

**Neutral Citation Number: [2010] EWHC 17 (Ch)**

Case No: HC08C02035

**IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION**

Royal Courts of Justice  
Strand, London, WC2A 2LL

19 January 2010

**Before:**

**THE HON MR JUSTICE ARNOLD**

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**Between:**

**DIAGEO NORTH AMERICA, INC  
DIAGEO GREAT BRITAIN LIMITED**

**Claimants**

**- and -**

**INTERCONTINENTAL BRANDS (ICB)  
LIMITED**

**INTERCONTINENTAL BRANDS  
(HOLDINGS) LIMITED  
INTERCONTINENTAL BEVERAGES  
(JERSEY) LIMITED**

**Defendants**

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**Simon Thorley Q.C. and Joe Delaney (instructed by Rouse Legal) for the Claimants  
Roger Wyand Q.C. and Simon Malynicz (instructed by Pinsent Masons) for the Defendants  
Hearing dates: 1-4, 7-8, 10-11 December 2009**

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**HTML VERSION OF JUDGMENT**

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**MR JUSTICE ARNOLD :**

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### Introduction

1. This case is the latest in a line of cases stretching back nearly 50 years in which suppliers of products of a particular description have sought to restrain rival traders from using that description, or a confusingly similar term, in relation to goods which do not correspond to that description on the ground of passing off. Such cases are often referred to as cases of "extended" passing off, to distinguish them from more conventional passing off claims. It is on this basis that the courts have prevented the terms "Spanish champagne", "champagne cider", "elderflower champagne", "sherry", "old English advocaat", "white whiskey" and "Swiss Chalet" from being applied to products which were not champagne, sherry from Jerez, advocaat, whisky or Swiss chocolate respectively. In this case the court is required for the first time to decide whether a producer of vodka has the same rights as a producer of champagne, sherry, advocaat, whisky or Swiss chocolate, and if so whether those rights have been infringed by the Defendants.
2. The Claimants are part of the Diageo Group of companies headed by Diageo plc. The Diageo Group is one of the world's leading producers of alcoholic drinks, and has many well-known brands amongst its portfolio, including SMIRNOFF vodka. The Claimants and their predecessors (whom I shall refer to collectively as "Diageo") have marketed SMIRNOFF in the United Kingdom since the 1950s. SMIRNOFF vodka is, and has been since records began, the best selling brand of vodka in the UK. Diageo now sell a range of vodkas and related products under the umbrella of the SMIRNOFF name. They also sell some other brands of vodka, notably KETEL ONE and CIROC.
3. The Defendants ("ICB") are part of a smaller group of companies founded in 1990 that also produces a range of alcoholic drinks. The principal product which is the subject of the present claim is a clear, virtually tasteless alcoholic drink which has been marketed under the brand name VODKAT since April 2005. VODKAT is not a vodka. VODKAT has proved successful, and as a result ICB now sell a range of related products under the umbrella of that name.

### The law

#### *Extended passing off*

4. The first successful claim for extended passing off concerned "Spanish champagne". Danckwerts J first held as preliminary points of law that, assuming the truth of the champagne houses' allegations, a cause of action for passing off lay, but not a civil claim for breach of statutory duty under the Merchandise Marks Act 1887: *Bollinger v Costa Brava Wine Co Ltd* [1960] Ch 262. At trial he held that "champagne" meant sparkling wine produced in the Champagne district of France by the champagne houses and that the use of the term "Spanish champagne" in relation to perelada sparkling wine from Spain was likely to mislead people who were not knowledgeable about champagne into thinking that the defendant's wine was champagne: *Bollinger v Costa Brava Wine Co Ltd* [1961] 1 WLR 277. I shall refer to these two decisions as the "*Spanish champagne*" case.
5. In *Vine Products Ltd v Mackenzie & Co Ltd* [1969] RPC 1 (the "*sherry*" case) Cross J followed the *Spanish champagne* case on the law. On the facts he held that "sherry" meant wine from Jerez, and accordingly the sherry producers and shippers were entitled to an injunction restraining the plaintiffs from using that term otherwise than in relation to such wine; but that the plaintiffs were entitled to use the terms "British sherry", "English sherry", "South African sherry", "Australian sherry", "Cyprus sherry" and "Empire sherry" in relation to wines which came from elsewhere by reason of acquiescence.
6. *John Walker & Sons Ltd v Henry Ost & Co Ltd* [1970] 1 WLR 917 (the "*Scotch whisky*" case) was the first of a number of cases concerning the sale in other countries of mixtures of Scotch whisky and locally produced spirit as Scotch whisky. Foster J followed the *Spanish champagne* case, but it should be noted that cases of this type raise additional issues to those raised by claims of extended passing off in this country.
7. In *H.P. Bulmer Ltd v J. Bollinger SA* [1978] RPC 79 Whitford J granted an injunction to restrain use of the terms "champagne cider" and "champagne perry" in relation to sparkling cider and perry. An appeal with respect to the former was abandoned, but a majority of the Court of Appeal allowed an appeal in relation to the latter. The Court of Appeal approved the law laid down in the *Spanish champagne* case, but the majority held that in view of the absence of evidence of actual confusion after many years' trading passing off had not been established.
8. In *Erven Warnink BV v J. Townend & Sons Ltd* [1979] AC 731 (the "*advocaat*" case) the House of Lords not merely endorsed the law as developed in the earlier cases, but also its further extension to descriptions with no geographical element. The first plaintiff made in the Netherlands and the second plaintiff distributed in the UK WARNINK'S ADVOCAAT, which was the leading brand of Dutch advocaat in the UK. Most of the advocaat

made in the Netherlands and sold in the UK was principally constituted from hens' eggs, sugar and a colourless spirit called brandewijn. In addition to Dutch advocaat, there had been limited sales in the UK of advocaat from other sources. The defendants sold a product made from dried egg powder and fortified sweet wine as KEELING'S OLD ENGLISH ADVOCAT.

9. At first instance Goulding J found that ([1978] FSR 1 at 11):

"A substantial reputation and goodwill have, over half a century or more, been acquired by the name 'Advocaat' as that of a drink with recognisable qualities of appearance, taste, strength, and satisfaction."

This was so despite the fact that there was widespread misunderstanding about advocaat's composition. He also found that consumers in the UK had been deceived into purchasing the defendants' product thinking that it was advocaat, and that the plaintiffs had sustained damage as a result. On the law, he held that it did not matter that advocaat did not indicate geographical provenance. Accordingly, he found passing off established.

10. The Court of Appeal allowed the defendants' appeal on the ground that "advocaat" was merely descriptive of a type of alcoholic drink, whereas "champagne" was distinctive of a drink that could only be made by a particular class of producers. The House of Lords re-instated the decision of Goulding J.
11. The only reasoned speeches in the House of Lords were given by Lord Diplock and Lord Fraser of Tullybelton, with both of whom Viscount Dilhorne, Lord Salmon and Lord Scarman agreed. In his speech, Lord Diplock, having briefly surveyed the evolution of the law of passing off, identified five characteristics which must be present in order to create a valid cause of action in passing off at 742:

"(1) a misrepresentation, (2) made by a trader in the course of trade, (3) to prospective customers of his or ultimate consumers of goods and services supplied by him, (4) which is calculated to injure the business or goodwill of another trader (in the sense that this is a reasonably foreseeable consequence) and (5) which causes actual damage to the business or goodwill of the trader by whom the action is brought or (in a *quia timet* action) will probably do so."

He immediately warned, however, that it did not follow that, because all passing off actions could be shown to present these characteristics, all factual situations which presented these characteristics gave rise to a cause of action for passing off.

12. Lord Diplock went on to consider the *Spanish champagne* case, and pointed out that the assumed facts at the trial of the preliminary issue contained each of the five characteristics. Having noted that the class of traders between whom the goodwill attaching to the description "champagne" was shared was a large one, he said at 744:

"It seems to me, however, as it seemed to Danckwerts J., that the principle must be the same whether the class of which each member is severally entitled to the goodwill which attaches to a particular term as descriptive of his goods, is large or small. The larger it is the broader must be the range and quality of products to which the descriptive term used by the members of the class has been applied, and the more difficult it must be to show that the term has acquired a public reputation and goodwill as denoting a product endowed with recognisable qualities which distinguish it from others of inferior reputation that compete with it in the same market. The larger the class the more difficult it must also be for an individual member of it to show that the goodwill of his own business has sustained more than minimal damage as a result of deceptive use by another trader of the widely-shared descriptive term. As respects subsequent additions to the class, mere entry into the market would not give any right of action for passing off; the new entrant must have himself used the descriptive term long enough on the market in connection with his own goods and have traded successfully enough to have built up a goodwill for his business."

Accordingly, he held that the *Spanish champagne* case was rightly decided.

13. Lord Diplock then pointed out that in the *Spanish champagne*, *sherry* and *Scotch whisky* cases the descriptive terms in issue had referred to the geographical provenance of the goods. He continued at 745:

"But the fact that in each of these first three cases the descriptive name under which goods of a particular type or composition were marketed by the plaintiffs among others happened to have geographical connotations is in my view without significance. If a product of a particular character or composition has been marketed under a descriptive name and under that name has gained a public reputation which distinguishes it from competing products of different composition, I can see no reason in principle or logic why the goodwill in the name of those entitled to make use of it should be protected by the law against deceptive use of the name by competitors, if it denotes a product of which the ingredients come from a particular locality, but should lose that protection if the ingredients of the product, however narrowly identified, are not restricted as to their geographical provenance."

14. Later Lord Diplock turned to the basis upon which the Court of Appeal had distinguished the *Spanish champagne* case, and rejected it at 747-748:

"Of course it is necessary to be able to identify with reasonable precision the members of the class of traders of whose products a particular word or name has become so distinctive as to make their right to use it truthfully as descriptive of their product a valuable part of the goodwill of each of them; but it is the reputation that that type of product itself has gained in the market by reason of its recognisable and distinctive qualities that has generated the relevant goodwill. So if one can define with reasonable precision the type of product that has acquired the reputation, one can identify the members of the class entitled to share in the goodwill as being all those traders who have supplied and still supply to the English market a product which possesses those recognisable and distinctive qualities.

It cannot make any difference in principle whether the recognisable and distinctive qualities by which the reputation of the type of product has been gained are the result of its having been made in, or from ingredients produced in, a particular locality or are the result of its having been made from particular ingredients regardless of their provenance; though a geographical limitation may make it easier (a) to define the type of product; (b) to establish that it has qualities which are recognisable and distinguish it from every other type of product that competes with it in the market and which have gained for it in that market a reputation and goodwill; and (c) to establish that the plaintiff's own business will suffer more than minimal damage to its goodwill by the defendant's misrepresenting his product as being of that type.

...

So, on the findings of fact by Goulding J. to which I referred at the beginning of this speech, the type of product that has gained for the name 'advocaat', on the English market the reputation and goodwill of which Keelings are seeking to take advantage by misrepresenting that their own product is of that type, is defined by reference to the nature of its ingredients irrespective of their origin. The class of traders of whose respective businesses the right to describe their products as advocaat forms a valuable part of their goodwill are those who have supplied and are supplying on the English market an egg and spirit drink in broad conformity with an identifiable recipe."

Accordingly he concluded that all five characteristics were present in the instant case and that there was no exceptional feature which justified withholding a remedy in law.

15. In his speech Lord Fraser considered first whether the instant case was distinguishable from the *Spanish champagne* case, and secondly whether the *Spanish champagne* case was rightly decided. On the first question he said at 753-754:

"But it cannot, in my opinion, be essential that the class should be defined by reference to the locality in which the members produce the goods, provided it is

clearly defined in some way. How can it matter whether the name by which the genuine product is known has a geographical origin or has no natural connection with the product, or is simply invented, provided that it is distinctive of a particular class of goods? In the present case, as in the champagne case, the plaintiffs are members of a class, which consists of all those who market in England the product genuinely indicated by a particular name. The fact that the name advocaat differs from champagne in respect that it has no geographical significance seems to me neither here nor there. It does have a definite meaning, as the learned judge held in the passage I have already quoted from his judgment at p. 21, and the misrepresentation here was I think of exactly the same kind as in the champagne case."

