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DISPUTE RESOLUTION ALERT

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In the recent judgment of the Supreme Court of Appeal (SCA) in the matter of *Padachie v The Body Corporate of Crystal Cove* (705/2015) [2015] ZASCA 145 (30 September 2016) the court considered the circumstances under which the provisions of s20 of the Arbitration Act, No 42 of 1965 (the Act) can be invoked by a party to arbitration proceedings to have a question of law arising during those proceedings stated for the opinion of a court or counsel, and whether the arbitrator had deprived the Appellants of their right under that section.

A COMPETITOR'S USE OF RIVAL COMPANY'S COMMON LAW TRADEMARK AS A KEYWORD IN GOOGLE ADWORDS ADVERTISING

The recent judgment of the Supreme Court of Appeal in *Cochrane Steel Products (Pty) Ltd v M-Systems Group (Pty) Ltd and another 2016* (6) SA 1 (SCA) deals with a competitor's use of a rival trader's common law trademark as a keyword in Google AdWords advertising. The question was whether such conduct amounted to passing off or unlawful competition.

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The Appellants had written to the arbitrator advising that a number of legal points had been raised during evidence and enquired whether they should apply for referral to court in terms of s20(1) of the Act, or deal with the issues in written argument.

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Before the SCA, the Appellants argued that the request for referral to court constituted an application in terms of s20(1) of the Act, and that the arbitrator, by issuing his award in the manner that he did, prevented the Appellants from approaching the court.

The Appellants were sued in the Magistrate's Court by the body corporate of a sectional title scheme (First Respondent), for arrear monthly levies, whereafter the parties agreed to refer their disputes to arbitration. At a later stage the Appellants had written to the arbitrator advising that a number of legal points had been raised during evidence between the Appellants and First Respondent which, in their view, could not be resolved through arbitration and enquired whether they should apply for referral to court in terms of s20(1) of the Act, or deal with the issues in written argument.

The arbitrator responded that he was not aware of any issues which warranted a referral and did not respond to whether the Appellants should apply for a referral to court. The Appellants delivered their written argument on the substantive issues before the arbitrator and recorded various questions of law which ought to be referred to court, and thereafter, wrote to the First Respondent and the arbitrator advising that if the arbitrator was not amenable to a referral of same to court, that they would make application.

Shortly thereafter, the arbitrator published his award which included a finding on the questions of law, finding that the Appellants were liable to the First Respondent. The Appellants applied to the High Court to set the award aside, which court dismissed the application.

Before the SCA, the Appellants argued that the request for referral to court constituted an application in terms of s20(1) of the Act, and that the arbitrator, by issuing his award in the manner that he did, prevented the Appellants from approaching the court.

The SCA, per Makgoka AJA, stated that the appeal should fail on three grounds:

- Firstly, it was clear that the arbitrator did not intend to refer any points of law to court and that nothing had prevented them from approaching the court to interdict the arbitrator from publishing his award, pending the outcome of an application to court for a referral of the issues. Instead, the Appellants had submitted lengthy argument dealing with all of the issues between the parties.

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Section 20(1) of the Act only applies to questions of law that arise during the course of arbitration and the Appellants were not allowed to refer to court the issues referred to arbitration.

- Secondly, s20(1) of the Act only applies to questions of law that arise during the course of arbitration and the Appellants were not allowed to refer to court the issues referred to arbitration. The only two issues that could possibly have constituted questions of law, namely the interpretation of the body corporate's management rule 10 (raised in the Magistrate's Court and thereafter referred to arbitration) and prescription (which arose during the pleadings stage in the arbitration) had both been placed before the arbitrator for determination and could not be said to have arisen during the course of arbitration.

Makgoka AJA referred to *Telcordia Technologies Inc v Telkom SA* [2006] ZASCA 112; 2007 (3) SA 266 (SCA) para 154 where the purpose of s20 of the Arbitration Act was stated:

> [It] can be used only if the legal question arises "in the course" of the arbitration. It is not intended to apply where the parties agree to put a particular question of law to the arbitrator. Any other interpretation of the section would defeat its purpose and "it would be futile ever to submit a question of law to an arbitrator". Its purpose, at the very least, is not to enable parties, who have agreed to refer a legal issue to an arbitrator to renege on their deal.

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When parties agree to resolve disputes through arbitration proceedings, those disputes that have been referred are not subject to s20(1) of the Act.

