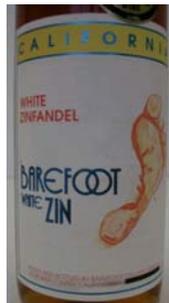


# **“Barefoot in Australia”**

***A review of the Gallo v Lion Nathan court decisions regarding  
the “Barefoot” trade mark in Australia***



**Presented to the  
Pernod Ricard IP Hub**

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## **KEY POINTS**

### **Beer and wine - “goods of the same description”**

- Traditional test:
  - whether the goods are of a different character, or designed to serve different purposes,
  - the inherent character of the goods, and
  - the trade channels through which they are bought and sold.
  - No single factor determinative.
  
- New test seems a little circuitous:- what might members of the consuming public perceive as a result of the use of the alleged infringing mark on the goods in question – might they be led to believe they were goods of the registered owner? This derives from the considerations:
  - whether the alleged infringing trade mark is deceptively similar to the registered trade mark; and
  - whether it is used by the alleged infringer on goods of the same description as that of the registered trade mark.
  
- Reasons why goods of the same description in this case:
  - both are types of alcoholic beverages, generally distributed by similar wholesale distributors;
  - Lion Nathan's product was:
    - intended to appeal to "core" beer drinkers and "marginal" beer drinkers, and
    - developed "with the deliberate objective of enticing consumers who previously drank wine but not beer";
  - both products were intended for consumption during summer;
  - both wine and beer are frequently distributed by the same retailers;
  - corporations, which were once brewers, now seek to expand their business by acquiring wineries and can produce a range of alcoholic and non-alcoholic drinks.

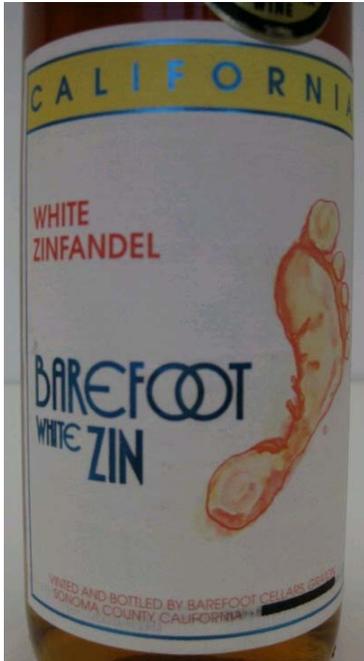
### **What constitutes “use” of a trade mark outside the jurisdiction of manufacture**

- use “as a trade mark” requires that the mark be used as a ‘badge of origin’ – indicating a connection in the course of trade between the goods and the person who applies the mark to the goods.... A sign used to distinguish goods dealt with in the course of trade by one person from goods so dealt with by someone else.
  
- the capacity of a trade mark to distinguish a registered owner's goods from those of others does not depend on whether the owner knowingly projects the goods into the Australian market. It depends on the goods being in the course of trade in Australia.

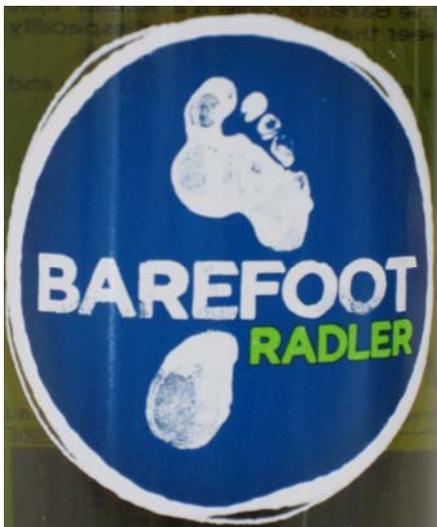
- the importation of 144 bottles / sale of 41 bottles was sufficient to establish “genuine use”.
- the critical moment for consideration was whether the wine was “in the course of trade” at the time it was imported into Australia – i.e it was imported by a trader for re-sale, not by a consumer for consumption.
- in these particular circumstances, the registration of the word mark was wide enough to include the word together with the device / illustration, as the accompanying image did not substantially affect the identity of the trade mark constituted by the word alone

But this leaves open the possibility that where you have a simple word mark used in conjunction with a visual image, and that image / device adds a large element of distinctiveness, this could result in the word mark being liable for removal for non-use, if it is never used by itself!

