity. To be able to guarantee the prescribed floor a crash put may be bought to hedge against rapid downward market movements.

[12] Rebalancing is done on a daily basis. This means that a portfolio manager periodically changes the portfolio components and/or the component's proportion with the portfolio. Rebalancing of the portfolio occurs in reaction to movements in the risky asset with exposure being increased after a rise and decreased after a drop. If there is a sudden drop in the market such that the investor is not able to rebalance his portfolio adequately, the floor can be breached. The strategy usually outperforms

the prescribed floor unless there is a sudden drop in market prices such that the investor is not able to rebalance his portfolio adequately. The goal of the strategy is to leverage the returns of a risky asset through dynamic trading, while guaranteeing a fixed amount of capital at maturity.

[13] CPPI based products offer security to the client through a predetermined guaranteed minimum payoff at maturity, while also giving the possibility of higher returns through limited exposure to a risky asset. Ideally these products have more assets invested in the risky asset when it increases in value, and less when it decreases. Most of the CPPI products provide some sort of guarantee if they produce less than the required minimum targeted return (the gap risk).

[14] CPPI is not a new concept in the investment industry and has been employed as an investment strategy or risk model since the 1980's. The CPPI was introduced by **Perold** on fixed income assets, in a published paper entitled "*Constant Proportion Portfolio Insurance*," Harvard Business School (August 1986); by **Black and Jones**, in an article "*Simplifying Portfolio Insurance*," published in the *Journal of Portfolio Management* (Fall 1987); by **Black and Rouhani** (1989) in a paper entitled "*Constant proportion portfolio insurance and the synthetic put option*": a comparison, in Institutional Investor focus on Investment Management; and by **Black and Perold** for equity instruments published in the *Journal of Economic Dynamics and Control*, 16, nos. 3-4 (July-October 1992) entitled "*Theory of constant proportion portfolio insurance*". It is common cause that Discovery and Sanlam are the only two entities to offer a CPPI solution in South Africa.

APPLICANT'S SUBMISSIONS

[15] The applicant submits that its trade mark No. 2007/23913 ESCALATOR FUNDS in class 36 is validly registered and in full force and effect. The applicant thus owns statutory rights in the trade mark ESCALATOR FUNDS. According to the applicant it was the first entity in South Africa to use the name ESCALATOR FUNDS. The ESCALATOR FUNDS range of investment plans was launched in South Africa on 14 September 2005 in conjunction with BNP Paribas of London, United Kingdom. From the outset the investment plans proved to be very successful. In November 2007 the applicant launched an additional 36 ESCALATOR FUNDS investment plans partnering with Deutsche Bank. In February 2011 ten further investment plans were launched. The total monetary value under management in the applicant's ESCALATOR FUNDS investment plans is therefore substantial. Over the past six years the applicant has made extensive use of the mark in respect of its CPPI investment plans and as a result thereof acquired a substantial reputation and goodwill therein.

[16] The fund is described as follows on Discovery's website:

"The ESCALATOR FUNDS are designed to offer unlimited upside potential, while at the same time providing downside protection in falling markets. The protection provided on the ESCALATOR FUNDS is in the form of a dynamic guarantee which provides a guarantee of at least 80% of the highest value the ESCALATOR FUNDS has ever reached."

[17] The applicant contends that the respondents' mark ESCALATING FUND and the respondents' variations thereof so nearly resemble the applicant's registered trade mark ESCALATOR FUNDS as to be likely to deceive or cause confusion. The

marks are visually, phonetically and conceptually virtually identical. Both marks consist of a combination of two words in total fourteen letters long. Both have as their core, variations of the word “escalate” and end in the word “fund”. The services in respect of which the respondents are using their offending ESCALATING FUND mark and variations thereof are the same as the services in relation to which the applicant’s trade mark ESCALATOR FUNDS in class 36 has been registered, namely “insurance, financial affairs, monetary affairs and/or real estate affairs.” It is therefore alleged that respondents’ activities infringe the rights acquired by the applicant through registration of its trade mark in terms of the provisions of s 34(1)(a) of the Trade Marks Act.

[18] With regard to passing off, the applicant’s mark ESCALATOR FUNDS is distinctive of the applicant’s services and signifies the applicant’s reputation and goodwill. The respondents’ mark is confusingly similar to the applicant’s mark thereby misrepresenting their services to be those of or associated in the course of trade with the applicant.

[19] Furthermore, the fields of activity between the applicant and the respondents clearly overlap. They are direct trade competitors and are using the trade marks in question in relation to virtually identical CPPI investment plans. By way of illustration with reference to the respective Discovery and Sanlam mandatory disclosures the applicant contends that what is in fact involved are identical investment plans by the respective parties in relation to, in some cases, identical third party funds e.g. *Discovery Escalator–Coronation Top 20 Fund v Sanlam Escalating: Coronation Top 20 Fund*; *Discovery Escalator–Nedgroup Rainmaker Fund v Sanlam Escalating:*

Nedgroup Rainmaker Fund; Discovery Escalator–Investec Property Equity Fund v Sanlam Escalating: Investec Property Equity Fund. The respondents have adopted the applicant's model providing a guarantee that the value of units will always be at least 80% of the highest value in that fund ever achieved.

[20] The applicant's ESCALATOR FUNDS proved to be very successful, and the total money value under management in the applicant's ESCALATOR FUNDS investment plans is approximately 5.3 billion rand. It is submitted that the respondents' offending activities will inevitably damage the applicant's goodwill and reputation, both diluting and prejudicing it. Through its offending activities the respondents are effectively attempting to reap where they have not sown.

FIRST AND SECOND RESPONDENTS SUBMISSIONS

[21] The second respondent offers various financial services investment solutions under its name and house brand as well as numerous other trade marks. Some investment solutions are offered under the SANLAM CUMULUS trade mark. CUMULUS acts as the secondary brand to the house mark SANLAM, and acts as the product group identifier.

[22] The respondents contend that their CPPI product is offered in the respondents' SANLAM CUMULUS investment solution. As part of the SANLAM CUMULUS investment investors are offered a choice between a standard investment (which is not based on a CPPI investment strategy) or an escalating fund (which is). The product name remains SANLAM CUMULUS Investment, and the term "Escalating

Fund” only serves to indicate the investment choice. Investors can switch between SANLAM ESCALATING FUND and Sanlam Unit Trust Funds.

[23] For a number of the SANLAM CUMULUS investment funds, there is a corresponding escalating fund option that has a built-in guarantee available. This guarantee ensures that the unit price of the escalating fund is always at least 80% of the highest unit price it has ever reached since the inception date of that escalating fund, whatever happens to the value of the underlying investments. The escalating fund version of each of Sanlam’s applicable investment funds invests in a combination of the corresponding investment fund and cash. The allocation between the corresponding investment fund and cash (riskless asset) is not fixed, but varies and the allocation to one will always escalate and to the other will proportionally decrease, according to market conditions. This means that the investment return on an escalating fund version of an investment fund can differ substantially from that of the corresponding investment fund, and in volatile markets, it can be less volatile than the risky corresponding investment fund and also the minimum guarantee unit price, of at least 80% of the highest value it has ever reached, will always escalate or remain stationary, but never decrease. Investors can benefit from the potential growth in a leading investment fund, but still have protection of their savings.

[24] The SANLAM trade mark and name is always used together with or in close proximity to this product name, as shown on the brochure for this product. The term escalating fund is always used descriptively and, where used as a noun, is used with the SANLAM and/or CUMULUS trade mark or in such close proximity to them or in a context that clearly indicates that the product option is offered by SANLAM. The term

“ESCALATING FUND” is not used by SANLAM on its own as a trade mark as this term is not used to identify the originator of the relevant products. Rather, the trade mark SANLAM performs this function.