He went on at 754-755:

"In the Court of Appeal [1978] F.S.R. 473 Buckley L.J. decided against the appellants mainly on the ground that he considered the name 'advocaat' to be purely descriptive and not distinctive, in contrast to champagne which he considered to be distinctive. He said (rightly in my opinion) at p. 482 that 'at least some measure of distinctiveness is essential for the trade name or description to be capable of giving rise to a claim to relief against passing off.' But in my opinion the learned Lord Justice did not give sufficient weight to the findings of the judge which I have already quoted, and especially to his finding ([1978] F.S.R. 1, 21) that advocaat 'was a distinct and recognisable species of beverage.' Goff L.J. seems to me to have made what I regard, with all respect, as the same error, when he said [1978] F.S.R. 473, 496 that it had not been found that 'there was something to entitle the [appellant] to say that "advocaat" ... distinguishes their product or the products of some limited class from all other beverages of the like character...' I do not think that the terms 'descriptive' and 'distinctive,' as applied to names of products, are mutually exclusive. Names which begin by being descriptive, such as Carrara marble and Vichy water and, of course, Champagne, may in the course of time become distinctive as well as descriptive. The name 'advocaat' although never descriptive, has, as Goulding J. found, become distinctive."

16. Lord Fraser then turned to the second question and held at 755-756:

"But the decision [in the *Spanish champagne* case] is in my opinion soundly based on the principle underlying the earlier passing off actions, which I take to be that the plaintiff is entitled to protect his right of property in the goodwill attached to a name which is distinctive of a product or class of products sold by him in the course of his business. It is essential for the plaintiff in a passing off action to show at least the following facts:- (1) that his business consists of, or includes, selling in England a class of goods to which the particular trade name applies; (2) that the class of goods is clearly defined, and that in the minds of the public, or a section of the public, in England, the trade name distinguishes that class from other similar goods; (3) that because of the reputation of the goods, there is goodwill attached to the name; (4) that he, the plaintiff, as a member of the class of those who sell the goods, is the owner of goodwill in England which is of substantial value; (5) that he has suffered, or is really likely to suffer, substantial damage to his property in the goodwill by reason of the defendants selling goods which are falsely described by the trade name to which the goodwill is attached. Provided these conditions are satisfied, as they are in the present case, I consider that the plaintiff is entitled to protect himself by a passing off action."

He added at 756:

"Of course, any established trader is liable to have his goodwill damaged by fair competition, and it is not every falsehood told by a competitor that will give him a right of action. But where the falsehood is a misrepresentation that the competitor's goods are goods of definite class with a valuable reputation, and where the misrepresentation is likely to cause damage to established traders who own goodwill in relation to that class of goods, business morality seems to require that they should be entitled to protect their goodwill. The name of the tort committed

by the party making the misrepresentation is not important, but in my opinion the tort is the same in kind as that which has hitherto been known as passing off."

17. In *Taittinger v Allbev Ltd* [1993] FSR 641 (the "*elderflower champagne*" case) the defendants sold sparkling elderflower cordial described as "elderflower champagne" in get-up similar to that of champagne. It retailed at £2.45, whereas champagne was usually sold for at least three or four times that amount. Sir Mervyn Davies found that, although the labelling of the defendants' product amounted to a misrepresentation that it was champagne, there was no real likelihood of serious damage to the plaintiffs. The Court of Appeal allowed the plaintiffs' appeal.
18. The leading judgment was given by Peter Gibson LJ. He concluded that the plaintiffs had established a sufficient likelihood of damage on two bases. The first he expressed as follows at 669:

"I have already adverted to the inconsistency between [the judge's] finding that many members of the public would be deceived when buying Elderflower Champagne and the description of them as constituting a very small section of the public. The deception of many members of the public cannot be *de minimis*. To this I would add the confusion of those who would think that the defendants' product had some association with champagne, if it was not actually champagne. Further, it cannot be right that the larger the scale of the activities of a trader suing in passing off, the less protection it will receive from the court because of a comparison with the scale of the activities of a defendant who trades on a smaller scale. The question is whether the relevant activities of the defendants are on such a small scale leading to such a small injury that it can be ignored. On the evidence of the defendants' sales, I find it impossible to say that that is the case here."

19. The second he expressed as follows at 669-670:

"But in my judgment the real injury to the champagne houses' goodwill comes under a different head and although the judge refers to Mr Sparrow putting the point in argument, he does not deal with it specifically or give a reason for its undoubted rejection by him. Mr Sparrow had argued that if the defendants continued to market their product, there would take place a blurring or erosion of the uniqueness that now attends the word 'champagne', so that the exclusive reputation of the champagne houses would be debased. He put this even more forcefully before us. He submitted that if the defendants are allowed to continue to call their product 'Elderflower Champagne', the effect would be to demolish the distinctiveness of the word champagne, and that would inevitably damage the goodwill of the champagne houses.

...

[In *Wineworths Ltd. v. CIVC* [1992] 2 N.Z.L.R. 327] Gault J. after agreeing with Jeffries J. on deception said (at p. 343):

'I find the issue of damage or likely damage to the goodwill with which the name "Champagne" is associated equally obvious in light of the finding that there is in fact an established goodwill in New Zealand. I have no doubt that erosion of the distinctiveness of a name or mark is a form of damage to the goodwill of the business with which the name is connected. There is no clearer example of this than the debasing of the name "Champagne" in Australia as a result of its use by local wine makers.'

By parity of reasoning it seems to me no less obvious that erosion of the distinctiveness of the name champagne in this country is a form of damage to the goodwill of the business of the champagne houses. ... It seems to me inevitable that if the defendants, with their not insignificant trade as a supplier of drinks to Sainsbury and other retail outlets, are permitted to use the name Elderflower Champagne,

the goodwill in the distinctive name champagne will be eroded with serious adverse consequences for the champagne houses."

20. Mann LJ agreed at 673-674:

"The judge found that the appellants had not established a 'likelihood of substantial damage.' The reasons for his conclusion were that those who buy 'Elderflower Champagne' in the belief that it is 'Champagne' are few in number and that the defendants' activities are (at least as yet) on a relatively small scale. With respect to the judge, these reasons are not decisive against the appellants. Their case was and is, that the word 'Champagne' has an exclusiveness which is impaired if it is used in relation to a product (particularly a potable product) which is neither Champagne nor associated or connected with the businesses which produce Champagne. The impairment is a gradual debasement, dilution or erosion of what is distinctive (compare Sir Robin Cooke P., *Wineworths Group Ltd. v. CICV* [1992] 2 N.Z.L.R. 327 at 332). The consequences of debasement, dilution or erosion are not demonstrable in figures of lost sales but that they will be incrementally damaging to goodwill is in my opinion inescapable."

21. So too did Sir Thomas Bingham MR (as he then was) at 678:

"Like the judge, I do not think the defendants' product would reduce the first plaintiffs' sales in any significant and direct way. But that is not, as it seems to me, the end of the matter. The first plaintiffs' reputation and goodwill in the description 'Champagne' derive not only from the quality of their wine and its glamorous associations, but also from the very singularity and exclusiveness of the description, the absence of qualifying epithets and imitative descriptions. Any product which is not Champagne but is allowed to describe itself as such must inevitably, in my view, erode the singularity and exclusiveness of the description 'Champagne' and so cause the first plaintiffs damage of an insidious but serious kind. The amount of damage which the defendants' product would cause would of course depend on the size of the defendants' operation. That is not negligible now, and it could become much bigger. But I cannot see, despite the defendants' argument to the contrary, any rational basis upon which, if the defendants' product were allowed to be marketed under its present description, any other fruit cordial diluted with carbonated water could not be similarly marketed so as to incorporate the description champagne. The damage to the first plaintiffs would then be incalculable but severe."

22. In *Scotch Whisky Association v Glen Kella Distillers Ltd* [1997] ETMR 470 (the "white whiskey" case) the defendant marketed a colourless drink re-distilled from Scotch whisky as "white whiskey". Rattee J held that, applying the principles laid down in the *advocaat* case, it was irrefutable that whisky had gained a public reputation that distinguished it from competing products of different composition, that the defendant's product was not whisky, and that its sale under the name "whiskey" constituted a misrepresentation that it was whisky. On the question of damage, having cited from the judgments of Peter Gibson LJ and Sir Thomas Bingham MR in the *elderflower champagne* case, he held at follows at 493:

"In the present case I accept Mr. Thorley's submission that, by parity of reasoning, the real risk of damage to the goodwill of the First and Second Plaintiffs from the Defendant's being allowed to continue calling its product 'whiskey' when it is not is the commencement of an insidious process of erosion of the integrity of the reputation or 'aura' of true whisky, which the Defendant rightly accepted that it has in the minds of potential consumers. Glen Kella may have flavour similarities to whisky, even though its appearance is wholly unlike that of whisky. The next drink not made by the traditional process of manufacture of whisky, seeking nonetheless to call itself whisky, may taste much less like true whisky, as well as looking wholly unlike it. Once the integrity of the undoubted concept of whisky made in the traditional manner is allowed to be breached it seems to me that (as Sir Thomas Bingham suggested in relation to Champagne) it is difficult to see where the line is to be drawn, and the true whisky producers such as the Second and Third Plaintiffs will see the reputation of whisky increasingly damaged by products less and less like true whisky being called 'whisky.'"



23. In *Chocosuisse Union des Fabricants Suisses de Chocolat v Cadbury Ltd* [1998] RPC 117 (the "*Swiss chocolate*" case) the second and third plaintiffs were manufacturers of Swiss chocolate. The defendants sold a honey-flavoured milk chocolate bar containing small pieces of almond nougat under the name SWISS CHALET in packaging bearing a picture of the Matterhorn and an alpine chalet. Laddie J found that, although the term "Swiss chocolate" was descriptive of chocolate made in Switzerland, to a significant section of the public it denoted a group of products of distinctive reputation. It did not matter that the public had differing views of what the features comprising the distinctive quality were. He also found that a substantial number of members of the public who regarded Swiss chocolate as the name for a group of products of repute would be confused into thinking that Swiss Chalet was such a product, and that the plaintiffs would suffer damage as a result since the exclusivity of the designation Swiss chocolate would be adversely affected. Accordingly, he held that passing off was established.
24. In his judgment Laddie J considered the law in some detail, and in particular the speech of Lord Diplock in the *advocaat* case and the judgments of the Court of Appeal in the *elderflower champagne* case. In the course of this consideration, he addressed three matters which are of significance to the present case. First, he pointed out at 124-125 that the action for extended passing off protects descriptive terms:

"In the *Champagne* type of case, protection is given to a name or word which has come to mean a particular product rather than a product from a particular trader. Normally it is the perfect and perhaps only adequate term to describe the product. Just as an emulsion of fats and water together with other digestible ingredients derived from a cow is called milk and nothing else, so a sparkling white or rose wine made in a particular defined area in France by a process of double fermentation in the bottle is called champagne and nothing else. The word is entirely descriptive of the product. This is clear from the speech of Lord Diplock where the descriptive nature of the mark was referred to on numerous occasions...

The fact that the extended form of action can, in the correct circumstance, protect descriptive words is of significance for a number of reasons. First, at one stage during the course of his argument, Mr Michael Bloch seemed to suggest that the plaintiffs could not succeed in this action because the expression Swiss chocolate was descriptive. However, it seems to me that type of argument will not of itself defeat a *Champagne* type of case."

25. Secondly, Laddie J pointed out that what was protected by this form of action was the accuracy and exclusivity of the descriptive term. As he said at 127:

"It appears, therefore, that in this extended form of action it is mainly reduction of the distinctiveness of the descriptive term which is relied on as relevant damage."

26. Thirdly, in an important passage at 127-129 Laddie J considered whether it was necessary for the term in question to denote a superior quality of goods or indeed a distinctive quality which actually existed:

"In *Advocaat* Lord Diplock seemed to suggest that a plaintiff would need to show that the descriptive term had acquired a public reputation and goodwill:

'... denoting a product endowed with recognisable qualities which distinguish it from others of inferior reputation that compete with it in the same market.' (page 95)

The defendant relied on this passage but, rightly in my view, conceded that this could not mean that in all *Champagne*-type cases the descriptive term for which protection was sought only covered 'superior' products. It conceded that it was enough if the qualities were different. In my view it goes somewhat further than this.

In a classic passing off action, it is not necessary to show that the plaintiff's goods are better, cheaper or in any other way different to those of the defendant or others in the trade. Indeed in many cases the major value of a successful trade mark is that it helps to draw in custom even when there is no inherent superiority or difference between goods or services bearing the mark and those not bearing it. ...