The Gallo [Barefoot Cellars] Use



The Lion Nathan Use



## **DETAILED ANALYSIS**

This paper concerns a trade mark dispute between Gallo – whom everyone will know, and Lion Nathan – one of Australia’s two major brewing companies. (Lion Nathan is now a wholly owned subsidiary of the Japanese brewer, Kirin. Incidentally, Lion Nathan also has a significant wine portfolio in Australia.)

The dispute had already been heard by a single judge in the Federal Court, where Gallo was unsuccessful, and then on appeal by three judges constituting the Full Court of the Federal Court of Australia where Gallo had succeeded, before proceeding to the ultimate court of appeal in Australia – the High Court of Australia.

### **Factual Background – Use by Gallo**

The trade mark at the heart of the dispute is the simple word mark “BAREFOOT”.

The mark was originally used by an American company, Barefoot Cellars (and registered in the name of the owner of that company, Mr Michael Houlihan), until sold to Gallo in late 2004.

Prior to that, Barefoot Cellars had international distribution arrangements with a number of companies, including a distributor in Germany. In 2001, 60 cases of wine were shipped to this German distributor. Twelve cases of this consignment were subsequently imported into Australia in July 2002 by an Australian liquor wholesaler, Beach Avenue.

As part of the proceedings, Lion Nathan sought to have the mark removed for “non-use”. This requires a finding that a mark not have been used for three years starting one month before the date of application. In this case, the three year period ran from 7 May 2004 until 8 May 2007.

The evidence showed that 15 bottles were sold after 7 May 2004 and prior to the transfer of the registered trade mark from Barefoot Cellars to Gallo on 17 January 2005, with a further 26 bottles sold after that date but before 8 May 2007. (Another 18 bottles were given away).

Gallo conceded that there was no evidence that either Gallo, Barefoot Cellars or Mr. Houlihan was aware that, during the statutory non-use period, wine was being offered for sale in Australia under the registered trade mark.

Separately, in September of October 2006, Gallo had had discussions with McWilliams Wines, (a large family owned wine company in Australia with whom Gallo has had a close relationship over the years) regarding a potential licensing arrangement using Australian wine from McWilliams to be sold under the registered trade mark, or alternatively an import and distribution structure selling wine from California under the registered trade mark.

These arrangements were never finalised.

By March 2007, there had been further discussions between the two companies about launching a wine under the trade mark “BAREFOOT ON THE BEACH”. By this time, McWilliams had allocated some of its wine production for wine to be sold under the registered trade mark. In September 2007, Gallo licensed the registered trade mark to McWilliams which placed products on the market under the registered trade mark on 14 September 2007.

### **Factual Background – Use by Lion Nathan**

During 2006 and 2007, Lion Nathan developed a “concept beer” intended to be less bitter to the taste than traditional beers, targeted at non-beer drinkers (particularly wine drinkers) and incorporating lemon and lime flavours.

On 5 September 2007, Lion Nathan lodged a trade mark application for “BAREFOOT RADLER”, in relation to beers and other goods in class 32. It followed this a couple of weeks later with an application for “LIFE’S BETTER BAREFOOT” in relation to beers and other goods in class 32, and “alcoholic beverages (except beers)” in class 33, followed by an application for “BAREFOOT RADLER” together with the Barefoot device in both classes 32 and 33.

Lion Nathan had searched the trade marks register in February 2007, and were aware of the prior Gallo trade mark registrations. However, this did not concern those responsible at Lion Nathan, because the principal focus of the company’s attention was beer not wine.

## **The Legal Proceedings**

Gallo instituted proceedings against Lion Nathan, including trade mark infringement.

Lion Nathan denied that there had been any infringement, and filed a cross claim contending that there had been non-use by Gallo of the registered trade mark, and seeking its removal for non-use.