- Lastly, Makgoka AJA stated that the Appellants' argument that the arbitrator was not qualified to determine the interpretation of the body corporate's management rule 10, was an untenable proposition, given that in the arbitration proceedings the Appellants had vacillated on this issue, on the one hand pressing that the interpretation should be referred to court, while on the other arguing for a particular interpretation of the rule. Makgoka AJA referred with approval to *Government of the Republic of South Africa v Midkon (Pty) Ltd & Another* 1984 (3) SA 552 (T), where Preiss J concluded that a qualified request "has no place in our law by reason of the relatively limited provisions of s 20 of the South African statute".

Accordingly, when parties agree to resolve disputes through arbitration proceedings, those disputes that have been referred are not subject to s20(1) of the Act. Should a party be of the view that questions of law have arisen during the course of arbitration that cannot be resolved by arbitration, s20 may be invoked, provided that the application by such party to the arbitrator for the referral to court is precise (delineates the points of law) and is not qualified (not already dealt with in arbitration proceedings).

Yasmeen Raffie,
reviewed by Joe Whittle

CDH
CLIFFE DEKKER HOFMEYR

A COMPETITOR'S USE OF RIVAL COMPANY'S COMMON LAW TRADEMARK AS A KEYWORD IN GOOGLE ADWORDS ADVERTISING

During October 2013 Cochrane sought to interdict and restrain M-Systems from using "the mark CLEARVU (or any mark confusingly similar thereto...) in relation to Google AdWords advertising".

The recent judgment of the Supreme Court of Appeal in *Cochrane Steel Products (Pty) Ltd v M-Systems Group (Pty) Ltd and another* 2016 (6) SA 1 (SCA) deals with a competitor's use of a rival trader's common law trademark as a keyword in Google AdWords advertising. The question was whether such conduct amounted to passing off or unlawful competition.

Cochrane's contention was that M-Systems' conduct was a form of unlawful competition; alternatively that on the facts a passing off occurred.

The parties, who operated in the security-fencing industry, were rival traders.

During October 2013 Cochrane Steel Products (Pty) Ltd (Cochrane) sought to interdict and restrain M-Systems Group (Pty) Ltd (M-Systems) from using "the mark CLEARVU (or any mark confusingly similar thereto...) in relation to Google AdWords advertising".

The Gauteng Local Division of the High Court, Johannesburg, dismissed the application. Cochrane appealed to the Supreme Court of Appeal.

During 2008, so asserted Cochrane, it invented security fencing "comprising high density, high tensile mesh" and conceived and adopted the brand name CLEARVU for the product.

Cochrane relied on a common-law trademark.

The dispute arose from the fact that, when internet users performed Google searches entering the word 'CLEARVU' (or minor variants of it), M-Systems' advertisements appeared in the search results.

Google operates an internet search engine and provides a number of other services on the internet. Google's primary source of revenue is advertising. The principal way in which it provides advertising is by means of a service called Google AdWords, in terms of which Google offers advertisers the facility to match a keyword to a user's search query so as to trigger an advertisement in various ways. This capability allows advertisers to display their advertisements in the Google content network, through either a cost-per-click or cost-per-view scheme.

Cochrane's contention was that M-Systems' conduct was a form of unlawful competition; alternatively that on the facts a passing off occurred.

The court found it to be convenient to first consider the alternative cause of action based upon passing off.

Passing off is a species of wrongful competition in trade or business. The wrong known as passing off consists of a representation by one person that his business (or merchandise, as the case may be) is that of another, or that it is

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The court held that, in the context of Google AdWords advertising, there was no likelihood of confusion or deception which arose in circumstances where an advertiser uses another trader's trade name only as a keyword.

associated with that of another. 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.

The court accepted in Cochrane's favour that it succeeded in establishing a reputation in the name CLEARVU.

The question was whether it had established the second leg of its cause of action, namely that M-Systems' conduct caused, or was calculated to cause, the public to be confused or deceived.

The critical question was whether the advertisement, which appears in response to a search using the keyword, gives rise to the likelihood of confusion.

Having searched for CLEARVU in one form or another, the consumer is confronted with advertisements for a multiplicity of suppliers. The court held that no reasonable consumer will consider, even momentarily, having searched for CLEARVU (or some derivative of it), that every result obtained relates to Cochrane's products or services. The advertisements are clearly marked as such and appear in different areas of the screen. What is more is that advertisements are clearly distinguished from the natural (or organic) search results. The average consumer would immediately notice that these are advertisements, rather than the natural results of their search. Thus, if the advertisement contains no reference to Cochrane, the consumer ought reasonably to conclude that the result is not related to Cochrane or its products or services.

But, even if the consumer went one step further and clicked on M-Systems' website, its branding would have left the consumer in no reasonable doubt as to the identity of the trader whose services were on offer.