It should be possible to protect by the extended form of passing off a descriptive term if it is used in relation to a reasonably identifiable group of products which have a *perceived* distinctive quality. If there is no difference or discernible difference in quality and ingredients between goods sold under or by reference to the term and competing goods, that should not prevent a successful passing off action from being brought. Thus the ability of the Champagne houses to sue successfully for passing off would not be destroyed if, in fact, other manufacturers in other areas of the world produced a sparkling wine equal in quality and indistinguishable in taste from any one of the numerous wines accurately sold as Champagne. On the contrary the fact that the Champagne still had a cachet which made products sold under that word attractive to the customer is the hallmark of a particularly valuable mark. Similarly, if with modern technology foreign distillers were able to match the quality and taste of any of the wide range of beverages sold accurately under the name 'Scotch Whisky', it would not diminish the right of traders dealing in the latter from succeeding in passing off against those who misused the name.

When Lord Diplock referred, in the passage cited above, to the reputation that the type of product has gained 'by reason of its recognisable and distinctive qualities', I do not understand him to be saying that those qualities have to exist in fact and be distinctive in fact. If the relevant public believe or perceive there to be special qualities, that should be enough. If it were otherwise, this would be a significant difference between classic and extended passing off actions. It would be a limitation on the extended form of the action which would serve no real purpose but would undermine its usefulness in many, if not most cases. Furthermore, if one looks at Lord Fraser's formulation of the cause of action, there is no suggestion that the class of goods protected by the generic name must be distinguishable in fact from all competing goods. On the contrary, his speech seems to point in the opposite direction. As he put it, what is necessary is that there should be a defined class of goods to which the name applies and that, in the minds of the public or a section of the public 'the *trade name* distinguishes that class from other *similar* goods' (my emphasis)."

27. When he turned to the facts of the case, Laddie J first considered whether there was a class of goods with a protectible goodwill, secondly whether there had been or was likely to be relevant confusion and thirdly whether the plaintiffs would suffer damage as a result. (It may be noted that in doing so, Laddie J was *sub silentio* adopting the approach of Lord Oliver of Aylmerton in *Reckitt & Colman Products Ltd v Borden Inc* [1990] 1 WLR 491 at 499 of treating the tort as having the three elements - goodwill, misrepresentation and damage - which Nourse LJ described in *Conzorzio del Prosciutto di Parma v Marks & Spencer plc* [1991] RPC 351 at 368 as "the classical trinity".) In considering the first issue, Laddie J observed at 135-136:

"As I have mentioned, Cadbury argued that there is no class of goods which can be identified with reasonable precision. It points to the fact that some members of the public who believe that the Swiss chocolate is a product with a connotation of quality, do not think that it comes from Switzerland. I have quoted above some witnesses who appeared to have that view. Further it says that quite a few people thought that chocolate which did not come from Switzerland did in fact come from there. For example some Lindt chocolate is made in France. It is not marked with the words Swiss chocolate. Nevertheless quite a few members of the public seem to have assumed it was Swiss chocolate. However these facts do not alter my view as to the identity of the class of goods entitled to use and exploit the reputation built up by the designation Swiss chocolate. The fact that public have no clear idea of the characteristics of the goods which have the reputation is of little consequence. In the case of Champagne, no doubt many members of the public who know of and rely on the reputation acquired by that designation, know nothing about double fermentation and do not know where the Champagne district of France is. Some may not even know that the wine with the reputation comes from France. This is irrelevant. What is required is to identify the class of goods which has built up and is entitled to exploit the goodwill, not whether the public appreciates the identifying characteristics of the class. Similarly the fact that some brand names, like Lindt, are so strong that members of the public treat them as if they were a statement of Swiss origin does not alter the fact that, save for very

minor exceptions, the words 'Swiss chocolate' have been used only on chocolate made in Switzerland, presumably in accordance with Swiss food regulations. It follows that I reject this criticism of the plaintiffs' case."

28. The Court of Appeal endorsed Laddie J's analysis of the law and his application of it to the facts, subject to one minor qualification concerning the definition of the class of goods: [1999] RPC 826. The leading judgment was given by Chadwick LJ. The first issue which he considered was whether the term "Swiss chocolate" had a distinctive meaning and reputation, in relation to which he said at 832:

"The words 'Swiss chocolate' are, as the judge pointed out, [1998] R.P.C. 117, at page 129 line 31, descriptive in nature. They are clearly apt to describe chocolate made in Switzerland. But they are also apt to describe chocolate made to a Swiss recipe with Swiss expertise by a Swiss manufacturer. If the words are no more than descriptive—whether of the place of manufacture or of the identity of the manufacturer—they cannot found an action in passing-off. The judge identified the point, correctly in my view, in the following passage of his judgment, [1998] R.P.C. 117, at page 129 lines 31 to 36:

'It is only if they [the words 'Swiss chocolate'] are taken by a significant part of the public to be used in relation to and indicating a particular group of products having a discrete reputation as a group that a case of passing off can get off the ground. I have had to bear this in mind when assessing the evidence of what the words mean to members of the public. If they convey nothing more than their descriptive meaning the action must fail.'

There were, therefore, two questions to be addressed on this part of the case: (i) would the words 'Swiss chocolate' have been taken by a significant section of the public in England at the relevant time to mean, and to mean only, chocolate made in Switzerland; and if so, (ii) did chocolate made in Switzerland have a discrete reputation, distinct from other chocolate, which the Swiss Chocolate Manufacturers were entitled to protect?"

Chadwick LJ held that the judge had been entitled to answer both questions in the affirmative. In relation to the second question, he observed at 836:

"The judge held that there was goodwill, or 'cachet', attached to the designation 'Swiss chocolate'."

29. In Wadlow, *The Law of Passing-Off: Unfair Competition by Misrepresentation* (3<sup>rd</sup> ed) at 7-131 the author states the law as established in the cases discussed above in the following terms:

"The cases on passing-off by the misuse of geographic terms are illustrations of a wider principle that it may be passing-off to misuse any sufficiently significant descriptive or generic term in relation to goods, services or a business for which it is inappropriate. For the misrepresentation to be a material one the descriptive or generic term must have a reasonably definite meaning and some attraction for the customer, or no one would ever rely on it and any misrepresentation would be immaterial. In other words, it must have some drawing power in its own right. The misrepresentation is actionable by a person damaged in the goodwill he has in relation to goods or services to which the term is properly applicable. There is a tendency to deny that terms like *Champagne* are descriptive or generic at all, reflecting the former dichotomy under which the only terms that could be protected were those which could be called 'distinctive'. For the purposes of passing-off it is better to say that they are generic terms with well-defined meanings, which may consequently be protected despite the fact that they are not distinctive in the traditional sense of denoting a specific producer."

30. Counsel for ICB submitted that a claim for extended passing off is only available in respect of terms that have

a cachet, that is to say, as denoting a class of goods that is perceived by the relevant public (regardless of whether that perception has any objective basis) as being of superior quality. I do not accept that submission, for a number of reasons.

31. First, in my judgment it is contrary to the principle which underlies the action for extended passing off as explained by Lord Diplock in the *advocaat* case, namely the protection of goodwill. Goodwill is, as Lord Macnaghten famously said in *Inland Revenue Commissioners v Muller & Co's Margarine Ltd* [1901] AC 217 at 224, "the attractive force which brings in custom". If members of the public wish to purchase a particular class of products, it is irrelevant whether the desire to purchase is motivated by a perception that the class has a superior quality or simply a liking for that class of product. Either way, traders in that class of products may own goodwill in a term which denotes that class.
32. Secondly, I find it difficult to see how in practice one can distinguish between products which are purchased because they are perceived as being of superior quality and products which are purchased because consumers like them. Take the example of whisky. Counsel for ICB submitted that the term "Scotch whisky" was protected because Scotch whisky was perceived as being of superior quality. Even if that is correct, what about the term "whisky", the use of which was protected in the *white whiskey* case? Counsel for ICB accepted that that case was rightly decided, and submitted that it was inherent in Rattee J's reasoning that whisky had a cachet even though the judge did not actually say so. Counsel contended that "because it is whisky, [the public] perceive it as a bit superior", but he did not identify any class of product to which it was perceived as being superior, let alone the nature of the supposed superiority.
33. Thirdly, in my judgment the submission is contrary to the authorities. It is true that in the *champagne* cases a number of the judges said that champagne had a "high reputation", but as I read the judgments that was not a critical factor in their reasoning. In the *advocaat* case Goulding J did not find that *advocaat* had a cachet, but that the term denoted a drink of "recognisable qualities". Neither Lord Diplock nor Lord Fraser said that there was any requirement that the product or class of products be perceived as superior. Lord Diplock did refer to "a product endowed with recognisable qualities which distinguish it from others of an inferior reputation" in the passage I have quoted in paragraph 12 above, but in the passages I have quoted in paragraphs 13 and 14 above he made it clear that what mattered was whether the type of product had a reputation in the market "by reasons of its recognisable and distinctive qualities". Lord Fraser's reasoning was to the same effect. In the *Swiss chocolate* case Laddie J recorded, and clearly considered correct, the defendant's concession that protection was not limited to superior products. Moreover, his reasoning in the passage I have quoted in paragraph 26 above supports that analysis. It is true that both Laddie J and the Court of Appeal found as a fact that Swiss chocolate did have a reputation for superior quality, but their reasoning did not depend on that fact. Finally, as indicated above, the decision in the *white whiskey* case is inconsistent with any such limitation.
34. Fourthly, the submission is contrary to Professor Wadlow's statement of the law, which I consider to be accurate. Counsel for ICB referred me to an article by Professor Naresh in which the author criticises the *advocaat* principle, but in my view his analysis of the law, as opposed to his critique of it, is consistent with that of Professor Wadlow: see "Passing-Off, Goodwill and False Advertising: New Wine in Old Bottles" (1986) 45 CLJ 95 at 104-105 and 110-111.
35. Fifthly, counsel for ICB advanced the familiar floodgates argument that, if there was no requirement for a cachet, any descriptive term could be protected. As can be seen from the record of the arguments in the House of Lords, the same argument was advanced in the *advocaat* case. Both Lord Diplock and Lord Fraser expressly rejected it, at 744 and 756 respectively. Furthermore, I do not consider that it follows that any descriptive term can be protected. In order to be protected, the term must be one which has a reputation and hence gives rise to goodwill. As Laddie J said in the *Swiss chocolate* case [1998] RPC 117 at 129:

"If a trader used the expression 'French ball-bearings' or 'Italian pencils' neither would convey to most members of the public anything other than that the ball-bearings and the pencils came from France and Italy respectively. There is, as far as I am aware, no public perception that ball-bearings from France or pencils from Italy form a discrete group of products having any particular reputation."

#### *The relevant date*

36. The relevant date as at which to assess the claimant's goodwill in a passing off action is the date when the defendant commenced the activities complained of: see *J.C. Penney & Co Inc v Penneys Ltd* [1975] FSR 367 at 381 (Buckley LJ delivering the judgment of the Court of Appeal), *Cadbury-Schweppes Pty Ltd v Pub Squash Co Pty Ltd* [1981] RPC 429 at 494 (Lord Scarman delivering the opinion of the Privy Council), *Anheuser-Busch Inc v Budejovicky Budvar NP* [1984] FSR 413 at 462 (Oliver LJ, as he then was) and the *Swiss chocolate* case [1999] RPC 826 at 836 (Chadwick LJ).

#### *Misrepresentation*

37. It is well established that in claims for passing off it is for the court to decide whether the defendant's activities amount to a misrepresentation, that is to say, are likely to give rise to relevant confusion on the part of relevant consumers. Evidence of actual confusion is of assistance, but is not conclusive. Nor is the absence of evidence of actual confusion conclusive in the defendant's favour, but it may be significant if the defendant's product has been on the market for a substantial period. Evidence as to the likelihood of confusion, and the presence or absence of actual confusion, is most important in marginal cases. See *A.G. Spalding & Bros v A.W. Gamage Ltd* (1915) 32 RPC 273 at 286-287 (Lord Parker of Waddington) and *Parker-Knoll Ltd v Knoll International Ltd* [1962] RPC 265 at 279 (Lord Morris of Borth-y-Gest), 285 (Lord Hodson), 291-292 (Lord Devlin).
38. In *Neutrogena Corp v Golden Ltd* [1996] RPC 473 at 493 Morritt LJ (as he then was) said in the context of a conventional passing off claim that the correct legal test for the existence of a misrepresentation was as follows:

"As stated by Lord Oliver of Aylmerton in *Reckitt & Colman Products Ltd. v. Borden Inc.* [1990] R.P.C. 341 at page 407 the question on the issue of deception or confusion is

'is it, on a balance of probabilities, likely that, if the appellants are not restrained as they have been, a substantial number of members of the public will be misled into purchasing the defendants' [product] in the belief that it is the respondents' [product]?'