Gallo relied on the offering for sale, and sale, of wine bearing the registered trade mark by the Australian importer which had imported the Barefoot Cellars wine from Germany. (It also argued in the alternative that, if there had been a non-use, the Federal Court should exercise its discretion not to remove the registered trade mark from the Register.)

In the first instance, the primary judge, held that:

- beer and wine were not “goods of the same description” within the meaning of the infringement section of the Act, and therefore Gallo failed in its infringement case, and
- Gallo had not used the mark during the relevant period, and therefore it should be removed from the Register.

On appeal, the Full Court found unanimously in Gallo’s favour on the infringement argument, because Gallo’s wine, and Lion Nathan’s beer were “goods of the same description”.

However, it also allowed Lion Nathan’s application for removal of the registered trade mark for non-use.

Both parties sought to appeal. However, the High Court refused to give Lion Nathan leave to appeal the finding that because Gallo’s wine, and Lion Nathan’s beer were “goods of the same description”, so the Full Court’s decision on that point remains the relevant law.

## **Wine and Beer - “goods of the same description”**

The Full Court determined that Lion Nathan’s use of “Barefoot Radler” had infringed Gallo’s registration of the “BAREFOOT” mark, because Gallo’s wine, and Lion Nathan’s beer were “goods of the same description”.

Lion Nathan sought leave to appeal various elements of this finding – including that “Barefoot Radler” was deceptively similar to Gallo’s registered trade mark, or whether it was likely to deceive or cause confusion, the key element of Lion Nathan’s cross appeal was against the finding that Lion Nathan’s beer on the one hand, and wines on the other hand, are “goods of the same description” for the purposes of the infringement of the Trade Marks Act.

Leave to appeal was refused on all grounds, so the decision on this ground is as determined by the Full Court.

It should be noted that the ground on which special leave to appeal was refused was because “the Court was being invited to revisit evaluative findings of the Full Court, and because no general question of public importance arose”. I dare say that many wine and beer companies would consider this particular question one of significant public importance!

### **The Full Court’s decision regarding ‘goods of the same description’**

The question of whether goods are “of the same description” is usually determined in Australia by reference to the 1954 High Court decision in *Southern Cross Refrigerating Co v Toowoomba Foundry Pty Ltd.*, which referred to determinative factors including:

- whether the goods are of a different character, or designed to serve different purposes,
- the inherent character of the goods, and
- the trade channels through which they are bought and sold, with no single factor being determinative.

In the decision at first instance, his Honour identified the following factors as supporting a conclusion that Gallo’s wine and Lion Nathan’s beer were goods of the same description:

- Lion Nathan’s beer and Gallo’s wine are types of alcoholic beverages, generally distributed by similar wholesale distributors;
- Lion Nathan’s BAREFOOT RADLER beer was intended to appeal to "core" beer drinkers and "marginal" beer drinkers and it was developed "with the deliberate objective of enticing consumers who previously drank wine but not beer";
- Both products were intended for consumption during summer;
- Both wine and beer are frequently distributed by the same retailers;
- Corporations, which were once brewers, now seek to expand their business by acquiring wineries and can produce a range of alcoholic and non-alcoholic drinks.

However, this was not sufficient in his Honour's view, and the following factors led him to conclude that they were **not** goods of the same description:

- Beer and wine have a different origin and are made by different processes;
- The manner in which beer and wine is sold may differ. In retail outlets, wine is displayed by reference to categories and may be further organised into wine type and country of origin. It is usually stored on the shop floor. Beer is usually displayed in the coolroom and rarely sold by reference to where it is produced;
- The manner in which beer is consumed was also seen to differ from wine, because it is "thirst quenching and refreshing", with a lower alcohol content and may play a different social role to wine;
- Although beer and wine may be produced by the same company, there is a separation of the two aspects of the business for production, marketing and sales;
- The deliberate steps taken to "entice some wine drinkers into drinking beer" did not lead to a conclusion that beer and wine are goods of the same description.

The Full Court took a slightly different approach. Rather than focus purely on definitions from earlier cases, it examined the specifics of the infringement provision of the Trade Marks Act, section 120(2), and identified a number of discrete questions to be asked and answered:

1. whether the alleged infringing trade mark is deceptively similar to the registered trade mark; and
2. whether it is used by the alleged infringer on goods of the same description as that of the registered trade mark.