[25] The word “*escalating*” when used to refer to the fund category is descriptive of the guarantee that the minimum guarantee unit price will always rise or remain the same, but never fall. The word “escalator” is most frequently used as a noun to describe electronic stairs that are constantly moving. It is related to the verb *escalate* which is defined in the *South African Concise Oxford Dictionary* published by Oxford University Press Southern Africa in 2002 as *1. Increase rapidly, 2. Become or cause to become more intense or serious*. “Escalator” has as far back as 2002 also been used to describe things that have some element that is constantly moving. Furthermore, the terms “funds”, “escalate” and “escalating” are all common terms used in the financial industry.

[26] The phrases “ESCALATOR FUNDS” or “ESCALATING FUND” are not distinctive enough on their own to distinguish investment products from their competitors. Sanlam used it as a fund option. For this reason Sanlam applied to register the entire phrase “SANLAM ESCALATING FUND” as a trade mark. The word “SANLAM” in SANLAM ESCALATING FUND is used by Sanlam as a trade mark, and serves to distinguish it from the applicant’s ESCALATOR FUNDS. The dominant feature of the respondents’ mark is the word “SANLAM”. The remaining phrase “escalating fund” is merely descriptive of the characteristics and the risk model of the product.

[27] A search was conducted by the respondents' attorneys in class 36 of the trade marks register for all marks containing "escalat"- The marks NORWICH LIFE NU-LIFE ESCALATOR, ESCALATION BOND and ESCALATOR PLUS were all registered before the applicant applied to register its ESCALATOR FUNDS mark, even though the first two registrations have since lapsed due to non-renewal. The Standard Bank of South Africa Limited's valid mark ESCALATOR PLUS is endorsed with an admission that registration does not bar third parties from the *bona fide* descriptive use in the ordinary course of trade of the word "escalate". These registrations show that derivatives of the word "escalate" and even the word "escalator" was already common in the financial services sector, and that "escalator" for financial services or products is not a word or concept that Discovery first coined or can claim exclusive rights to. The term escalator has been used in other countries in respect of CPPI products. Close Brothers Asset Management Limited used the term in naming the "Close European Escalator Fund", "Close UK Escalator 95", "Close UK Escalator 100" and "Close World Escalator Fund".

[28] Confusion is not likely to arise in the market place because Discovery's ESCALATOR FUNDS trade mark is not confusingly similar to respondents' SANLAM ESCALATING FUND trade mark when the marks are appreciated in their entirety. The overall impression created by the two trademarks shows the only common denominator is the element "escalat" from the descriptive word "escalate". With regard to passing-off, it is argued that the product ESCALATOR FUNDS has acquired no separate and distinct reputation of its own.

[29] The phrase “ESCALATOR FUNDS” is entirely descriptive, hence the counterclaim for the cancellation of the registration for ESCALATOR FUNDS. If the Court does find that the phrase does qualify for registration, then the applicant should not be granted an effective and too far reaching monopoly in either the words “escalate” or other derivatives thereof such as “escalating” or of the word “funds”, as this would unfairly prejudice other traders who need to describe and refer to their products by names that describe product features. The respondents therefore apply for the recordal of an endorsement against the applicant’s ESCALATOR FUNDS registration of a disclaimer to the effect that the applicant is not granted the exclusive rights to both words separately from each other and apart from the mark as a whole.

[30] The applicant replicated that the respondents in fact use the name ESCALATING FUND without the addition of the house mark. The applicant denies that the mark ESCALATOR FUNDS as a composite mark has been shown to be common in the trade. The name is an innovative and inventive name despite the fact that it consists of a combination of two ordinary English words. No dictionary definition exists for the name ESCALATOR FUNDS. Furthermore, the name ESCALATOR FUNDS is distinctive of the applicant’s services, and through extensive use the name has become widely known as the name designating the applicant’s CPPI products. However, in the event of the Court finding that the name ESCALATOR FUNDS is not distinctive, the applicant submits that it has through the applicant’s use thereof up until 6 August 2012 acquired the requisite distinctiveness to qualify for protection. The applicant therefore contends that the respondents misappropriated the inventive name, and their use is likely to cause confusion and deception.

TRADE MARK INFRINGEMENT

[31] Trade mark infringement is defined as the unauthorised use of an identical or confusingly similar trade mark in the course of trade in relation to goods or services which are either identical (Section 34(1)(a)), or so similar (Section 34(1)(b)) to those in respect of which the trade mark is registered that such use is likely to cause deception or confusion. The applicant initially relied on s 34(1)(a) and in the alternative s 34(1)(b) of the Act. The respondents have conceded that they use the impugned mark in relation to identical CPPI products. Based on the respondents' concession that the use of the mark is in respect of identical products, the applicant now relies on Section 34(1)(a) which provides:

'34 (1) The rights acquired by registration of a trade mark shall be infringed by-

(a) The unauthorized use in the course of trade in relation to goods or services in respect of which the trade mark is registered, of an identical mark or of a mark so nearly resembling it as to be likely to deceive or cause confusion.'

[32] The applicant must therefore establish that a substantial number of persons will probably be deceived into believing or confused as to whether there is a material connection in the course of trade between the applicant's trademark and the respondents' product. (**Bata Ltd v Face Fashions CC and Another** 2001(1) SA 844 (SCA) at 850 para 8). The enquiry is therefore whether there is likely to be consumer confusion, given the similarities between the terms ESCALATOR FUNDS and ESCALATING FUND. Both marks are used in respect of CPPI products, and are practically identical offerings described in the same terms.

[33] The applicant relies on its registration for the mark ESCALATOR FUNDS. However, it is not disputed that the applicant has also registered the composite mark DISCOVERY ESCALATOR FUNDS under registration no. 2007/23914 in class 36. The respondents do not deny using the mark ESCALATING FUND and had in fact applied for the registration of the mark SANLAM ESCALATING FUND. The respondents have therefore added their house mark to the alleged offending mark. The two marks that need to be scrutinised are therefore ESCALATOR FUNDS and SANLAM ESCALATING FUND.

[34] An issue of central importance to trade mark infringement generally, and to the descriptive defences, is the relevance of “use as a trade mark”. Trade mark use (use as an indication of origin) is often contrasted with descriptive use. The more descriptive the registered mark, the more likely a defence of this nature may be raised. It is often said that a sign must be used as a trade mark in the sense that the trade mark serves as a badge of origin, before infringement may be established. (**Verimark (Pty) Ltd v BMW AG** 2007 (6) SA 263 (SCA) at 267 at para 5). Section 2 of the Act requires that the mark be used in relation to goods or services for the purpose of distinguishing the goods or services from the same kind of goods or services connected in the course of trade with any other person. In **Estate of P.D. Beckwith, Inc. v Commissioner of Patents**, 252 US 538 (1920) at 543 the Supreme Court of the United States described the function of a trade mark as being “*to point distinctively, either by its own meaning or by association, to the origin or ownership of the wares to which it is applied*”. Hence the use of a mark purely for the purposes of describing the goods is not regarded as use as a trade mark. (**Unilever PLC’s Trade mark** [1984] RPC 155 (Ch D)).

[35] A crucial issue in this case is therefore to determine the strength of the mark “ESCALATOR FUNDS” and its validity as a trade mark. In other words, an assessment must be made of the mark’s acquired or commercial strength, or its actual ability to signify source in the market place. The context in which the mark appears is an important factor in examining whether a mark has been used as a trade mark. (**The Shell Company of Australia Limited v Esso Standard Oil (Australia) Limited** [1963] HCA 66; (1963) 109 CLR 407 at 422, 424-5). It is disputed by the respondents that the applicant’s ESCALATOR FUNDS is used “as a *trade mark*” since its use would not be taken by the consumer as showing a connection with the origin of the goods. The respondents contend that ESCALATING FUND is used to describe the nature of the product. The respondents therefore submit that neither the term ESCALATOR FUNDS nor ESCALATING FUND is used as a trade mark since it merely describes the nature of the product.