The same proposition is stated in Halsbury's Laws of England 4th Edition Vol.48 para 148. The necessity for a substantial number is brought out also in *Saville Perfumery Ltd. v. June Perfect Ltd.* (1941) 58 R.P.C. 147 at page 175; and *Re Smith Hayden's Application* (1945) 63 R.P.C. 97 at page 101."

The same requirement that a substantial number of members of the public will be misled applies in the context of extended passing off: see the *Swiss chocolate* case [1998] RPC 117 at 137.

#### *Trap purchases*

39. *Kerly's Law of Trade Marks and Trade Names* (14<sup>th</sup> ed) states at 19-193 (footnotes omitted, emphasis added):

"In general, proof of a single act of infringement by the defendant is sufficient to justify the claimant in bringing his action, and the evidence relied on is frequently the sale by the defendant of the spurious goods to the claimant or his agent, who has bought them merely for the purpose of procuring evidence. Though orders of this sort, generally referred to as trap orders, have not infrequently been the subject of unfavourable comment, they are often the only means by which evidence can be obtained, and, if they are fairly given, there is no impropriety in adopting this procedure. The object is to show what the defendant is doing or what is likely to be the result of some ambiguous advertisement or marking, and the orders must, therefore, be fairly given, and of a character which is not unlikely to occur in ordinary practice. Orders in writing, where they are practicable, are to be preferred; but in a class of business where orders are nearly always oral, a written order may inevitably arouse suspicion and, therefore, be of no practical use. *In all cases the defendant should be promptly informed as to what is alleged to have occurred so that he may have the opportunity of investigating the incidents while the recollection of those concerned is fresh.* All the circumstances surrounding trap orders have to be scrutinised with great care. The courts will not necessarily grant relief in respect of isolated instances which may not be sufficient to prove any apprehension that passing off is likely to occur, and the needs of the case may sometimes be met by a special order as to costs."

40. The authorities cited in support of the passage I have italicised are two decisions of Clauson J, *F.W. Hampshire and Co (1927) Ltd v General Kaputine Syndicate Ltd* (1930) 47 RPC 437 and *Fox's Glacier Mints Ltd v Joblings* (1932) 49 RPC 352, and one of Whitford J, *Broad & Co v Cast Iron Drainage Co Ltd* [1970] FSR 363.
41. The first case was a case of alleged passing off of cartons of emollient tablets, the principal complaint relating to the get-up. Clauson J considered that the defendants' get-up did not sufficiently resemble that of the

plaintiffs as to be calculated to deceive, and said that there was no evidence of actual deception. He referred to evidence of certain trap orders, saying that, even taking the evidence at face value, it did not establish that the get-up was calculated to deceive. He went on to say that the evidence of the plaintiffs' witnesses "must be regarded with just a little suspicion", but even taking the evidence as it stood "the matter becomes very unsatisfactory". He did not elaborate, but evidently considered that the witnesses had done something unfair. He went on at 443-444:

"As to the trade orders I only say this, it is necessary always to be careful in these cases with regard to trap orders, especially where no opportunity of explanation is given to the person trapped, and where the information as to the trap only comes out later when legal proceedings have been taken."

42. The second case, as the name suggests, concerned FOX'S GLACIER MINTS. There was no dispute that no one had the right to use the name GLACIER MINTS other than the plaintiff. The defendant was a confectionery retailer who sold mints of the same type which did not emanate from the plaintiff. The sole basis of the claim was that on five occasions clerks employed by the plaintiff's solicitors had visited the defendant's shops and asked for a quarter (pound) of GLACIER MINTS, and were supplied with mints other than the plaintiff's. In each case they paid 2d whereas GLACIER MINTS retailed at 6d. There was evidence that in that locality such mints were known as "glassy mints", with "glassy" being pronounced with a short "a". Clauson J held that the plaintiff had not proved that the defendant was engaging in deceptive trading given the chances of misunderstanding, mishearing and on so. He went on at 358:

"It is unfortunate I have not had the help which I should have had in this case if, as soon as the incidents took place, information about them had been given to the Defendant, Mr Jobling, so that the matter could have been investigated within a few hours of the occurrence of the incident."

43. In the third case the plaintiffs had caused a third party to make a trap purchase by ordering three BROADSTEL manhole covers. The defendants eventually supplied three covers, not of the plaintiffs' manufacture, described in the delivery note as "similar to BROADSTEL". The defendants' evidence was that, before the making of the order, the third party had telephoned the defendants and had been informed that they did not stock the BROADSTEL cover, but did stock similar covers. Whitford J was critical of the plaintiffs' delay in commencing the proceedings and seeking an interlocutory injunction, saying at 366-367:

"I am bound to say that I think that the plaintiffs have been extraordinarily dilatory in this case, the more so because the evidence upon which they are relying is, as I have already said, evidence of what is popularly described as a trap order and because, as is well known, and as I have no doubt the plaintiffs were told by their legal advisers, it is most desirable in cases where trap orders are put in, in order to enable both the defendants and the court to come to a conclusion as to whether the order was a fair trap or not, that defendants should know the circumstances of the trap order at the earliest possible moment after the order has been put in."

44. A fourth authority which is cited later in the same paragraph of *Kerly* is the decision of Harman J (as he then was) in *Cellular Clothing Co Ltd v G. White & Co Ltd* (1953) 70 RPC 9. In that case the plaintiff alleged passing off on the basis of two trap purchases in which persons going to the defendant's shop were sold cellular material not made by the plaintiff in response to requests for AERTEX. At 14-15 Harman J said:

"The object of the persons who asked for the 'Aertex' material was to obtain something which was not 'Aertex' material, and it has been pointed out again and again that, that being so, although trap orders are a necessity, they are to some extent an odious necessity and they had to be looked at, therefore, with the greatest suspicion. There are I do not think it right to say rules, but there is a practice which has grown up around these orders to the effect that, if you wish to rely on them and nothing else, you must either support them by some written evidence or you must at least bring them to the notice of the person, the assistant or whoever it is that it is trapped, at once, because otherwise the answer of the assistant always is, as it was in this case, that he or she does not remember the incident, and the Court is thereby not at all assisted to find out what the truth is. The fact that an assistant a month or so later says she does not remember the incident only proves the honesty of the assistant; but, if the matter is drawn to her attention within 24 hours, then she cannot say that in a Court, and at least I have the satisfaction of knowing what her reaction was soon afterwards. What happened about these orders? These people went to the shop with instructions by no means to give away what they

were at. They withdrew secretly, no doubt delighted with their own successes, and no word was allowed to leak out to the Defendants.

Nothing whatever was said about the August incident or the September incident, but after a considerable delay, on the 27th September, with no letter before action, a writ is issued. When the person in whose registered office the writ was issued rang up and asked what the particulars were, he was refused any. The Defendants first knew about it on the 2nd October when they received the evidences.

Now that is exactly the way in which trap orders should not be given. It is exactly the way which many Judges have said makes the Court distrustful of the trap. Two orders of this kind -- standing as the only evidence of passing off which remains in this case if I reject the August 9th incident, as I do -- are, in my judgement not nearly of strong enough character to support a claim for an injunction of this sort. What exactly happened, I do not know. Something like what the Plaintiffs' witnesses say may have happened, but whether they brought home to the attention of the two assistants the fact that they were really asking for the Plaintiffs' goods, or did not do so, I'm left entirely in the dark. I think it would be quite wrong if I accepted such fragile evidence, with no confirmation at all, and which has been sedulously concealed sealed from the Defendants contrary to all the practice, of which the Plaintiff company and their advisers must be well aware."

45. I have quoted this passage at some length because it illustrates very clearly the kind of situation to which the italicised statement in *Kerly* is directed and the reasons why immediate notice of the allegations is essential in such situations. In other circumstances, it may not be necessary to be quite so prompt. In general, what matters is that the defendant should be given a proper chance to investigate and test the claimant's evidence and to adduce contrary evidence. The probative value of the evidence relating to a trap purchase will depend not only on the opportunity given to the defendant to do those things, but also on the other circumstances of the case.

#### The witnesses

46. I heard evidence from a number of witnesses. In addition, a considerable amount of hearsay evidence was adduced by both sides, but in particular Diageo.

#### *Witnesses called by Diageo*

47. Philip Almond is a Marketing Director of the Second Claimant who was until recently responsible for the SMIRNOFF range in the UK. He gave factual evidence relating to SMIRNOFF and VODKAT, the UK vodka market, and the damage likely to be suffered by Diageo through the sale of VODKAT. Mr Almond also gave separate expert evidence relating to the proportion of the UK vodka market SMIRNOFF occupies, the general compliance of UK vodka sales with European regulations and pricing issues. Counsel for ICB criticised his expert evidence as lacking impartiality. In my view Mr Almond attempted to be objective, but understandably found some difficulty in being wholly objective. I do not think that that detracted from his evidence on the points I have mentioned, however. Counsel for ICB also submitted that an adverse inference should be drawn from the fact that Diageo had retained Ian Wisniewski, a journalist with expertise in vodka, as a potential expert witness, but called Mr Almond instead. In my judgment no adverse inference should be drawn. In any event, Mr Woodard (as to whom, see below) exhibited some of Mr Wisniewski's articles to his report.
48. Roger Evans is the Second Claimant's Intellectual Property Counsel. He gave straightforward factual evidence of a number of observations and purchases he had made.
49. A number of solicitors and others from Diageo's solicitors gave evidence about trap purchases of VODKAT or observations they had made in various retailers and wholesalers suggesting the existence of confusion, namely Neil Barlow (at the material time a vacation student), Andrew Bravin (paralegal), Lindsay Cook (employed solicitor), Hollie East (paralegal), Thomas Grek (employed solicitor), Diana Sternfeld (solicitor and partner) and Anthony Willoughby (consultant solicitor). So too did Steven Chatterton (a screenwriter and a friend of Ms Cook), Magnus Cormack (a solicitor employed by the Scotch Whisky Association, "the SWA"), Anita Gallagher (a former teacher and Mr Evans' wife), Pamela Julien (a paralegal employed by the Second Claimant), Sammy Salameh (a business development executive employed by the Second Claimant) and Neil Skinner (a marketing manager employed by the Second Claimant). Ms Cook, Ms East, Ms Sternfeld, Mr Chatterton, Mr Cormack, Ms Gallagher, Ms Julien, Mr Salameh and Mr Skinner were not required to attend for cross-examination.
50. A number of solicitors and others from Diageo's solicitors gave evidence about trap purchases of VODKAT in various pubs or bars that suggested confusion, namely Sahar Farishta (paralegal), Emily Taylor (trainee patent

attorney) and Dawn Osborne (solicitor and then a partner). So too did two private investigators, Simon Darby and Dave Dixon. Ms Osborne was not required to attend for cross-examination.

51. Mahesh Patel is the proprietor of an off-licence, newsagent and convenience store who gave evidence that he had thought VODKAT was vodka.
52. Four members of the public gave evidence that they had thought that VODKAT was vodka, namely Sian Gannon, Kate Gill, Beth Laverick and Arielle Gottlieb.
53. Iain Ferris is a Food Standards Enforcement Officer employed by South Gloucestershire Council. Robert Charnley is a Trading Standards Officer employed by Sandwell Council who has specialised in food law for 20 years. He is chair of the regional Food Standards Group and he lectures on food law part-time at Birmingham University. Mr Ferris and Mr Charnley gave factual evidence about investigations into VODKAT. They also expressed their opinions about the product. Counsel for ICB did not resist the admission of the latter evidence, but submitted it had little or no weight. I shall deal with that point below.