The court concluded that Cochrane had not proved a passing off.

The court then considered Cochrane's primary contention, which was based on the general principles of unlawful competition.

The court held that our common law recognises every person's liberty to carry on his trade without wrongful interference by others, including competitors'. As a general rule, every person is entitled to freely carry on his trade or business in competition with his rivals. But the competition must remain within lawful bounds.

The test for the unlawfulness of a competitive action is essentially public policy and the legal convictions of the community.

After analysing the matter the court held that, in the context of Google AdWords advertising, there was no likelihood of confusion or deception which arose in circumstances where an advertiser uses another trader's trade name only as a keyword.

The Supreme Court of Appeal therefore held that M-Systems' conduct did not amount to unlawful competition

The court accordingly dismissed Cochrane's appeal.

Marius Potgieter

CDH
CLIFFE DEKKER HOFMEYR

OUR TEAM

For more information about our Dispute Resolution practice and services, please contact:

Tim Fletcher
National Practice Head
Director
T +27 (0)11 562 1061
E tim.fletcher@cdhlegal.com

Grant Ford
Regional Practice Head
Director
T +27 (0)21 405 6111
E grant.ford@cdhlegal.com

Roy Barendse
Director
T +27 (0)21 405 6177
E roy.barendse@cdhlegal.com

Eugene Bester
Director
T +27 (0)11 562 1173
E eugene.bester@cdhlegal.com

Lionel Egypt
Director
T +27 (0)21 481 6400
E lionel.egypt@cdhlegal.com

Jackwell Feris
Director
T +27 (0)11 562 1825
E jackwell.feris@cdhlegal.com

Thabile Fuhrmann
Director
T +27 (0)11 562 1331
E thabile.fuhrmann@cdhlegal.com

Anja Hofmeyr
Director
T +27 (0)11 562 1129
E anja.hofmeyr@cdhlegal.com

Willem Janse van Rensburg
Director
T +27 (0)11 562 1110
E willem.jansevanrensburg@cdhlegal.com

Julian Jones
Director
T +27 (0)11 562 1189
E julian.jones@cdhlegal.com

Tobie Jordaan
Director
T +27 (0)11 562 1356
E tobie.jordaan@cdhlegal.com

Corné Lewis
Director
T +27 (0)11 562 1042
E corne.lewis@cdhlegal.com

Richard Marcus
Director
T +27 (0)21 481 6396
E richard.marcus@cdhlegal.com

Burton Meyer
Director
T +27 (0)11 562 1056
E burton.meyer@cdhlegal.com

Rishaban Moodley
Director
T +27 (0)11 562 1666
E rishaban.moodley@cdhlegal.com

Byron O'Connor
Director
T +27 (0)11 562 1140
E byron.oconnor@cdhlegal.com

Lucinde Rhoodie
Director
T +27 (0)21 405 6080
E lucinde.rhoodie@cdhlegal.com

Jonathan Ripley-Evans
Director
T +27 (0)11 562 1051
E jonathan.ripleyevans@cdhlegal.com

Willie van Wyk
Director
T +27 (0)11 562 1057
E willie.vanwyk@cdhlegal.com

Joe Whittle
Director
T +27 (0)11 562 1138
E joe.whittle@cdhlegal.com

Jonathan Witts-Hewinson
Director
T +27 (0)11 562 1146
E witts@cdhlegal.com

Pieter Conradie
Executive Consultant
T +27 (0)11 562 1071
E pieter.conradie@cdhlegal.com

Nick Muller
Executive Consultant
T +27 (0)21 481 6385
E nick.muller@cdhlegal.com

Marius Potgieter
Executive Consultant
T +27 (0)11 562 1142
E marius.potgieter@cdhlegal.com

Nicole Amoretti
Professional Support Lawyer
T +27 (0)11 562 1420
E nicole.amoretti@cdhlegal.com

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JOHANNESBURG
1 Protea Place, Sandton, Johannesburg, 2196. Private Bag X40, Benmore, 2010, South Africa. Dx 154 Randburg and Dx 42 Johannesburg.
T +27 (0)11 562 1000 F +27 (0)11 562 1111 E jhb@cdhlegal.com

CAPE TOWN
11 Buitengracht Street, Cape Town, 8001. PO Box 695, Cape Town, 8000, South Africa. Dx 5 Cape Town.
T +27 (0)21 481 6300 F +27 (0)21 481 6388 E ctn@cdhlegal.com

CDH
CLIFFE DEKKER HOFMEYR