[36] It is trite that descriptive marks are generally weak conceptually and are entitled to a narrow scope of protection. A mark is descriptive if it consists merely of words descriptive of the qualities, ingredients or characteristics of the goods or services related to the mark. (In re **Gyulay**, 820 F. 2d 1216; 3 USPQ 2d 1009 (Fed. Cir. 1987); In re **Oppedahl & Larson LLP**, 373 F. 3d 1171, 1173; 71 USPQ 2d 1370, 1371 (Fed. Cir. 2004) citing **Estate of P.D. Beckwith, Inc., v Commissioner of Patents**, (supra) at 538, 543). To be regarded as descriptive the term need not describe all the features of a product. It is therefore enough if the term describes one significant function or attribute. (In re **Sun Oil Co.**, 426 F.2d 401; 165 USPQ 78 (CCPA 1970); *In re Oppedahl & Larson LLP* (supra); *In re Chamber of Commerce*, 675 F.3d 1297, 1300; 102 USPQ 2d 1217, 1219 (Fed. Cir. 2012)).

[37] Descriptive marks are generally adjectives that describe the product or its functions. In **20th Century Wear, Inc. v Sanmark-Stardust Inc and Domino Industries, Inc.**, 747 F. 2d 81, 88; 224 USPQ 98 (2d. Cir.1984) the Court referred with approval to the views of a leading commentator, Rudolf Callman, who is of the view that a term can be descriptive in two ways – *“[i]t can literally describe the product, or it can describe the purpose or utility of the product”*. Under the first branch *“if qualities, ingredients, effects, or other features of the product are indicated naturally and in ordinary language, so that the consumer understands its significance without any exercise of imagination, the words are descriptive”*. Under the second branch, Callman distinguishes three subcategories of marks that describe the product’s purpose or utility. First, marks describing the problem or condition that the trademarked product is designed to remedy. Second, marks that describe the use to which the product or service is put. Last, marks that describe the effect which the product or service is supposed to produce after it is used. (See: Rudolf Callmann, **The Law of Unfair Competition, Trademarks and Monopolies** 4th (ed) 1983 §18.5 as quoted in **20th Century Wear, Inc. v Sanmark-Stardust Inc and Domino Industries Inc.** (supra)).

[38] In **ITV Technologies Inc v WIC Television Ltd.**, 2003 FC 1056 (Can LII) at paragraph 67, the Court stated that the descriptive character must go to *“the material composition”* of the goods or services or refer to *“an obvious intrinsic quality”* of the goods or services which are the subject of the trade mark, such as a feature, trait or characteristic belonging to the product itself. The question to be asked is - what as a matter of first impression, does the mark tell the potential purchaser of the product? What does the mark lead such persons to believe about the quality and character of

the product? The mark must not be considered in isolation but must be perceived in connection with the wares to which it is associated. (**Mitel Corporation v Registrar of Trademarks** (1984), 79 C.P.R. (2d) 202, at 208). The decision that the mark is clearly descriptive is one of immediate impression. (**Wool Bureau of Canada Ltd v Registrar of Trademarks** (1978), 40 C.P.R. (2d) 25, at 27). The Court must therefore place itself in the shoes of the average consumer and decide what first impression the mark would create. (*In re Bed & Breakfast Registry*, 791 F. 2d 157, 160; 229 USPQ 818, 819 (Fed. Cir. 1986)).

[39] When a descriptive mark becomes recognised by consumers as indicating a single source of goods or services it is considered to have obtained a secondary meaning, and is entitled to protection. In other words, secondary meaning exists when, in addition to their literal or dictionary meaning, marks signify to the public that a product comes from a unique source.

[40] The words “ESCALATING”, “ESCALATOR” and “FUND” are common English words. The matter common to the fund names of the parties is the variation of the word “escalate” and the fact that they end in the word “fund”. The word “**escalator**” was coined in the early 1920’s when escalators were new. It was used by Charles Seeberger to describe his redesign of a passenger carrying conveyor belt described as a moving stairway or inclined elevator. The new creation was dubbed an “*escalator*” by combining the Latin word for step “*scala*” with the word “*elevator*”. Otis Elevator Company trademarked the word “escalator” but lost its exclusive use of it when it was ruled that the word has become generic. The Court noted that “*the term “escalator” is recognized by the general public as the name for a moving stairway*”

and not the source thereof". (**Haughton Elevator Co v Seeberger**, 85 USPQ 80, 81 (Comm. Pat. 1950).

[41] The verb “escalate” is derived from the word escalator. It originated in 1922 and the primary meaning was “*to climb or reach by means of an escalator*” or “*to travel on an escalator*” and the secondary meaning “*to increase or develop by successive stages*”. The word “escalate” is what linguists call a back-formation – that is a new word created by removing an affix from an already existing word or by removing what is mistakenly thought to be an affix. (*The Oxford English Dictionary* 2nd (ed)(1989); *OED Online* Oxford University Press (2007)). The word “escalator” was therefore coined from scratch to refer to the invention, and the verb “escalate” was back formed from this noun.

[42] Having been created with a very narrow meaning (to move by means of an escalator), the word “escalate” went on in the late 20th century to develop a much broader range of meanings which today are so common that the original sense of the word is all but forgotten. With reference to the *Concise Oxford English Dictionary* (2002) and *Cambridge Business English Dictionary* (2011) the word “**escalate**” (verb) means “**to increase or enlarge rapidly; to become greater or higher or to rise or make something rise**”. The word “**escalating**” as an adjective means “**increasing in price, amount, rate, etc.**” The *Cambridge Business English Dictionary* (2011) shows that a customer may “**escalate**” a complaint to a higher level if a customer remains dissatisfied with the response. An “**escalator clause**” is “**a clause in a contract that allows for a rise or increase in wages or prices in certain conditions**”.

[43] “Escalate” has also evolved into a financial term that is used to refer to the rapid increase of something, especially prices or the economy. The respondents referred the Court to the *English-Afrikaans Life Insurance Dictionary* (1987) printed by the Terminology Association of South Africa which refers to various terms such as “*escalate progressively, escalating costs, escalating pension, escalation and escalator clause*”. The term “*escalator*” primarily used to describe a moving staircase, has therefore evolved into the term “*escalate*” indicating increase. The word “**fund**” as a noun is described in the *Cambridge Business English Dictionary* (2011) as “***money invested in a range of shares, bonds etc., often along with other investors money***”. The word “fund” is a highly descriptive term which is devoid of any source indicating significance.

[44] The applicant’s ESCALATOR FUNDS is identified as an investment option with a dynamic guarantee. The original term ESCALATOR (moving staircase) is not usually employed in the investment industry. However, combined with the word “FUND”, it immediately transforms into a financial term. In the financial sector the ordinary consumer immediately associates the word ESCALATOR with the term “ESCALATE” meaning increase. Any suffix added to the word “escalate” will not make any difference as to the normal and spontaneous understanding of it by the average consumer. The word “fund” denotes to the ordinary consumer an investment. The combined term ESCALATOR FUNDS therefore evokes immediately, without conjecture or speculation, an investment fund offering increase or profitable gains. The term informs the consumer of a significant aspect of the applicant’s product, namely an investment fund with the capacity to escalate or increase, or suggesting qualities of increase. The name suggests safety or protection

from loss. The term also has laudatory elements since it arouses the idea of high returns on an investment fund. The descriptive significance is readily perceivable without any extra effort or reflection by ordinary consumers seeking an investment product offering profitable returns. The fact that the phrase ESCALATOR FUNDS lacks a dictionary definition does not detract from its descriptive nature. (**Johnson and Johnson Australia (Pty) Ltd v Sterling Pharmaceuticals (Pty) Limited** [1991] FCA 310; (1991) 30 FCR 326 per **Lockhart, J** at para 63-64).

[45] Constant Proportion Portfolio Insurance is described as a dynamic portfolio risk management strategy, meaning it is characterised by constant change, activity or progress. The CPPI related ESCALATOR FUNDS is characterised by an active management policy in which the composition of the portfolio is dynamic. The foundation of the CPPI strategy is the movement in the allocation of the two asset classes. In my view the respondents correctly argued that the phrase ESCALATOR FUNDS merely describes the function of the applicant's product. In the CPPI context, I tend to agree with the respondents that the phrase ESCALATOR FUNDS conveys to members of the public the notion of funds with some element that is dynamic and has the capacity and tendency to go up.