*Witnesses called by ICB*

54. Paul Burton is a director and co-founder of ICB. He gave factual evidence about VODKAT. Of particular relevance was his evidence in relation to the brand concept and development.
55. Marcus Black is ICB's Commercial Director. He gave factual evidence in response to Diageo's evidence of trade confusion.
56. Five retail buyers gave evidence going to the issue of confusion in the retail trade, namely Fiona Corfield formerly of J. Sainsbury plc and now of Palmer & Harvey, Andrew Gale of Tesco Stores plc, Michael Hinchcliffe of Netto Foodstores Ltd, Nigel Broadhurst of Iceland Foods Ltd, and Leanne Matthews of Booker Ltd. Ms Corfield was unable to give evidence either in person or by videolink, and so her statement was admitted under a hearsay notice. Mr Gale was not required to attend for cross-examination.
57. David Marsh is a purchasing manager employed by Halewood International Ltd formerly Halewood Vintners Ltd ("Halewood"), a competitor of both Diageo and ICB. He gave evidence about Halewood's TOLSTOY product (as to which, see below). He was not required to attend for cross-examination.
58. Richard Woodard is a journalist. He was editor of *Wine and Spirit International* from 2000 to 2005. Since then he has been a freelance drinks writer. He gave expert evidence about the UK vodka market, VODKAT and the economic damage that might be suffered by Diageo through the sale of VODKAT. Counsel for Diageo accepted that Mr Woodard had expertise with regard to vodka and the vodka market, but submitted that he had little expertise on questions of consumer perception. I accept that submission. Nevertheless, I have taken all of Mr Woodard's evidence into account.
59. Adam Philips is the managing director of his own market research consultancy firm. He gave expert evidence with regard to the analysis and interpretation of a survey carried out on behalf of ICB in order to investigate the public perception of vodka. He was not responsible for drafting the survey questionnaire.

The factual background

*Vodka*

60. The word "vodka" comes from Russian. The *Shorter Oxford English Dictionary* (5<sup>th</sup> ed, 2002) defines it as meaning:

"A colourless alcoholic spirit made esp. in Russia and Poland by distillation of grain etc; a glass or drink of this."
61. Both Russia and Poland claim to have originated the production of vodka. Certainly, both countries have long traditions of vodka manufacture. Partly for this reason, and partly due to the marketing of brands which are either made in Russia (such as STOLICHNAYA) or have a Russian heritage (such as SMIRNOFF), vodka remains associated with Russia in particular. Since the launch of ABSOLUT vodka made in Sweden, vodka has increasingly been manufactured in other countries. It remains common, however, for vodka brands to be marketed in get-up which evokes Russia in some way, such as by use of double-headed eagle devices and the word "imperial".
62. Vodka can be made from a wide variety of materials. Traditional materials include various grains and potatoes, but in recent decades many other materials have been used. Typically, the raw material is fermented and then distilled in such a manner as to produce a largely odourless and tasteless clear spirit. Non-premium brands of vodka are usually distilled using continuous stills, whereas repeated distillation in pot stills is more common for premium brands. The spirit is often filtered after distillation.
63. Vodka was first marketed in the UK in the 1950s. Its share of the UK spirits market has steadily increased since



that time, with a considerable increase in sales occurring in the 1980s. One estimate is that total UK vodka sales in 2005 amounted to 7.6 million cases, equating to 68.7 million litres, with a value of over £1.7 billion. In 2008 vodka overtook Scotch whisky as the best selling spirit in the UK in terms of retail sales, having already done so in the pub and bar sector.

64. Since 1989, the European spirit market has been regulated by European legislation. Council Regulation No. 1576/89/EEC of 29 May 1989 laying down general rules on the definition, description and presentation of spirit drinks ("the Old Regulation") contained provisions governing various categories of spirits throughout what was then the European Economic Community which applied from 15 December 1989.

65. The second recital of the Old Regulation stated:

"Whereas spirit drinks constitute a major outlet for Community agriculture; whereas this outlet is largely the result of the reputation which these products have acquired throughout the Community and on the world market; whereas this reputation can be attributed to the quality of traditional products; whereas a certain quality standard should therefore be maintained for the products in question if this outlet is to be preserved; whereas the appropriate means of maintaining this quality standard is to define the products in question taking into account the traditional practices on which their reputation is based; whereas, moreover, the terms thus defined should be used only for products of the same quality as traditional products so as to prevent their being devalued."

66. Article 1 provided *inter alia*:

"2. For the purposes of this Regulation spirit drink shall mean an alcoholic liquid:

- intended for human consumption,
- having particular organoleptic qualities and, except in the case of the products listed under point I of Annex III, a minimum alcoholic strength of 15 % vol, and
- produced
  - either directly by the distillation, with or without added flavourings, of natural fermented products, and/or by the maceration of vegetable substances and/or the addition of flavourings, sugars or other sweetening products listed in paragraph 3 (a) and/or other agricultural products to ethyl alcohol of agricultural origin and/or to distillate of agricultural origin and/or to spirit as defined in this Regulation
- or by the mixture of a spirit drink with:
  - one or more other spirit drinks,
  - ethyl alcohol of agricultural origin, distillate of agricultural origin or spirit,
  - one or more alcoholic drinks,
  - one or more drinks.

However, drinks falling within CN codes 2203 00, 2204, 2205, 2206 00 and 2207 shall not be considered spirit drinks.

...

#### 4. Definition of different categories of spirit drinks

For the purposes of this Regulation the following terms shall have the meanings indicated:

...

(q) Vodka:

A spirit drink produced by either rectifying ethyl alcohol of agricultural origin or filtering it through activated charcoal, possibly followed by straightforward distillation or an equivalent treatment, so that the organoleptic characteristics of the raw materials used are selectively reduced. The product may be given special organoleptic characteristics, such as a mellow taste, by the addition of flavouring."

67. Article 3 provided *inter alia*:

"1. With the exception of juniper-flavoured spirit drinks as defined in Article 1 (4) (m) (1), for the spirit drinks listed below, the minimum alcoholic strength by volume for release for human consumption in the Community under one of the names listed in Article 1(4), with the exception of certain specific products whose alcoholic strength is indicated in Annex III, shall be as follows:

...

- 37,5% ...

vodka"

68. As can be seen, one of the requirements imposed by the Old Regulation was that vodka should contain a minimum of 37.5% alcohol by volume ("ABV"). Prior to the coming into effect of the Old Regulation, some products were sold in the UK as "vodka" which had a lower alcoholic strength than this. Thus in about 1986 Halewood began selling a 30% ABV "vodka" under the brand name TOLSTOY IMPERIAL. In Halewood's trade price lists dated October 1987, June 1988, October 1988, October 1989 and April 1990 TOLSTOY IMPERIAL was listed under the heading "vodka". By contrast, in its trade price list dated July 1990 Halewood listed the same product under the heading "light spirits".

69. It should also be noted that drinks falling within certain CN codes, including 2206, are not considered to be spirit drinks at all. CN stands for Combined Nomenclature. This is a European Union goods classification system which is based on the Harmonised System ("HS") maintained by the World Customs Organization, an intergovernmental organization. The Harmonised System comprises about 5,000 commodity groups, each of which is identified by a six digit code. These six digit codes form the basis for the CN code, but many HS codes are split into eight digit CN codes by the addition of two further digits.

70. Spirits such as vodka fall under HS and CN code 2208, which covers:

"Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% vol; spirits, liqueurs and other spirituous beverages."

Vodka has its own specific CN code of 2208.60, as do whisky (2208.30), rum (2208.40) and gin (2208.50).

71. The Old Regulation was repealed and replaced by European Parliament and Council Regulation No. 110/2008/EC of 15 January 2008 on the definition, description, presentation, labelling and the protection of geographical indications of spirit drinks ("the New Regulation").

72. Article 2 of the New Regulation provides *inter alia*:

"1. For the purpose of this Regulation, "spirit drink" means an alcoholic beverage:

(a) intended for human consumption;

- (b) possessing particular organoleptic qualities;
- (c) having a minimum alcoholic strength of 15 % vol.;
- (d) having been produced:

- (i) either directly:

- by the distillation, with or without added flavourings, of naturally fermented products, and/or

- by the maceration or similar processing of plant materials in ethyl alcohol of agricultural origin and/or distillates of agricultural origin, and/or spirit drinks within the meaning of this Regulation, and/or

- by the addition of flavourings, sugars or other sweetening products listed in Annex I(3) and/or other agricultural products and/or foodstuffs to ethyl alcohol of agricultural origin and/or to distillates of agricultural origin and/or to spirit drinks, within the meaning of this Regulation,

- (ii) or by the mixture of a spirit drink with one or more:

- other spirit drinks, and/or

- ethyl alcohol of agricultural origin or distillates of agricultural origin, and/or

- other alcoholic beverages, and/or

- drinks.

2. However, drinks falling within CN codes 2203, 2204, 2205, 2206 and 2207 shall not be considered spirit drinks."

73. Article 4 provides:

"Spirit drinks shall be classified into categories according to the definitions laid down in Annex II."

74. Annex II provides *inter alia*:

"15. Vodka

- (a) Vodka is a spirit drink produced from ethyl alcohol of agricultural origin obtained following fermentation with yeast from either:

- (i) potatoes and/or cereals, or

- (ii) other agricultural raw materials,

distilled and/or rectified so that the organoleptic characteristics of the raw materials used and by-products formed in fermentation are selectively reduced. This process may be followed by redistillation and/or treatment with appropriate processing aids, including treatment with activated charcoal, to give it special organoleptic characteristics. Maximum levels of residue for ethyl alcohol of agricultural origin shall meet those laid down in Annex I, except that the methanol content shall not exceed 10 grams per hectolitre of 100 % vol. alcohol.

(b) The minimum alcoholic strength by volume of vodka shall be 37,5 %.

(c) The only flavourings which may be added are natural flavouring compounds present in distillate obtained from the fermented raw materials. In addition, the product may be given special organoleptic characteristics, other than a predominant flavour.

(d) The description, presentation or labelling of vodka not produced exclusively from the raw material(s) listed in paragraph (a)(i) shall bear the indication 'produced from ...', supplemented by the name of the raw material(s) used to produce the ethyl alcohol of agricultural origin. Labelling shall be in accordance with Article 13(2) of Directive 2000/13/EC."

75. Under the New Regulation, it remains the case that to be sold as "vodka" a spirit must comprise 37.5% ABV and that drinks falling within CN code 2206 are not considered spirits.
76. The vast majority of spirits that have been sold as "vodka" in the UK since the 1950s are clear, distilled spirits with little or no flavour. Since 1990 they have almost all been of at least 37.5% ABV. During the course of research for the preparation of his report Mr Woodard discovered a number of products of lower strength which were on sale in the UK through specialist internet drinks retailers, but it is unclear which of these were on sale in 2005 or prior to that. They are almost all flavoured vodkas. There is no evidence as to the sales figures for such products, but it seems clear that their sales have been very small. Mr Woodard also found a number of examples of what, for want of a better term, I shall call "vodka-based liqueurs", which I shall discuss separately.
77. Vodka is almost always displayed together with other spirits in retail outlets. Usually this is the case in pubs and bars as well. In pubs and bars, vodka is rarely ordered by brand name unless the customer wishes to order a premium brand. Mr Woodard's evidence was that, although vodka brand awareness was growing amongst consumers, it remained low.
78. Although some consumers drink vodka straight in the form of "shots", the majority of vodka consumed in the UK is drunk mixed with another drink. Common mixers include cola, tonic, lemonade, lime, cranberry juice, orange juice and tomato juice. In recent years a popular mixer has been an "energy" drink, in particular RED BULL.
79. In recent times vodka has been most popular in the 18-25 age group, particularly female drinkers and particularly those in socio-economic groups C1 and C2. Mr Almond's evidence was that it had gained a reputation as a "party spirit" and (rightly or wrongly) as causing fewer hangovers than other spirits.
80. In 2004 sales of non-premium vodka brands (those priced at less than £14.99 per 70cl) were estimated to account for 97% of vodka sales. The popularity of vodka has led to fierce price competition at the lower end of the market, particularly amongst multiple retail chains. By 2003 it was estimated by the Gin & Vodka Association ("the GVA") that the combined sales of retailers' own-label vodkas and so-called Cheapest On Display ("COD") vodkas accounted for 64% of retail vodka sales. In the larger chains, particularly in recent years, the COD vodka has often been a "basic" or "value" own-label brand. Mr Woodard calculated that in September 2009 approximately 59% of UK retail vodka sales were of products priced at less than £10 per 70cl bottle.