Their Honours identified that the object of the section is to protect the statutory monopoly the registered owner has to use the registered trade mark as a badge of origin.

As such, the questions which need to be asked and answered ultimately require consideration of:

“what members of the consuming public might perceive as a result of the use of the alleged infringing mark on the goods in question and whether they might be led to believe they were goods of the registered owner.”

The Full Court went back to the factors for and against identified by the trial judge, and switched the balance – finding that the reasons identified for finding that the goods were “of the same description” were more compelling than the reasons for not making such a finding.

In doing this, they criticised the weight which had been given to the latter reasons, as follows:

- the origin of the goods, i.e. the manner of manufacture of beer on the one hand and wine on the other,
  - while this clearly establishes that they are not the same goods, it is unlikely that this difference would be significant to the consuming public given that large producers of alcoholic beverages produce a range of products;
  - additionally, given this, consumers might see the goods as having the same trade

- the specific manner of sale in restaurants on the one hand and retail outlets on the other,
  - the manner in which beer is consumed, that is drunk for its refreshing qualities, and not, like wine, consumed in a "sipping fashion",
  - the detailed corporate structure of Lion Nathan
- origin;
- again, given that large producers of alcoholic beverages are producing a range of products, then the fact that the wine might be sold in a slightly different way would not be a difference of significance to the consuming public who may come to consider the trade origins of Lion Nathan's beer;
  - the Full Court did not consider this to be a relevant consideration;
  - the Full Court did not consider this to be a relevant consideration either.

## “Use” of a trade mark – whether knowledge or involvement required in foreign jurisdiction

### **The Parties’ Arguments**

The principal issue raised by Gallo was whether there was “use” by Gallo or its predecessor in title of the registered trade mark in respect of wines, in good faith during the alleged statutory period.

The High Court accepted the Full Court decision that there was such use – reducing the question to whether that use was by the registered owner.

The four issues raised by Lion Nathan were:

1. Whether Barefoot Cellars was an “authorised user” within the meaning of the relevant sections of the Act (because the mark was actually registered in the name of the owner that business, Mr. Houlihan);
2. Whether the use of the registered trade mark had been “use in good faith”;
3. whether the wine sold in Australia by the importer remained at all times “in the course of trade” following its sale by Barefoot Cellars in 2001 to the German distributor; and
4. Whether the use of the registered trade mark in Australia was not in fact use of the registered trade mark because it was use of the word BAREFOOT in combination with the device of the bare foot.

### **Submissions on the Principal Issue**

The main propositions put by Gallo were based on accepted case law – but Gallo argued that these precedents had been incorrectly applied to the factual circumstances.

In this respect, the Full Court had held that there must be:

- “Some act that was known either to have had, or potentially have the result that the goods to which the mark was attached would be dealt with in some way within Australia in the course of trade”; and
- For there to be use of the trade mark there needed to be “a conscious resolve on the path of the period alleging ownership of future use in Australia”.

Lion Nathan relied on one of the same precedents, (specifically *Estex Clothing Pty Ltd - v – Ellis & Goldstein Limited*), regarding the “projection of goods”.

Lion Nathan argued that there was no conduct or act by the registered owner of the BAREFOOT mark which amounted to use in Australia, because a registered owner of a trade mark uses it in Australia only if it projects the goods into the course of trade.

The arguments of Lion Nathan were based on the following statement of the Full Court in the *Estex* case:

“When an overseas manufacturer projects into the course of trade in this country, by means of sales to Australian retail houses, goods bearing his mark and the goods bearing his mark are displayed or offered for sale or sold in this country, the use of the mark is that of the manufacturer.”

Lion Nathan took this to be an exhaustive statement of the requirements – i.e. that it was a necessary condition to establish a use in Australia, that an overseas manufacturer knowingly, “projects” his goods into the course of trade in Australia.