[46] The intricacies and technical nature of the CPPI product are by no means apparent to the average consumer through the use of the name "ESCALATOR FUNDS". However, the question remains one of first impression when one encounters the term. As applied in financial services, in general, the word "escalate" and derivatives thereof are of weak distinctive character in that they are widely used in the life insurance, investment and financial sector. (**Sterling Acceptance**

Corporation v Tommark, Inc., d/b/a Sterling Associates, 227F. Supp. 2d 454 (D.Md. 2002). The term ESCALATOR FUNDS is nothing more than a simple combination of two ordinary English words, describing a fund with the potential to grow and/or increase. I therefore conclude that the terms ESCALATOR FUNDS and ESCALATING FUND are descriptive of the CPPI products, more particularly the risk nature of the product.

[47] In view of my finding that the term is purely descriptive it is therefore necessary to consider whether ESCALATOR FUNDS have acquired a secondary meaning in the sense that they are associated in the minds of the public with the applicant's product and no-one else's. (**Windsurfing Chiemsee Produktions-und Vertriebs GmbH v Boots-und Segelzubehor Walter Huber & Franz Attenberger C-108/97** [1999] E.C.R. 1-2779; [2002] Ch. 523, ECJ). Whether a mark is inherently distinctive and whether it has acquired a secondary meaning are questions of fact. (**Boston Beer Co. Ltd Partnership v Slesar Bros Brewing Co., Inc.**, 9 F.3d 175, 180; 28 USPQ 2d 1778 (1st Circ. 1993)). The issue of proving acquired distinctiveness is not easy. The more descriptive the term, the greater the burden to establish secondary meaning. The applicant contends that the name is an inventive name, but, if held to be descriptive, has acquired distinctiveness through use. Coined or inventive names are meaningless trademarks which enjoy the highest level of protection and are registrable without proof of secondary meaning. These marks consist of words which have some dictionary meaning but which are used in connection with services unrelated to the dictionary meaning such as APPLE for computers and OMEGA for watches. In my view the composite mark ESCALATOR FUNDS is not a coined or invented phrase since both terms are common in the financial industry.

[48] The applicant contends that the name is distinctive of its services and is widely known to designate the applicant's CPPI product. The mere fact that a word is descriptive or has a descriptive flavour does not necessarily prevent it from being distinctive of a trader's goods or services. However, if a word is *prima facie* descriptive the difficulty of establishing that it is distinctive of the plaintiff's goods is considerably increased. (**Johnson and Johnson Australia (Pty) Ltd v Sterling Pharmaceuticals (Pty) Limited** [1991] FCA 310; (1991) 30 FCR 326 *per Lockhart, J* at 335). A mark's strength is its "*distinctiveness*", or, *more precisely, its tendency to identify the goods sold or services provided under the mark "as emanating from a particular although possibly anonymous source."* (**W.W.W. Pharmaceutical Co. Inc. v Gillette Co.**, 984 F. 2d 567, 572; 25 USPQ 2d 1593 (2d Cir. 1993); **Estee Lauder, Inc. v The Gap, Inc.** 108 F. 3d 1503, 1508; 42 USPQ 2d 1228 (2d Gr. 1997)). The strength of a given mark is "*measured by its distinctiveness or the degree to which it indicates source or origin of the product ... examined in its commercial context*". (**Briston-Meyers Squibb Co. v McNeil - P.P.C., Inc.**, 973 F. 2d 1033, 1044; 24 USPQ 2d 1161 (2d Cir. 1992). Distinctiveness means that the mark serves to identify the product in respect of which registration is applied for as originating from a particular undertaking, and thus to distinguish that product from those of other undertakings. (Case C-311/11P **Smart Technologies ULC v OHIM** [2012] ETMR 49). To show that a mark has acquired distinctiveness, the applicant must demonstrate that "*the relevant public understands the primary significance of the mark as identifying the source of a product or service rather than the product or service itself*". (*In re Steelbuilding.com*, 415 F. 3d 1293, 1297; 75 USPQ 2d 1420 (Fed Cir. 2005) (citing **Qualitex Co. v Jacobson Products Co., Inc.**, 514 U.S. 159, 163 (1995); **Clipper Cruise Line, Inc. v Star Clippers, Inc.**, 952F 2d 1046, 1047

(8th Cir. 1992)). The strength of the mark turns on its origin indicating quality in the eyes of the purchasing public. (**Lang v Retirement Living Publishing Co., Inc.**, 949F. 2d 576, 581; 21 USPQ 2d 1041 (2d. Circ. 1991); **Johnson and Johnson Australia Pty Ltd v Sterling Pharmaceuticals Pty Limited** [1991] FCA 310; (1991) 30 FCR 326 at 336; **Anheuser-Busch Inc. v Budejovicky Budvar NP** [2004] ECR I-10989, para 59).

[49] The applicant concedes that its promotional material and mandatory disclosures feature the applicant's primary trade mark DISCOVERY, but argued that this is normal practise. It is my view that there is no evidence to indicate that the mark ESCALATOR FUNDS is used independently of the house mark and enjoys its own consumer awareness in the marketplace. The failure to use the mark ESCALATOR FUNDS in isolation from its house mark effectively means that the consumer was not given the opportunity to disassociate the product mark from the house mark. It can therefore not be argued that the product mark had achieved significant consumer recognition apart from the house mark. There is no direct or circumstantial evidence to demonstrate consumer recognition developed through active use of the mark ESCALATOR FUNDS in the marketplace over time. (See **Dualit Ltd's Trade Mark Application** [1999] RPC 890 (Ch D)). I therefore conclude that the applicant has failed to show consumer awareness of the mark ESCALATOR FUNDS apart from the fame associated with the Discovery mark. The mark clearly lacks commercial strength or market recognition.

[50] The annual turnover generated with the applicant's CPPI products is also not sufficient to establish acquired distinctiveness without credible evidence linking the figure to the public's association of the term ESCALATOR FUNDS with a single source. In my view the mark ESCALATOR FUNDS lack the required distinctiveness, since it would not be understood by the public as an indication of the origin of the goods. The applicant's proposition that the words ESCALATOR FUNDS are distinctive of its goods in the sense of a badge of origin cannot be sustained. There is no evidence that the mark not only identifies the goods, but also the source of the goods. I am satisfied that the words ESCALATOR FUNDS relate to the description of an intrinsic quality of the product, rather than the trade identity of the product itself. Consequently, I find that the mark is descriptive and had not acquired secondary meaning in the sense that it is capable of distinguishing the applicant's services from those of other undertakings.

[51] I now turn to the applicant's contention that the mark ESCALATING FUND and the respondents' variations thereof so nearly resemble the applicant's ESCALATOR FUNDS as to be likely to cause confusion. Both use such marks in respect of CPPI products, compete in the same market, and invest their CPPI investments in third party funds, such as Allan Gray and Investec. The applicant contends, with reference to **Standard Bank of SA Ltd v United Bank Ltd** 1991 (4) SA 780 (T) at 796I-797A, that insofar as the respondents also use the phrase SANLAM ESCALATING FUND, the acronym SANLAM can be discounted as referring to the name of the entity offering the product or as being the essential feature of the mark. The applicant further contends that the addition of SANLAM will not alert the consumer that the respondents' product is not the applicant's product, or is not

associated with the applicant's CPPI products. The applicant submits that the likelihood of confusion between the products is pertinent in situations where a potential investor instructs a broker regarding the ESCALATOR FUNDS financial service product. Many brokers are often third party employees or operate independently, who may believe that the respondents' ESCALATING FUND investment is in some way connected with applicant's ESCALATOR FUNDS e.g. through support, management or guarantee. The onus is on the applicant to establish confusion. The question is not whether the people will confuse the marks, but rather whether the marks will confuse people into believing that the goods they identify emanate from the same source. (*In re Majestic Distilling Co.*, 315 F. 3d 1311, 1316; 65 USPQ 2d 1201, 1205 (Fed. Cir. 2003).