*SMIRNOFF*

81. SMIRNOFF was one of the first brands of vodka to be marketed in the UK. As noted above, it has long been

and remains the best-selling brand of vodka in the UK. In the year ended 30 June 2007, over 20 million litres of SMIRNOFF vodka were sold in the UK alone, generating more than £90 million in revenue and accounting for approximately 40% of the UK vodka market by volume. Its closest competitor by contrast accounted for approximately 15% of the UK market. In the same financial year Diageo spent more than £12 million on advertising and promoting vodka, most of which was spent on SMIRNOFF. The position in 2005 was similar. Whereas advertisements for SMIRNOFF used to state that it was vodka, more recent advertising has promoted the brand without identifying the product.

82. The principal, and originally the only, product in the SMIRNOFF range is referred to as SMIRNOFF RED because it is marketed in a red get-up, but the word "RED" does not appear on the bottle. Over the years the range has been progressively extended to include SMIRNOFF BLACK (a 40% ABV vodka produced in small batches using a copper pot-still), SMIRNOFF BLUE (a 45% ABV "export strength" vodka) and a number of flavoured vodkas such as SMIRNOFF GREEN APPLE, SMIRNOFF LIME and SMIRNOFF NORDIC BERRIES.

#### *Flavoured vodkas and other variants*

83. Although most vodka sold in the UK is clear and largely tasteless, there are some vodkas which do not fit that description. The principal sub-category which does not fit that description consists of flavoured vodkas. Flavoured vodkas are a separate category of spirits under the New Regulation (see paragraph 31 in Annex II), but they are still required to have at least 37.5% ABV. According to one estimate, flavoured vodka's share of the total UK vodka market in 2005 was 2.7%. In my view it is clear from the evidence that a vodka which it is not expressly stated to be flavoured in some way will be assumed to be unflavoured.
84. Flavoured vodkas are commonly clear, or sometimes faintly coloured and translucent, spirits which have some added flavouring. The flavourings can range from common fruit flavours such as apple, lemon or orange to more esoteric flavours such as pepper or vanilla. There is also a flavoured vodka marketed in the UK called BLAVOD which is described as "black vodka", since it is not merely flavoured, but also strongly coloured, with a herb called black catechu. BLAVOD has a distinctive get-up which at one point included an unusual printed and zipped fabric sleeve. In recent years BLAVOD has achieved sales of the order of 3,000-6,000 cases per annum. Thus it is a niche product.
85. There are also a number of other sub-categories. One of these consists of products which contain vodka mixed with another source of alcohol. Some of these are traditional East European products, such as OKHOTNICHYA or RUSSIAN HUNTER'S VODKA, which also contains fortified wine. There is very little evidence about the sales of these products in 2005, but it seems clear that such sales were very small indeed.

#### *Vodka-based liqueurs*

86. As noted above, Mr Woodard discovered a number of products which I have termed vodka-based liqueurs. Mr Burton also referred to some of these in his witness statement. Four of these products in particular featured in the evidence. The first is URSUS ROTER. This is a red-coloured drink with 21% ABV which is mainly sold in Greece. It is marketed under a distinctive front label featuring a picture of three polar bears on some ice and a picture of two sloe berries with leaves. It was formerly described on the front label as "URSUS VODKA with SLOE BERRIES". The back label stated "The Red Drink is a blend of Ursus vodka with natural sloe berries (16%)...". Diageo acquired the manufacturer of URSUS ROTER in 2005 and changed the description on the front label to "URSUS VODKA-BASED SPIRIT flavoured with SLOE BERRIES". The back label now says "URSUS ROTER is a blend of wild sloe berries and pure, smooth URSUS vodka" and "VODKA-BASED LIQUEUR". Mr Almond's evidence was that the former description on the front label had been the subject of complaint from the Greek authorities, but that they were content with the new description. I have not been shown a bottle of URSUS vodka, but I presume that the get-up of URSUS ROTER has some similarity to that of URSUS. 6,000 cases of URSUS ROTER were sold in the UK in 2004 and 2,000 cases in 2005.
87. The second is ERISTOFF BLACK. This is a dark-coloured drink with 20% ABV marketed by Bacardi-Martini. It was launched in the UK in 2009, and so was not on the market in 2005. When it was launched, the product was described on the front label as "premium vodka based spirit" and "flavoured premium triple distilled vodka based spirit", the flavour being identified as "wild berry". The GVA suggested that this labelling gave undue prominence to the word "vodka", and so it was changed. Now the front label merely says "spirit drink". The list of ingredients on the back label continues to read "vodka (53%), water, sugar, flavours, acidifier ... acidity regulator ...". Although the labelling does not explicitly say so, ERISTOFF is itself a premium brand of vodka. Not surprisingly, the get-up of ERISTOFF BLACK is based on that of ERISTOFF, featuring the same distinctive bottle and cap and similarly-styled labels.
88. The third is JAGO vodka cream liqueur. This is a cream-coloured drink with 17% ABV, described as a blend of cream and vodka. There is very little evidence about this product, and it is not clear that it was on the market in 2005. There are no sales figures for it and Mr Woodard did not know how it had sold.

89. The fourth is DOOLEY'S TOFFEE & VODKA, a 15% ABV toffee-flavoured vodka-based product. Mr Burton's evidence was that he thought that this product had been on the market for over 10 years and he had known of it in April 2005. Otherwise there is very little evidence about this product, and no sales figures.

*Light spirits*

90. As at April 2005 there were a number of alcoholic products on the UK market which were similar to spirits, but had a lower alcoholic strength. It seems clear from the evidence that there was no generally accepted name for drinks of this kind. In the trade they were sometimes referred to as "light spirits" or "sub-strength spirits", but neither of these terms appears to have had any significant public recognition. Even in the trade, there does not appear to have been any clear understanding of what drinks fell into this category. Indeed, it is not clear that this was a recognised category at all.
91. Halewood marketed a number of products which fell into this category. One of these was TOLSTOY. As related above, Halewood introduced the "light spirits" category into its trade price list in July 1990. At that time this category included the following products in addition to TOLSTOY: TARTAN PRINCE Scotch whisky 30%; OLD REDWOOD Canadian whisky 30%; MARQUIS French spirit 28%; SPIRIT OF ROBERTTOWN 25%; BERTRAND NAPOLEON brandy 30%; and BERKELEY London light 30%.
92. In its April 1992 price list Halewood stopped describing OLD REDWOOD as "whisky" (calling it "rye" instead) and BERTRAND as "brandy" (calling it "French spirit" instead, and dropping NAPOLEON from the name). In its May 1992 price list Halewood stopped selling TARTAN PRINCE. Later it also stopped selling SPIRIT OF ROBERTTOWN as well.
93. In its January 1994 price list Halewood introduced the following statement in a box underneath the list of light spirits:

"IMPORTANT INFORMATION

Would all customers please note that it is an offence to describe or market products in any way which might confuse or mislead your customer. We have clearly segregated our range of light spirit in our price list and would strongly recommend that you follow the same procedure in any published material and on the shelf in store."

This statement has also appeared in Halewood's subsequent price lists.

94. By November 1996, Halewood was marketing TOLSTOY in a clear spirits bottle with a red cap bearing the word TOLSTOY printed in white. The label was predominantly red with TOLSTOY printed in white. The label featured a heraldic device, the word IMPERIAL and the description "Spirit Drink". To my eyes, the get-up is strongly suggestive of a vodka. The design of the label has subsequently been updated, but this gives the same impression.
95. In its January 1997 price list Halewood started to use the word "spirit" to describe all four light spirits which it was then selling. Thus TOLSTOY was listed as "Tolstoy Imperial Spirit 30% vol".
96. In a promotional leaflet dating from 2004 Halewood advertised these products under the heading "30% Spirits". TOLSTOY was said to be Halewood's top performing light spirit. OLD REDWOOD was said to be:
- "Another excellent seller and number 3 in Top 10 'Imported Whiskies' brands in the UK [Although AC Nielsen audit Redwood as an Imported Whiskey, it should be described as Canadian Light Spirit]".
97. Mr Marsh's evidence is that sales of TOLSTOY peaked in 2004 at 172,230 cases, a case in this instance being twelve bottles regardless of size and thus including cases of 35cl bottles. Sales figures obtained from A.C. Nielsen record that 121,936 9 litre cases were sold in the year to 9 October 2004. Since then sales have fallen substantially.
98. So far as the evidence goes, TOLSTOY does not appear to have been advertised to the public by Halewood. As I understand it, the promotional leaflet referred to in paragraph 96 above was aimed at Halewood's trade customers. Tellingly, Mr Woodard was not aware of TOLSTOY prior to conducting research for the purposes of this case. Even at the time of preparing his expert report, he did not think it had achieved significant sales. (The figures referred to in paragraph 97 above were obtained by ICB and Diageo subsequently.)
99. Mr Almond's evidence was that he had been aware of TOLSTOY for some years, but until starting to prepare his witness statement in these proceedings he had been under the impression that it was a vodka. Mr Almond produced some documentary evidence suggesting that others in Diageo had been under the same impression. In

addition, TOLSTOY is categorised as a vodka by Barcodepedia (an online service giving information about product codes).

100. Counsel for ICB not merely accepted, but positively submitted, that members of the public were likely to believe that TOLSTOY was a vodka. I accept that submission, which coincides with my own assessment and is supported by the evidence referred to in the preceding paragraph.
101. Another product which fell into the light spirits category was ROLOV, marketed by Glen Catrine. This is another 30% ABV clear product with a Russian-sounding name which was marketed in get-up reminiscent of vodka. It appears to have been on the market from at least 1990 to 2006, but judging by the evidence its sales were very small. Neither Mr Almond nor Mr Woodard had heard of it before these proceedings. Mr Burton had heard of it, but was unaware of its sales figures. Mr Woodard did not think that it had achieved significant sales. Mr Almond obtained figures from A.C. Nielsen showing that it had sold just under 2,000 cases in 2005, just over 1,000 cases in 2006 and nothing since then.
102. Although ICB contend that products like URSUS ROTER, which I have discussed above, and SCOTSMAC, which I shall discuss below, would also have been regarded as light spirits, I do not accept this. In my view such products would more naturally have fallen into the liqueurs and speciality drinks category discussed below. Schnapps, which I shall discuss next, is more equivocal. German schnapps is a spirit. I think American schnapps products might be regarded by some in the trade as light spirits, but they would more often be regarded as falling into the liqueurs and speciality drinks category.

#### *Schnapps*

103. The word "schnapps" comes from the German *Schnaps*. The *Shorter Oxford English Dictionary* defines it as meaning:
- "Any of various strong spirits resembling genever gin."
104. Schnapps was not regulated by the Old Regulation, nor is it regulated by the New Regulation. It is clear from the evidence that the term "schnapps" is little understood by the public, or even the trade, in the UK. It does not represent a clearly defined class of products either in fact or in the public perception. It appears that there are two principal sub-categories of drink referred to as "schnapps", which are rather different to each other.
105. The first sub-category, sometimes referred to as "German schnapps", consists of spirits of the kind colloquially referred to as *Schnaps* in German-speaking countries and as *snaps* in Scandinavia. German schnapps products are usually clear, about 40% ABV, and distilled from fermented cereals, roots or, particularly, fruit. They may have little flavour or a light flavour derived from the starting material, and they are not sweetened. So far as the evidence before me goes, this sub-category is scarcely marketed in the UK. There is evidence, however, that some consumers are acquainted with it from skiing holidays in German-speaking countries and Scandinavia.
106. The second sub-category, sometimes referred to as "American schnapps", is a style of American origin which is around 20% ABV. These products are usually flavoured either with fruit or flavours such as peppermint. They are produced by a variety of processes, including using a spirit such as vodka to extract flavours from fruit. They are often sweetened by the addition of sugar.
107. The best-known product marketed in the UK as "schnapps", both in 2005 and since, is Diageo's ARCHERS product. This is a peach-flavoured 21% ABV American schnapps. It is also referred to as "peach schnapps". It is sold in a frosted bottle with a silver front label featuring a stylised picture of a peach. The back label suggests that it be drunk on its own over ice, mixed with various mixers or as the base for a cocktail. The back label on the example in evidence includes a cocktail recipe containing equal quantities of ARCHERS peach schnapps and SMIRNOFF vodka with cranberry juice and a dash of lime. ARCHERS is a successful product which currently sells around 170,000 cases a year. The evidence is that in bars it is ordered specifically by brand name, not by reference to "schnapps".
108. The success of ARCHERS has spawned a number of imitators. The most blatant of these is ORCHARDS peach schnapps, a 21.5% product made by CWF Ltd sold in get-up somewhat reminiscent of that of ARCHERS. ICB also sell a product of this type. During the trial Mr Burton noticed a range of schnapps marketed by a Spanish company under the name TEICHENNÉ in the bar of the hotel where he was staying. I was shown the peach schnapps from this range. This is a 20% ABV product sold in a frosted bottle with a picture of a peach on the front. Mr Burton's evidence was that this was a CN2206 product.
109. There are also a variety of other products marketed in the UK described as "schnapps". The one that featured most prominently in the evidence was GOLDSCHLÄGER, which is described as a "cinnamon schnapps liqueur". This is a clear 40% ABV drink containing flakes of gold leaf produced by an Italian company and distributed in the UK by Diageo. As the word "liqueur" suggests, it is sweetened. Thus it is a hybrid between a German schnapps and an American schnapps. It is marketed in a distinctive clear handbell-shaped bottle with a

gold-coloured embossed plastic seal and a gold-coloured cap.