Although Lion Nathan accepted that it was not necessary to have regard to the subjective intention or knowledge of the registered owner when considering whether it has “projected” goods into Australia, it nevertheless asserted that in these particular circumstances, it could not be said that the registered owner had “projected” the goods into Australia.

The majority judgment considered the concept and definitions of “use” under the current wording of the Act, and under previous versions of Australia’s Trade Marks Act. It approved the description of use “as a trade mark” in an earlier Full Court consideration of the 1995 Act describing this as:

“a ‘badge of origin’ in the sense that it indicates a connection in the course of trade between goods and the person who applies the mark to the goods.... A sign used to distinguish goods dealt with in the course of trade by a person from goods so dealt with by someone else”.

Consideration was given to earlier cases where the distinction was made between sales made overseas to Australian retailers, who would then sell the goods to consumers in Australia (the *Estex* case), from one in which sales were made to Australian consumers overseas, who brought the goods back to Australia for consumption (*W.D. and H.O. Wills Australia Limited v Rothmans Limited*).

The High Court disagreed with the Lion Nathan assertion that the *Estex* judgment required sales by the trade mark owner to Australian retailers , stating that:

“There was no suggestion that what was sufficient in that case was necessary in every case”.

It went on to state that the “capacity of a trade mark to distinguish a registered owners goods from those of others ... does not depend on whether the owner knowingly projects the goods into the Australian market. It depends on the goods being in the course of trade in Australia”.

### **The Lion Nathan Issues**

It is not necessary for the purpose of this paper to examine the first of the four points raised by Lion Nathan, as there is no “new law” in the considerations of the “authorised use” arguments deriving from the fact that it was the owner of the Barefoot Cellars business who was the registered proprietor of the trade mark.

The second point was that the use of the mark should be “use in good faith”. Lion Nathan submitted that:

- the volume of use should be substantial to justify “use in good faith”, and
- the state of mind of the registered owner should also be a matter of consideration as to whether there has been “use in good faith”.

Lion Nathan submitted that Gallo’s / Barefoot Cellars’ use of the registered trade mark was neither substantial nor genuine, because the sales in Australia were miniscule, and because a registered owner should not be taken to have used a trade mark in good faith when it was unaware that such use was occurring.

Notwithstanding the judgment’s reference to precedent referring to use having to be:

- “substantial in amount” and
- “real commercial use on a substantial scale”,

the Court was nevertheless satisfied that “in the case of genuine use, a relatively small amount of use may be sufficient to constitute ‘ordinary and genuine use’ judged by commercial standards”.

The majority held that the import of the 144 bottles of wine constituted “a commercial quantity of wine”, even though evidence was provided of sales of just 41 bottles.

The third point made by Lion Nathan was that Gallo had to establish that the wine remained at all times in the course of trade, from the first sale to the German distributor until the dealings with it by the Australian importer.

The Court rejected this submission, on the basis that the critical moment for consideration was whether the wine was “in the course of trade” when imported into Australia - which it clearly was.

The final element of Lion Nathan’s submissions is ‘an interesting legal question’. It was that the use of a trade mark consisting of the word BAREFOOT in combination with the device of the bare foot was not use of the registered trade mark, which was the word “BAREFOOT” *simpliciter*.

In support of this submission, Lion Nathan referred to a 2007 Australian case between Colorado Group Limited (a clothing manufacturer) and Strandbags Group Pty Ltd (a retailer of bags and luggage). That case involved the trade mark for the word ‘Colorado’ which had been used in conjunction with a mountain peak device. This image had been used as a distinguishing feature of the mark – specifically to allow its registration as a composite mark, which had been necessary to overcome the difficulties under Australia’s previous Trade Marks Act for registering geographical names.

The High Court distinguished the Colorado case in this matter because the device used by Gallo was an illustration of the word, and:

“The monopoly given by a registration of the word BAREFOOT alone is wide enough to include the word together with a device which does not substantially affect the identity of the trade mark in the word alone... The device is an addition to the registered trade mark that does not substantially affect its identity.”

This leaves open the argument that use of a simple word mark in conjunction with a visual image which adds a large element of distinctiveness, could result in the word mark being liable for removal for non-use!