[52] The test applicable in determining the likelihood of deception or confusion was dealt with by Corbett JA, as he then was, in **Plascon-Evans Paints Ltd v Van Riebeeck Paints (Pty) Ltd** 1984 (3) SA 623 (A) at 640I-641D:

"The determination of these questions involves essentially a comparison between the mark used by the defendant and the registered mark and, having regard to the similarities and differences in the two marks, an assessment of the impact which the defendant's mark would make upon the average type of customer who would be likely to purchase the kind of goods to which the marks are applied. This notional customer must be conceived of as a person of average intelligence, having proper eyesight and buying with ordinary caution. The comparison must be made with reference to the sense, sound and appearance of the marks. The marks must be viewed as they would be encountered in the market place and against the background of relevant surrounding circumstances. The marks must not only be considered side by side, but also separately. It must be borne in mind that the ordinary purchaser may encounter goods, bearing the defendant's mark, with an imperfect recollection of the registered mark and due allowance must be made for this. If

each of the marks contains a main or dominant feature or idea the likely impact made by this on the mind of the customer must be taken into account. As it has been put, marks are remembered rather by general impressions or by some significant or striking feature than by a photographic recollection of the whole. And finally consideration must be given to the manner in which the marks are likely to be employed as, for example, the use of name marks in conjunction with a generic description of the goods”.

[53] A similar approach was adopted by the European Court of Justice in (**Sabel BV v Puma AG, Rudolf Dassler Sport** [1998] RPC 199 at 224 as follows:

“global appreciation of the visual, aural or conceptual similarity of the marks in question, must be based on the overall impression given by the marks, bearing in mind, in particular, their distinctive and dominant components”.

[54] The basic principle in determining confusion between marks is that the marks must be compared in their entirety and must be considered in connection with the particular goods or services for which they are used. The test is expressed in **Polo Ralph Lauren Corp. v United States Polo Assn.** 2000 CANLII 16099 (FCA), (2000), 9 C.P.R. (4th) 51 at para 3 (F.C.A.) as:

“whether, as a matter of first impression in the mind of an average consumer having a vague or imperfect recollection of another mark, the use of both trade marks in the same area and in the same manner is likely to lead to the inference that wares associated with those marks are produced or marketed by the same company”.

[55] As pointed out at para [87] in **Spec Savers International Healthcare Ltd and Others v Asda Stores Ltd** [2012] EWCA CIV 24, the Court “... must take into account all the circumstances of that use that are likely to operate in that average

consumer's mind in considering the sign and the impression it is likely to make on him. The sign is not to be considered stripped of its context".

[56] The Court must determine the degree of visual, aural and conceptual similarities and where appropriate evaluate the importance to be attached to those different elements, taking account of the category of goods and services in question and the circumstances in which they are marketed. (**Lloyd Shuhfabrik Meyer and Co. GmbH v Klijsen Handel BV: C-342/97** [1999] ECR I-3819, [1999] All ER (EC) 587; [2000] FSR 77 (ECJ)).

[57] There is no doubt that the marks ESCALATOR FUNDS and ESCALATING FUND are visually and aurally very similar. The respondents deny that they are using the mark ESCALATING FUND as a trademark, but rather in a descriptive manner or as part of SANLAM ESCALATING FUND. The similarities in the marks ESCALATOR FUNDS and SANLAM ESCALATING FUND need to be assessed with reference to the recollection of the average consumer who normally retains a general, rather than specific, impression of trademarks, bearing in mind their distinctive and dominant components. (**Lloyd Shuhfabrik Meyer and Co. GmbH v Klijsen Handel BV** (supra); *In re Cynosure, Inc.*, 90 USPQ 2d 1644, 1645 (TTAB 2009)). The applicant submitted that the rival products are in some instances linked to identical third party investment funds as depicted in the mandatory disclosures in relation to the investment plans. Consequently, on some of the promotional material under the Discovery mark, the ESCALATOR FUNDS investment is promoted in conjunction with the name of third party investment houses in the following manner; "*Discovery Escalator - Coronation Top 20 Funds*"; "*Discovery Escalator - Nedgroup Rainmaker*

Fund”; “*Discovery Escalator - Investec Property Equity Fund*”. The names appear next to each other in the heading in the same unadorned manner in similar script. According to applicant this shows that the ESCALATOR FUNDS investment product is associated with a third party trade mark and marketed as such. However, from the brochure it is clear that it is the DISCOVERY ESCALATOR FUNDS product which is associated with a third party trade mark, and not the mark ESCALATOR FUNDS in isolation. The respondents admit that the same third party funds are linked to their products, and that their products are marketed in a similar manner.

[58] A perusal of the brochures of both parties show co-operation between the Discovery and Sanlam houses in conjunction with third party houses (Coronation, Nedgroup, and Investec) in managing the fund. Considering the manner in which it is linked to the third party funds, there is no doubt that the third party houses can obviously differentiate between the products which they promote and support and the chances of any confusion in this regard are virtually non-existent. The ordinary consumer who is deemed to be reasonably observant will also be able to discern that ESCALATING FUND and ESCALATOR FUNDS are nothing more than specific products promoted by Discovery and Sanlam, sometimes in conjunction with third party funds. There can be no confusion in the mind of the average consumer investing with ordinary caution as to the nature and source of the products.

[59] In any event, it is common cause that the products of both parties are not sold directly to the public but through intermediaries who are skilled financial advisors and insurance brokers, qualified with an intimate knowledge of all aspects of personal finance. The products are therefore restricted to a discriminating market where the

average well-informed purchaser will invest with ordinary caution. However, the fact that purchasers are sophisticated or knowledgeable in a particular field does not necessarily mean that they are immune from source confusion. (*In re Shell Oil Co.*, 992 F. 2d 1204, 1208; 26 USPQ 2d 1687, 1690 (Fed. Cir.1993); **Lexington Management Corporation v Lexington Capital Partners**, 10F. Supp. 2d 271; 47 USPQ 2d 1558 (SDNY 1998); *In re Decombe* 9 USPQ 2d 1812 (TTAB 1988); *In re Pellerin Milnor Corp*, 221 USPQ 558 (TTAB 1983)). Circumstances suggesting care in purchasing may tend to minimize likelihood of confusion. (*In re N.A.D., Inc.*, 754 F. 2d 996; 999-1000; 224 USPQ 969, 971 (Fed. Cir.1985)). In my view there is little prospect of these professionals who become familiar with the products they promote, being confused by the two trademarks. Considering the nature of the products it is also highly unlikely that ordinary members of the public would invest in the competing products without assistance. The applicant has therefore failed to demonstrate a reasonable likelihood that a substantial number of purchasers of the products would be confused.

[60] The respondents have added their house mark to the alleged offending mark. It is widely accepted that the likelihood of confusion is not avoided by simply adding a house mark. (*In re Apparel Ventures, Inc.*, 229 USPQ 225 (TTAB 1986); *In re Christian Dior, S.A.*, 225 USPQ 533 (TTAB 1985); **Envirotech Corp. v National Service Industries, Inc.** 197 USPQ 292 (TTAB 1977)). The use of the house mark is but one factor considered in making a likelihood of confusion analysis. However, a house mark may avoid likely confusion where the marks in their entirety convey significantly different commercial impressions or where the matter common to the marks is so weak that any source indicating value it has is overwhelmed by the

addition of an arbitrary, distinctive element. (**Citigroup Inc. v Capital City Bank Group, Inc.**, 637 F. 3d 1344, 1356; 98 USPQ 2d 1253, 1261 (Fed. Cir. 2011)).