#### *Liqueurs and speciality drinks*

110. At least in the trade, liqueurs and speciality drinks form a well-recognised, if diverse, category of alcoholic drinks which are generally displayed together in retail outlets and frequently grouped together in licensed premises as well.
111. The liqueurs and speciality drinks category includes various products which are based on spirits such as MALIBU (a 21% ABV mixture of white rum and coconut, formerly made by Diageo but now made by Pernod Ricard), BAILEYS (a 17% ABV mixture of Irish whiskey, cream and chocolate flavouring made by Diageo) and vodka-based liqueurs. It also includes American schnapps and four other products which featured in the evidence.
112. The first of these is TABOO. This is a range of coloured 14.9% ABV drinks that has been on the market in the UK since the 1980s. As the back labels state, they consist of a mixture of vodka, wine and fruit juices. As such they fall into the CN2206 classification. The front of the bottles bears the statement "A FUSION OF VODKA" in large font followed by an identification of the juices, e.g. "PINEAPPLE & TROPICAL JUICES" in smaller font. The bottle also bears a colour name, e.g. "BLUE", which refers to the colour produced by the individual juice mixture. The get-up of the drinks is nothing like a typical vodka. According to A.C. Nielsen, sales of TABOO in the year to 9 October 2004 amounted to just under 76,000 9l cases. Since then sales have steadily declined.
113. The second is CORKY'S VODKA SHOTS. This appears to be a similar range of products to TABOO with 15% ABV. I was shown an example called COLA CUBE, an orange coloured liquid described on the back label as "Cola Flavoured liqueur with Vodka". The range was launched in 2002. The only sales figures available are from 2007, when it is estimated that 240,000 litres were sold.
114. The third is PIMM'S. This is another range which is now produced by Diageo. The principal, and most popular, product in the range is PIMM'S NO. 1 CUP. This is a reddish-brown drink of 25% ABV containing gin which is flavoured with citrus fruit and spices. PIMM'S NO 3 CUP is a similar drink based on brandy flavoured with spices and orange peel, which is currently marketed as PIMM'S WINTER CUP. PIMM'S NO 6 CUP is a similar drink based on vodka, which is only produced in small quantities. The label bears the words "VODKA CUP" prominently below the name PIMM'S. The PIMM'S range is a well-established range with a distinct reputation.
115. The fourth product is SCOTSMAC. This is a 15% ABV product described reasonably prominently on the front label as "A blend of Mature British Wine and Fine Whisky". The get-up is reminiscent of a blended Scotch whisky. The product was available in 2005, but there is little evidence about it.

#### *Ready To Drink products*

116. Ready To Drink ("RTD") products, also sometimes referred to as Flavoured Alcoholic Beverages ("FABs"), are ready-mixed alcoholic drinks. RTDs are normally proprietary drinks containing 4-5% ABV which cannot easily be made at home. RTDs are to be distinguished from pre-mixed drinks, such as cans of gin and tonic typically sold at around 7-8% ABV, which can readily be made at home. The RTD sector was pioneered in the early 1990s by Bacardi-Martini Ltd, which launched a 5% ABV RTD called BACARDI BREEZER which contained BACARDI rum, fruit flavouring and carbonated water. (More recently, it has contained a mixture of fermented alcohol and rum.) This quickly became, and has remained, a very successful product. Other early RTDs were HOOPER'S HOOCH and TWO DOGS, the latter of which contained fermented alcohol. These were successful for a while, but then faded from popularity. These three products were followed by many other RTDs. The UK RTD market peaked in 2002, since when it has declined.
117. To begin with, RTDs were usually sold in 275ml size bottles, and were often drunk from the bottle. Initially, they were marketed primarily for consumption in bars and pubs, where they are typically kept in a refrigerator. Subsequently, however, they were also marketed through retail outlets as well. Pre-mixed drinks are marketed primarily for sale in retail outlets. In retail outlets both RTDs and pre-mixed drinks are displayed in separate sections to spirits. They are significantly cheaper than spirits or even products like VODKAT.
118. Diageo entered the RTD market in 1995 with SMIRNOFF MULE, a 5% ABV mixture of vodka, lime and ginger ale sold in copper coloured beer bottles with a plastic sleeve to evoke the classic Moscow Mule cocktail. It was not particularly successful and was discontinued in 2001. It was re-launched in 2007 and discontinued again in 2008. In 1999 Diageo launched SMIRNOFF ICE, a 5.5% ABV carbonated, cloudy mixture of vodka, citrus flavouring and water sold in a 275ml bottle. This was heavily advertised. It was an instantaneous success, and has remained very popular. Its alcoholic strength has varied over time and is currently 4% ABV. In 2002 Diageo launched SMIRNOFF BLACK ICE, a carbonated, clear mixture of vodka, lime flavouring and water. This is sold in very similar packaging to SMIRNOFF ICE except that the label is predominantly black rather than red. In 2003 Diageo introduced a 70cl version of SMIRNOFF ICE and in 2004 a 70cl version of



SMIRNOFF BLACK ICE. These are intended for consumption at home. Diageo also sell pre-mixes such as SMIRNOFF vodka and SCHWEPES tonic, a 7.5% ABV product sold in a 250ml can. Diageo's SMIRNOFF RTDs and pre-mixes are vodka-based products, and they are marketed and perceived as such.

119. Another RTD which featured in the evidence is a Bacardi-Martini product called MARTINI METZ or just METZ. This was introduced some time in the 1990s and continues to sell in moderate quantities. This is a 5.4% ABV product which is described as a "chill filtered schnapps based drink". It is sold in a mainly frosted 275 ml bottle with black get-up. It is not clear from the evidence precisely what the alcoholic component of this product is.

120. ICB sells a range of RTDs. At the beginning of 2005, RTD sales represented 44% of ICB's turnover. These include a number of vodka-based products, including one called RED RUSSIAN.

#### *VODKAT*

121. As stated above, VODKAT is not a vodka. It is a mixture of vodka and neutral fermented alcohol, which has an overall ABV of 22%. For most of the time since the product was launched, 48.2% of the alcohol contribution of VODKAT has come from vodka, with the rest stemming from the neutral fermented alcohol. From about April or May 2008 to about May 2009 just under 80% of the alcohol came from vodka, with the remainder neutral fermented alcohol. The neutral fermented alcohol is made from orange juice. After fermentation, the product is treated to remove constituents which contribute colour, taste and odour so as to leave something which is clear, tasteless and odourless. The neutral fermented alcohol costs ICB considerably more to purchase than does the vodka.

122. ICB's commercial rationale for developing and launching VODKAT was three-fold. First, RTD sales were declining. Secondly, ICB perceived that there was a gap in the market between RTDs and spirits in terms of both alcoholic strength and price which could be filled by a "light spirit" product. Thirdly and most importantly, ICB realised that, due to a favourable customs classification, a 22% ABV drink of this type would attract much less duty than spirits.

123. According to Her Majesty's Revenue and Customs' interpretation, based on case law of the European Court of Justice, VODKAT falls within CN2206. The description for the CN2206 category is as follows.

"Other fermented beverages (for example, cider, perry, mead); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included."

124. Under the Part IV of the Alcoholic Liquor Duties Act 1979, products of this kind which do not exceed 22% ABV attract duty at a rate of £285.33 per hectolitre of final product. By contrast, duty of £22.64 per litre of alcohol is payable on spirits such as vodka. Accordingly, the duty payable on a litre of VODKAT is £2.85, whereas £8.49 is payable on a litre of 37.5% ABV vodka.

125. The difference in duty means that VODKAT can be sold at a retail price which is lower than that of COD vodka, and yet provides a higher margin for both the manufacturer and the retailer. Mr Almond illustrated this point with some figures based on retail prices in Sainsbury's in the week ending 31 October 2009 according to data provided by A.C. Nielsen:

	VODKAT	SAINSBURY'S BASICS	SAINSBURY'S	GLEN'S	SMIRNOFF RED
Sainsbury's retail price (AC Nielsen)	4.76	6.98	8.50	9.10	12.75
VAT (15%)	0.62	0.91	1.11	1.19	1.66
Duty	2.00	5.94	5.94	5.94	5.94
Approximate materials figures (based on WS of Mr Burton)	0.59	0.39	0.39	0.39	0.39
Profit available for manufacturer, retailer, distributor and advertising	1.55	-0.26	1.06	1.58	4.76
Profit Margin (% of retail)					

selling price which is profit)	33%	N/A (sold at loss)	12%	17%	37%
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126.Mr Burton said in his witness statement that VODKAT was developed to display:

"a number of the key consumption characteristics (how the drink should look and taste) of white spirits; such as versatility, neutral taste and colour profile, the ability to mix well with a wide variety of non-alcoholic drinks and significant flexibility as a mixing base for common cocktails".

Although Mr Burton referred to VODKAT having the key consumption characteristics of "white spirits", in fact the only spirit which has all these characteristics is vodka.

127.Mr Burton also said that the main target demographic group of consumers to which VODKAT was aimed is 18-25 years old, female, C1 and C2. This is the group amongst which vodka consumption is highest. Mr Burton accepted that ICB anticipated that these consumers would use the product as the base for a mixed drink i.e. in the same way as vodka.

128.ICB wanted a brand name for the new product that reflected the fact that it contained vodka. From 1988 to 2002 ICB had sold a 4% ABV RTD called VODKATINI. According to Mr Burton, he and his colleagues were unaware that "vodkatini" is a dictionary term for a vodka martini until they were advised of this by their trade mark attorney when searching for a brand name for the new product. They decided to shorten VODKATINI to VODKAT and use that. Mr Burton accepted that the purpose of a name that started with VODKA- was to associate the product with vodka, although he maintained that this referred to the fact that the product contained vodka.

129.ICB bottled the product in a standard clear 70cl bottle of a kind commonly used for spirits with a red screw-top cap bearing the word VODKAT printed in white. The front label was derived from the existing label for ICB's RED RUSSIAN RTD. The front label combined the following features:

- i) the word VODKAT printed in black-shaded block white letters on a red background, with the O and A in a smaller font size and underscored with a wavy line;
- ii) the words "Pure Blend" printed in black script above a black crown device;
- iii) a silver lion superimposed on a red shield together with the words "Alcoholic Vodka Blend" printed in white script;
- iv) a red disc bordered in white bearing a white lion together with the words "Gustus Tracio Corroboro" printed in white script superimposed on the silver lion;
- v) a red banner bearing the wording "22% vol IMPERIAL 70cl e" printed in white.

130.The rear label stated:

"A premium alcoholic vodka blend that can be enjoyed with your favourite mixer, with or without ice."

131.Mr Burton accepted that the purpose of using the word "vodka" in the description was to associate the product with vodka, although again he maintained that this referred to the fact that the product contained vodka. When I asked him why ICB did not describe it as "a blend of vodka with fermented alcohol", he said that this was because the public would not know what neutral fermented alcohol was, and therefore such a description would be confusing.

132.Mr Burton also accepted that the word "imperial" was widely used on vodkas, although not exclusively vodkas. He did not accept that the get-up was otherwise reminiscent of vodka. To my eyes, having seen quite a large number of vodka bottles at trial, it is. This is particularly so with regard to the presentation of VODKAT in white letters on a red background, which is quite a common feature amongst vodka brands (including SMIRNOFF).

133.The first trade customer that ICB approached to stock VODKAT was Iceland, because Iceland had the largest percentage of ICB's target consumers. Iceland agreed to sell the product at about the end of April 2005, and it went on sale in mid May 2005. Shortly afterwards, a number of ICB's wholesaler/cash & carry customers started selling the product. By the end of 2005 ICB had sold over 600,000 bottles of VODKAT through 56

accounts. In February 2006 ICB launched the product in 20cl, 35cl and 1l bottles. Since then the number of trade outlets selling the product has steadily risen. ICB does not market the product to the on-trade.