[61] An assessment of a composite mark must be based on the overall perception of the mark by the relevant public. When assessing the likelihood of confusion between composite word marks, one must determine whether a portion of the word mark is dominant in terms of creating the commercial impression. (*In re Nat'l Data Corp.*, 753 F. 2d 1056, 1058; 224 USPQ 749, 750-51 (Fed. Cir.1985)). Although there is no precise test to select a “dominant” element of a composite word mark, consumers would be more likely to perceive a fanciful or arbitrary, rather than a descriptive or generic term, as the source indicating feature of the mark. (*In re Dixie Restaurants, Inc.*, 105 F. 3d 1405, 1407; 41 USPQ 2d 1531, 1533 -34 (Fed. Cir. 1997); *In re Binion*, 93 USPQ 2d 1531, 1534 (TTAB 2009)). In my view the mark SANLAM, added to the descriptive portion ESCALATING FUND, is the dominant feature of the respondents’ mark, and will be viewed as such by the average consumer.

[62] In **Kate Spade LLC v Saturdays Surf LLC**, 950 F. Supp. 2d 639 (SDNY 2013) the Court held that the “*most persuasive*” difference between the two marks was the inclusion of the Kate Spade House mark in the Kate Spade Saturday composite mark. The Court held that “*the use of this famous house mark significantly reduces the potential for confusion*”. In **Knight Textile Corp. v Jones Investment Co. Inc.** 75 USPQ 2d 1313, 1316-1317 (TTAB 2005), the Court, with respect to the question of similarity between the marks, “Essentials” and “Norton McNaughton Essentials”, found that, in regard to the latter, there was no likelihood of confusion because the

mark “Essentials” is highly suggestive and the addition of the house mark Norton McNaughton was sufficient to enable consumers to distinguish the marks.

[63] When the marks SANLAM ESCALATING FUND and ESCALATOR FUNDS are compared, the common element of the marks is weak in the sense that it is descriptive of the goods or services. If the common element of two marks is “weak” in that it is generic, descriptive or highly suggestive of the named goods or services, it is unlikely that consumers will be confused unless the overall combinations have other commonalities. (*In re Bed & Breakfast Registry* (supra), 791 F. 2d 157, 159). I am therefore satisfied that there is no likelihood of confusion since the matter common to the marks is descriptive and the remaining distinctive acronym SANLAM is sufficient to distinguish its services from that of the applicant. (**Top Tobacco LP v North Atlantic Operating Co.**, 101 USPQ 2d 1163, 1173 (TTAB 2011); **Red Carpet Corporation of America v Johnstown American Enterprises Inc.**, 7 USPQ 2d 1404; 1406 (TTAB 1988); **Rocket Trademarks Pty Ltd v Phard S.p.A.**, 98 USPQ 2d 1066 (TTAB 2011); **Converge Pty Ltd v Woolworths Ltd 2003 BIP 292 (C)** at 298).

[64] The manner in which the ESCALATOR FUNDS trade mark is used shows that it is exclusively used in conjunction with or in close proximity to the applicant’s well-known trade mark and house brand Discovery. It therefore appears that the products of the parties are always coupled with the name of the originating product provider when they are referred to in the market place. This was conceded by the applicant. In my view the word ESCALATOR FUNDS was not intended to function as a secondary mark since it has no distinctive character of its own. From the material it is

clear that ESCALATOR FUNDS is an investment portfolio option to provide investors not only with unlimited growth protection, but also with protection against downward market moves. It is an investment portfolio option based on the CPPI investment philosophy, of which some are linked to third party funds. It is used by the applicant as a product identifier to distinguish it from their other products designed to protect investors against major risks associated with investment choice. In the case of “7”, the OHIM third Board of Appeal stated that “... where a claimed mark appears together with the name of the supplier for specific products, there is a *prima facie* presumption that that mark functions as a mere identifier sign”. “... a mere identifier sign will not function as a trade mark, but rather as a means of distinguishing the appellant’s various products from one another.” (**Caterham Car Sales and Coachworks Limited’s Application/Numeral 7** R63/1999-3 paras 23 and 22, quoted in *Kerly’s Law of Trade Marks and Trade Names* 14th (ed) 2005, para 8-120, p192).

[65] Applicant has not adduced any evidence of actual confusion having arisen. (**John Craig Ltd v Dupa Clothing Industries (Pty) Ltd** 1977 (3) SA 144(T) at 151H-152A). The products co-existed in the market since July 2011 which presented a reasonable opportunity for confusion to have occurred. Although actual confusion is not a requirement, the absence of confusion does suggest that the two marks are not easily confused. (**Citigroup Inc. v Capital City Bank Group, Inc.**, 637 F. 3d 1344, 1354; 98 USPQ 2d 1253, 1259 (Fed. Cir. 2011); **Christian Dior, S.A. Ltd v Dion Neckwear Ltd** [2002] 3 FC 405, 2002 FCA 29 (Can LII) (2002) para 164.

[66] In any event the marks are not exactly identical. In Case C-291/00 **LTJ Diffusion SA v Sadas Vertbaudet SA** [2003] ECR 1-2799; [2003] ETMR 83; [2003] F.S.R. 34 at p.608 the Court of Justice ruled that:

“A sign is identical with the trade mark where it reproduces, without any modification or addition, all the elements constituting the trade mark or where, viewed as a whole, it contains differences so insignificant that they may go unnoticed by the average consumer”.

Applying the guidance of the Court of Justice in **Diffusion** (supra), I conclude that the term SANLAM ESCALATING FUND, by virtue of the addition of the primary mark SANLAM, projects a different commercial impression despite the existence of matter common to both marks. It is my view that the marks cannot in any way be regarded as similar from a visual, aural or conceptual point of view. Taking into account all of the relevant factors in the global assessment of the marks ESCALATOR FUNDS and SANLAM ESCALATING FUND, I am satisfied that the notional consumer and the skilled financial advisor will clearly be able to differentiate between the products and is not likely to be confused or deceived. I therefore conclude that plaintiff had failed to establish that the mark SANLAM ESCALATING FUND will cause confusion as to source or association. The applicant's contentions based on s 34 (1) (a) must therefore fail.

PASSING OFF

[67] Passing off occurs when one trader represents to the public that his goods or merchandise are those of another trader. (**Adcock-Ingram Products Limited v Beecham SA (Pty) Ltd** 1977 (4) SA 434 (W) at 436 (H)). Passing off involves a comparison of the two marks and the get-up of the products in relation to which they

are used. Plaintiff in a passing off action has to prove two elements. First, that the mark, service mark or trade name has become distinctive, in that it has acquired the public reputation associated with his goods, services or business. Secondly, that the conduct of the offending party is likely to cause the public to be confused or deceived. As authoritatively stated in **Capital Estate and General Agencies (Pty) Ltd and Others v Holiday Inns Inc. and Others** 1977 (2) SA 916 (A) at 929 C-D:-

“The wrong known as passing off consists in a representation by one person that his business (or merchandise, as the case may be) is that of another, or that it is associated with that of another, and, in order to determine whether a representation amounts to a passing-off, one enquires whether there is a reasonable likelihood that members of the public may be confused into believing that the business of the one is, or is connected with, that of another”.

[68] As set out by the Supreme Court of Canada in **Ciba-Geigy Canada Ltd v Apotex Inc.** 1992 CANLII 33 (SCC); (1992) 44 C.P.R. (3d) 289, the three necessary components of a passing-off action are the existence of goodwill, deception of the public due to a misrepresentation and actual or potential damage to the plaintiff. In **Caterham Car Sales & Coach Works Ltd v Birkin Cars (Pty) Ltd and Another** 1998 (3) SA 938 (SCA) at 947 para 16 Harmse, JA pointed out that:

“The only component of goodwill of a business that can be damaged by means of a passing-off is its reputation and it is for this reason that the first requirement for a successful passing-off action is proof of a relevant reputation. (Hoechst Pharmaceuticals (Pty) Ltd v The Beauty Box (Pty) Ltd (in liquidation) and Another 1987 (2) SA 600 (A) at 613F-G; **Brian Boswell Circus (Pty) Ltd and Another v Boswell-Wilkie Circus (Pty) Ltd** 1985 (4) SA 466 (A) at 479D; **Williams t/a Jenifer Williams & Associates**

and Another v Life Line Southern Transvaal 1996 (3) SA 408 (A) at 419A-B, 420B).”

[69] In **Premier Trading Company (Pty) Ltd and Another v Sporttopia (Pty) Ltd** 2000 (3) SA 259 (SCA) at 266J - 267A the Court stated:

“Goodwill is the product of a cumulation of factors, the most important of which, in the context of passing-off, is the plaintiff’s reputation. Reputation is the opinion which the relevant section of the community holds of the plaintiff or his product”.

The court further held that the minimum requirements for passing off are the existence of reputation and deception, or at least confusion, caused by the conduct of the defendant as to the origin of the product or trade connection with the defendant, which could influence members of the public to purchase the goods.

[70] With regard to the existence of a reputation, the following was stated in **Reckitt and Colman Products Ltd v Borden Inc. and Others** [1990] RPC 341 (HL); [1990] 1 All ER 873 at 406 (RPC) and at 880g-h:

“First, he must establish a goodwill or reputation attached to the goods or services which he supplies in the mind of the purchasing public by association with the identifying “get-up” (whether it consists simply of a brand name or a trade description, or the individual features of labelling or packaging) under which his particular goods or services are offered to the public, such that the get-up is recognised by the public as distinctive specifically of the plaintiff’s goods or services”.

[71] The reputation of the mark is therefore inextricably linked to its distinctiveness. In this matter there is no evidence relating to promotional activities, media exposure or advertising expenditure figures relating to the mark ESCALATOR FUNDS. The

applicant contends that it was the first company in South Africa to use the name ESCALATOR FUNDS in relation to CPPI products. In **Sea Harvest Corporation (Pty) Ltd v Irvin & Johnson Ltd** 1985 (2) 355 (C) at 359 (G) Aaron, AJ said:

“In particular, it has been settled that the mere fact that a trader is the first in the field to use a particular phrase or slogan gave him no monopoly (save possibly in the field of copyright), and also that a competitor would not be prevented from using ordinary descriptive words”.

[72] The applicant relies on the period of use and financial turnover in seeking to demonstrate distinctiveness. However, it was stated in **British Sugar plc. v James Robertson & Sons Ltd** [1996] RPC 281 (Ch.) at 286:

“Mere evidence of use of a highly descriptive or laudatory word will not suffice, without more, to prove that it is distinctive of one particular trader – is taken by the public as a badge of origin. This is all the more so when the use has been accompanied by what is undoubtedly a distinctive and well-recognised trade mark”.

[73] A similar approach was followed in **Bach Flower Remedies** [2000] RPC 513 (CA) at 530:

“use of a mark does not prove that the mark is distinctive. Increased use, of itself, does not do so either. The use and increased use must be in a distinctive sense to have any materiality”.

Our Courts have also emphasized that the use of a mark does not necessarily equal distinctiveness. (**First National Bank of South Africa Ltd v Barclay Bank plc. and Another** 2003 (4) SA 337 (SCA) at 346 C-G; **Beecham Group plc. and Another v Triomed Pty Ltd** 2003 (3) SA 639 (SCA) at 648F; **Die Bergkelder Bpk v Vredendal Koöp Wynmakery and Others** 2006 (4) SA 275 (SCA) at 284 A-C).

[74] There is a paucity of evidence relating to the reputation of the mark ESCALATOR FUNDS. The mark is used entirely in connection with the obvious Discovery trade mark. The applicant has attached no supporting evidence of the use of ESCALATOR FUNDS on its own and apart from the word or outside of the context of the word “*DISCOVERY*”. There is no evidence to show the level of brand awareness of the mark ESCALATOR FUNDS. In my view the applicant had failed to demonstrate that the mark has become well-known. The applicant’s mark does not have the ability to distinguish itself from its competitors. The general body of evidence does not establish that a substantial number of people regard the word ESCALATOR FUNDS as distinctive of the applicant’s business. I am in agreement with the respondents’ contention that if any of the applicant’s marks have become sufficiently well known to qualify for protection under the common law, then this can only be the combination mark “DISCOVERY ESCALATOR FUNDS”. In **Bose Corp v QSC Audio Products, Inc.**, 293 F. 3d 1367; 63 USPQ 2d 1303, 1308 (Fed. Cir. 2002) the Federal Circuit Court observed that parties who claim fame for a product that is used in tandem with a famous house mark “*can properly be put to tests to assure their entitlement to the benefits of fame for the product marks*”. I am satisfied that the mark ESCALATOR FUNDS has not become synonymous with the goods and services of the applicant in the minds of the purchasing public, hence it failed to establish substantial reputation and goodwill associated with the mark. If the applicant failed to prove the requisite reputation there can be no misrepresentation and hence no passing-off. (**Premier Trading Company (Pty) Ltd and Another v Sporttopia (Pty) Ltd** (supra) at 272 H).

[75] The name ESCALATOR FUNDS is essentially descriptive. It is widely accepted that a descriptive name may be protected by a passing off action. If a term is descriptive in the sense that it is the name of the goods themselves, it cannot simultaneously denote any particular trade source. (**Online Lottery Services (Pty) Ltd and Others v National Lotteries Board and Others** 2010 (5) SA 349 (SCA) at 360 para [38]). However, if a trader adopts words in common use as a business name, some confusion may be expected without giving rise to a liability for passing off. In **Office Cleaning Services v Westminster Window and General Cleaners** (1946) 63 RPC 39 (HL) at 43, Lord Simonds pointed out:

“It comes in the end, I think, to no more than this, that where a trader adopts words in common use for his trade name, some risk of confusion is inevitable. But that risk must run unless the first user is allowed unfairly to monopolise the words. The Court will accept comparatively small differences as sufficient to avert confusion. A greater degree of discrimination may fairly be expected from the public where a trade name consists wholly or in part of words descriptive of the articles to be sold or the services to be rendered”.

[76] I therefore conclude that the terms ESCALATOR FUNDS and SANLAM ESCALATING FUND are not identical and the differences suffice to distinguish the respondents’ services or business from those of the applicant. (**Online Lottery Services v National Lotteries Board** (supra) at para 39). The position is eloquently summarised by Aaron, AJ in **Sea Harvest Corporation (Pty) Ltd v Irvin & Johnson (Pty) Ltd** (supra) at 360 B-D.

“A long line of decisions in passing-off and trade mark cases has established that where descriptive words, as opposed to invented or fancy words, are used in a trade name or trade mark, the Courts will not easily find that such words have become distinctive of the business or products of the person using them, and will not give what amounts to a monopoly in such words to

one trader at the expense of others. (*Cellular Clothing v Murray* 1899 AC 326 (HL); *Patlansky & Co Ltd v Patlansky Brothers* 1914 (TPD) 475 at 492; *Selected Products (Pty) Ltd v Enterprise Bakeries Ltd* 1963 (1) SA 237 (C) at 242F-243B; *Rovex Ltd and Another v Prima Toys (Pty) Ltd* 1982 (2) SA 403 (C)).

COUNTER – APPLICATION

[77] The respondents (First and Second Applicants in the counter-claim) seek the removal of the applicant's ESCALATOR FUNDS trade mark from the register in terms of s 24(1) read with s 9 and s 10(2)(a) or (b) of the Act. Section 9 (1) provides that in order to be registrable, a trade mark shall be capable of distinguishing the goods or services of a person in respect of which it is registered or proposed to be registered from the goods or services of another person either generally or, where the trade mark is registered or proposed to be registered subject to limitations, in relation to use within those limitations. In terms of s 9 (2) a mark shall be considered to be capable of distinguishing if, at the date of application for registration, it is inherently capable of so distinguishing or is capable of distinguishing by reason of prior use thereof. Section 10(2)(a) provides that a mark is liable to be removed from the register if it is not capable of distinguishing within the meaning of s 9. In terms of s 10(2)(b) a mark is liable to be removed from the register if it consists exclusively of a sign or an indication which may serve, in trade, to designate the kind, quality, quantity, intended purpose, value, geographical origin or other characteristics of the goods or services, or the mode or time of production of the services or of the rendering of services.

[78] The respondents contend that the phrase ESCALATOR FUNDS is entirely descriptive and is in common use. The mark is incapable of distinguishing the applicant's financial services from those of any other similar services and is therefore incapable of serving as a badge of origin or an indicator of the source of financial and other class 36 services. The respondents rely on s 10(2)(b) in asserting that the ESCALATOR FUND trade mark should be removed because it is a term that designates the characteristics of the services in question. The phrase ESCALATOR FUNDS consists exclusively of an indication of the characteristics of the financial services and product sold under the mark. The respondents therefore contend that the mark offends against the provisions of s 10(2)(a) and s 10(2)(b) of the Act, read with the provisions of s 9(1).

[79] The respondents further contend that the registration of ESCALATOR FUNDS by the applicant is therefore an entry wrongly made, alternatively an entry wrongly remaining on the Register in terms of s 24 (1) of the Trade Marks Act. In the alternative, the respondents submit that should the registration remain, it should be endorsed with disclaimers to the effect that the applicant is not granted exclusive rights to the descriptive word "*escalate*" and "*funds*" separately from each other and from the mark ESCALATOR FUNDS as a whole.

[80] The applicant (First respondent in the counterclaim) disputes the contentions that ESCALATOR FUNDS is descriptive and contends that the term is meaningless and does not describe the services for which the mark has been registered. The applicant contends that some form of mental activity is necessary to discern a reference to the quality or characteristics of the goods. According to the applicant

ESCALATOR FUNDS does not designate the kind, quality, quantity, intended purpose, value, geographical origin or other characteristics of the services. The applicant therefore contends that there is no evidence that ESCALATOR FUNDS is characteristic of the applicant's CPPI products. The applicant therefore denies that ESCALATOR FUNDS consists exclusively of an indication of the characteristics of the financial services sold under the mark and accordingly contends that the mark does not offend the provisions of either s 10(2)(a) or (b) of the Act.

[81] Section 51 of the Act provides that an applicant's trade mark registration is prima facie valid. The principles in relation to an expungement application was set out in **On Line Lottery Services v National Lotteries Board** (supra) at para 13:

"It is trite that a trade mark is a badge which distinguishes the origin of the goods or services to which it is applied from the origin of other (usually competitive) goods and services. In order to be registrable it must possess this capability (s 9(1)). If at the date of application it is inherently capable of so distinguishing or is capable of distinguishing by reason of prior use, it is considered to possess that capability (s 9(2)). A mark which is not capable of distinguishing within the meaning of s 9 may not be registered as a trade mark (s 10(2)(a)), provided that a mark may not be refused registration for that reason, or, if registered, may not be liable to be removed from the register on that ground, if at the date of an application for registration or at the date of an application for removal, as the case may be, the mark has in fact become capable of distinguishing within the meaning of s 9 as a result of the use made of that mark (the proviso to s 10)".

[82] In **The Canadian Shredded Wheat Co. Ltd v Kellogg Co. of Canada Ltd (1938) 55 RPC 125 (PC)** at 145 Lord Russell said:

“A word or words to be really distinctive of a person’s goods must generally speaking be incapable of application to the goods of anyone else”.

[83] I have found that the applicant’s mark ESCALATOR FUNDS is devoid of any distinctive character and is descriptive of the services in question. The mark is incapable of fulfilling the essential indication of origin function of a trade mark. I have also found that the mark had not acquired distinctiveness in relation to the services of the applicant. The fact that applicant may be the first user of a merely descriptive term does not justify registration if the only significance conveyed by the term is merely descriptive. (*In re National Shooting Sports Foundation Inc.*, 219 USPQ 1018 (TTAB 1983). I therefore conclude that the mark offends against the provisions of s 10(2)(a) of the Act.

[84] Section 10(2)(b) on the other hand is not concerned with distinctiveness, but serves a public interest and seeks to preserve the rights of other traders. It is designed to control a monopoly over the use of descriptive signs and to prevent such signs from being reserved for one undertaking alone because they have been registered as trademarks. (**Century City Apartments CC and Another v Century City Property Owners’ Association** 2010 (3) SA 1 (SCA) at para [31]). Competitors with the same marketing tendencies should not be prevented from using descriptive terms for similar marks on related goods. The applicant described itself as a financial service provider that operates in the life insurance and investment market. Considering the type of services it renders, there could be no doubt that ESCALATOR FUNDS describes one of the services offered. ESCALATOR FUNDS

serves to designate one of the essential characteristics of the investment option offered by the applicant. The term “escalator” is used as an adjective to describe the nature of the fund. *“Adjectives which can truthfully be applied to a whole range of goods and services cannot identify the goods of one particular firm”*. (**Platinum Home Mortgage Corporation v Platinum Financial Group, Inc.**, No. 97 C 5293, 1997 WL 567909 at *2 citing **2 J. Thomas McCarthy**, *McCarthy on Trademarks and Unfair Competition* (4th ed 1997) §11.18; affirmed in **Platinum Home Mortgage Corporation v Platinum Financial Group, Inc.**, 149 F. 3d 722, 728; 47 USPQ 2d 1587 (7th Cir.1998).

[85] The term “escalate” (and variations thereof) and “fund” are normal dictionary words in common usage in the financial and investment industry. The notion of escalation and the related verb “escalate” is a concept common to the financial services industry insofar as the very purpose and function of the industry is to increase or create wealth through growth and thereby the escalation of assets. This is achieved through financial services products such as those offered by the parties. The applicant can therefore not claim a monopoly of these terms to the exclusion of other traders who are entitled to offer products with the same obvious features. (**First National Bank of Southern Africa Ltd v Barclays Bank plc and Another** 2003 (4) SA 337 (SCA)). Protecting merely descriptive marks would “*confer a monopoly not only of the mark but of the product by rendering a competitor unable effectively to name what it was endeavoring to sell*”. (**Abecrombie & Fitch, Co., v Hunting World, Inc.**, 537 F. 2d 4,9; 189 USPQ 759 (2d Cir.1976) at 10). In my view the mark offends against the provisions of s 10(2)(b) of the Act. It follows that the applicant’s mark “ESCALATOR FUNDS” should therefore never have been

registered. If the mark could not be registered in terms of the Act, it follows that it remains on the register incorrectly or wrongly as envisaged in s 24(1) read with s 10(1) and 10(2) of the Act.

CONCLUSION

[86] The essential function of a trade mark is to exclusively identify the commercial source or origin of products or services, such that a trade mark indicates source or serves as a badge of origin. I conclude that the applicant's mark ESCALATOR FUNDS is not used as a trade mark indicating a relevant connection in the course of trade, or to distinguish the applicant's goods from those of others. Furthermore, I conclude that the applicant's mark is merely descriptive and that the applicant failed to establish secondary meaning. The applicant had failed to prove that ESCALATOR FUNDS had acquired a reputation. I am satisfied that there is no likelihood of confusion or deception in the eyes of the average consumer when the marks ESCALATOR FUNDS and SANLAM ESCALATING FUND are compared. The addition of the respondents' primary mark is sufficient to distinguish the mark from that of the applicant. The mark ESCALATOR FUNDS is weak conceptually and commercially. The applicant had therefore failed to establish trade mark infringement or passing-off. The mark "ESCALATOR FUNDS" is descriptive, common in trade and is wrongly remaining on the Register, and falls to be expunged.

[87] In the result the following orders are made:

1. The application is dismissed with costs.
2. The First and Second Respondents' counter-application succeeds with costs.

3. The Registrar of Trade Marks is directed to rectify the Register of Trade Marks by the expungement thereof of registration No. 2007/23913 ESCALATOR FUNDS in class 36, on the grounds that such entry wrongly remains on the Register within the meaning of s 24(1) of the Trade Marks Act 194/1993.
4. The Applicant is ordered to pay First and Second Respondent's costs of the application.
5. These costs include the cost consequent upon the employment of two counsel in both the instance of the application and the counter-application.

P. L. GOLIATH
JUDGE OF THE HIGH COURT