134. In November 2006 VODKAT was advertised on television and on posters. The advertising featured members of the public referred to as "Vodkats" who had been recruited through a prior media campaign. Subsequently VODKAT has been extensively advertised in various media, in particular by means of perimeter boards at international, Premier League and Championship football matches. The advertising has not contained any description of the product, save to the extent that the description on the bottle label is visible if and when the bottle is depicted. Indeed, the perimeter boards only feature the brand name. By August 2009 ICB had spent approximately £6.3 million on advertising and promotion of VODKAT products.
135. As noted above, VODKAT has proved successful. According to A.C. Nielsen's figures, it was 9<sup>th</sup> in the top 10 liqueurs and specialities for the year ended December 2006, 6<sup>th</sup> in the top 10 liqueurs and specialities for the years ended June 2007 and June 2008 and 5<sup>th</sup> in the top 10 liqueurs and specialities for the year ended June 2009.

*Changes to the get-up of VODKAT*

136. Since the product was launched, the get-up has changed a number of times. The first change, which was made in February 2006, was to remove the words "alcoholic vodka blend" from the labels. On the front label, those words were replaced with the words "Imperial Superior". On the rear label, they were replaced with the words "alcoholic spirit drink". This change was made following a complaint from ICB's local trading standards authority, North Yorkshire Trading Standards ("NYTS"), that use of the word "vodka" as part of the description was not permitted under the Old Regulation. According to Mr Burton, NYTS did not appreciate at the time that the product was a CN2206 product, and hence was not covered by the Old Regulation. The new labelling was approved by NYTS. Mr Burton accepted, however, that in hindsight the wording on the new labels could have been better, and in particular that there was nothing on the front label to indicate that the product was not entirely composed of vodka.
137. The second change, which was made in May 2007, was to change the wording on the front label from "Imperial Superior" to "Alcoholic Spirit Drink". This change was made after both the GVA and the Department for the Environment, Food and Rural Affairs (which had been contacted by the GVA) had told NYTS that they were very unhappy that NYTS had not required ICB to change the name VODKAT. They requested opinions from the Food Standards Agency and the LACoRS (Local Authority Coordinators of Regulatory Services) Food Labelling Panel. The Panel expressed a range of views about the labelling of VODKAT from clearly misleading to possibly misleading. The Panel were agreed, however, that the description of the product should be placed on the front label. NYTS duly communicated this requirement to ICB.
138. The third change, which was made in April 2008, was to change the wording on the front label from "Alcoholic Spirit Drink" to "Classic Schnapps Drink" and the wording on the back label to "Classic Schnapps" and (in smaller print) "a premium mixed alcohol drink". A photograph of the front of this version of the product is annexed to this judgment as Annex I. This change came about as a result of further pressure from DEFRA through NYTS, during the course of which NYTS realised that the product was not covered by the Old Regulation and therefore decreed that it could not be described as a "spirit drink".
139. I shall refer to the four versions of the get-up used by ICB prior to August 2009 collectively as "the Old Get-Up".
140. The fourth change to the get-up, which was made in August 2009, was much more radical. This involved replacing the entire previous get-up with a new one ("the New Get-Up"). This features the word VOD KAT printed in red with white shadowing presented vertically and with a black lion device separating VOD and KAT. Underneath this is a red lozenge with the word "SCHNAPPS" printed in white and below that "22% vol". The interior surface of the rear label is printed with a silver lion device on a black background that shows through the bottle when viewed from the front. The wording on the exterior of the back label is the same as on the previous version of the product. The back label also bears the prominent statement "Great New Look! Same Great Taste!". A photograph of the front of this version of the product is annexed to this judgment as Annex II. Mr Burton's evidence was that the New Get-Up was adopted partly as a normal periodic brand refreshment exercise and partly to try and meet Diageo's concerns about VODKAT.

*VODKAT CLASSICS and VODKAT SMOOTHIES*

141. In August 2007 ICB started extending the VODKAT range, initially with raspberry and citron flavoured versions marketed under the name VODKAT CLASSICS. Subsequently other flavours have been launched. In April 2008 ICB launched VODKAT SMOOTHIES, a 12% ABV combination of VODKAT with mixed fruit juices.

*BRANDX, G&N, RUMMY and SCOTCHED*

142. Following the launch of VODKAT, ICB have launched four other "light spirits", all of which are 22% ABV CN2206 products:

i) BRANDX. This product is an amber drink sold in get-up which is extremely reminiscent of French brandy. The bottle is a conventional brandy shape. The labelling is navy and gold. The front of the bottle bears the words "NAPOLEON STYLE" in two places, "XXX" and "Trés Superior" together with a picture of someone who may or may not be Napoleon Bonaparte. In small print it states "mixed alcoholic drink". The rear label states "a premium mixed alcohol drink".

ii) G&N. The brand name includes a dot over the "&". This product is a clear drink sold in get-up which is reminiscent of London gin. As originally launched, the front label bore the words "London Dry" and, in smaller print, "a premium quality gin blend". The rear label stated "a premium alcoholic gin blend to be enjoyed with tonic, bitter lemon or your favourite mixer".

iii) RUMMY. This product is a clear drink sold in get-up which is reminiscent of white rum. The front label bears the words "Exceptional Caribbean blend" and "a taste of the islands" together with a picture of a three-masted sailing ship and a number of Caribbean nations' flags. As launched, the rear label stated "an alcoholic white rum blend".

iv) SCOTCHED. This product was an amber drink sold in get-up which was reminiscent of Scotch whisky. The brand name was printed on the front label with the ED in smaller letters than the SCOTCH and with a wavy line over them. The front label also bore a thistle device with the words "GOLDEN THISTLE" and the words "HIGHLAND BLEND" and "A Taste of the Glens".

143. The SWA complained to ICB about SCOTCHED, and Sandwell Council issued a caution. As a result, ICB withdrew the product from the market. Mr Burton told me that ICB realised they had taken a step too far with this product. The other products have not been withdrawn, but the labels of G&N and RUMMY have been modified to avoid reference to "gin" and "rum".

#### *Products inspired by VODKAT*

144. Since the launch of VODKAT, and clearly inspired by its success, a number of other producers have introduced products of a similar kind. These include VODKOVA, a 22% ABV product marketed by Halewood in a red get-up reminiscent of vodka. The front label includes the words "Premium" and "Imperial Blend". The back label states in relatively small print that the product is "a versatile blend of premium fermented alcohol with vodka". Other similar products are VODSKA, VOSHKKA and IMPERIAL VOLASCHKA. The GVA or Diageo have complained to the manufacturers of all of these products, and it appears that VODSKA and VOSHKKA have been withdrawn.

#### *The genesis of these proceedings*

145. It appears that VODKAT had come to the attention of the GVA by late 2005. The GVA considered that the product was objectionable, and over the succeeding months and years it made a number of complaints to various bodies. The first complaint was to Salisbury Trading Standards in late 2005 or early 2006. This was referred to NYTS, as ICB's home authority, but NYTS took no action, it appears because there had been no consumer complaints. Subsequently a number of other complaints were made by the GVA or its members, both to trading standards offices and to DEFRA, the FSA and the LACoRs Panel. Although, as related above, NYTS required ICB to change the wording on the labels of the product more than once as a result of such complaints, it did not require ICB either to change the brand name or to make other changes to the get-up. Again, it appears that this was because of the absence of consumer complaints.

146. On 16 April 2008 the GVA's solicitors wrote a letter before action to ICB alleging passing off. On 18 July 2008 Diageo commenced these proceedings. Initially Diageo alleged breach of the New Regulation as well as passing off, but subsequently the former complaint was abandoned. An application for summary judgment was abandoned as was a counterclaim by ICB against Diageo for breach of competition law. I presume that these procedural developments were responsible for, or at least contributed to, the case only coming on for trial in December 2009.

147. The upshot is that by the time of the trial VODKAT had been on the market for over 4½ years, and over 13 million bottles of it had been sold. As counsel for ICB submitted, and counsel for Diageo accepted, this is important when one comes to assess the likelihood of confusion. If confusion was likely, one would expect there to be evidence of actual confusion.

#### Goodwill

148. The first main issue which I have to decide is whether the term "vodka" denotes a class of goods with a reputation and hence a protectible goodwill. This can be broken down into two questions. First, does it denote a clearly defined class of goods? Secondly, does that class of goods have a reputation giving rise to goodwill amongst a significant section of the public? These questions must be answered as at April 2005.

*Does "vodka" denote a clearly defined class of goods?*

149. In my judgment the evidence establishes that the term "vodka" does denote a clearly defined class of goods. In April 2005 that class of goods was defined by the provisions of the Old Regulation set out in paragraphs 66-67 above. (Now it is defined by the provisions of the New Regulation set out in paragraphs 72-74 above. Although there are slight differences between the two Regulations, in my view they are not material in this context.) The overwhelming proportion of vodka products sold in this country from at least 1990 onwards has complied with that definition, and an even more overwhelming proportion of the quantity of vodka sold has complied.

150. ICB point out that the definitions contained in the Regulations are broad, and in particular that they do not limit the starting materials from which the product may be made or the country of manufacture. This is true, but in my view it is immaterial. The breadth of the class does not prevent it from being clearly defined.

151. It is also true that there have been some very minor exceptions. As discussed above, the exceptions are mainly flavoured vodkas. In my judgment the existence of these very minor exceptions does not detract from the existence, or definiteness, of the class.

152. It is also true that various products have been sold which contain, and are stated to contain, vodka, but which are not themselves vodka. The two principal categories of such products are vodka-containing RTDs and vodka-based liqueurs. RTDs form a well-established category of product, which is well understood by the public. On the whole, vodka-containing RTDs are marketed in a manner which clearly informs the consumer that they contain vodka rather than being vodka. In my view, the only possible exception to this in evidence is SMIRNOFF BLACK ICE in a 70cl bottle, which post-dates 2005. Even in that case, confusion is unlikely since SMIRNOFF ICE and SMIRNOFF BLACK ICE are well known to be RTDs. Vodka-based liqueurs are a very minor category. Again, they are marketed in a manner which informs the consumer that they contain, or are made from, vodka rather than being vodka. In my judgment neither of these categories detract from the existence, or definiteness, of the class of products denoted by the term "vodka".

153. The same goes for TABOO. It could be said that the front label of this product is slightly misleading in emphasising the presence of vodka and not mentioning the presence of wine. Nevertheless, the product is clearly one which contains vodka, and not vodka. Neither the brand name nor the get-up suggest that it is vodka. There is no evidence before me that it has been confused with vodka. In any event, it was not selling in significant quantities in 2005. The position with regard to CORKY'S is similar.

154. The product on which counsel for ICB primarily relied in his closing submissions as negating the existence of a clearly defined class was TOLSTOY. As noted above, he submitted that this would be confused for vodka. As I have said, I accept this. In my judgment this does not mean that "vodka" does not denote a clearly defined class of products. TOLSTOY has not been described as "vodka" since July 1990. The fact that it has been marketed in a manner which means that it will be mistaken by some consumers for a member of the class, when in fact it is not, does not affect the definition of the class. This is particularly so having regard to the comparatively small scale on which it has been sold. The sales figures for the year to October 2004 represent little more than 1% of vodka sales in that period.

*Does that class of goods have a reputation giving rise to goodwill?*

155. In my judgment the evidence clearly establishes that the alcohol-consuming public in the UK, and in particular the vodka-consuming public, have come to regard the term "vodka" as denoting a particular class of alcoholic beverage. They may not know precisely what it is, what it is made from or where it is made, but they use the term "vodka" to get what they want and to distinguish it from other similar products, and in particular from other spirits such as gin, rum and whisky. As Goulding J said of advocaat, vodka has acquired a reputation as "a drink with recognisable qualities of appearance, taste, strength and satisfaction".

156. The evidence of both the experts and the trade witnesses was that vodka was generally perceived by consumers to be a clear, tasteless, distilled, high strength spirit. There is a considerable body of other evidence to support this, including a survey carried out by ICB which I shall describe below.

157. ICB rely on the fact that a key feature of vodka is that it is essentially tasteless, and contend that it is a mere "alcohol delivery system". I agree with Diageo that that does no more than confirm an important aspect of the reputation of vodka, namely that it can alcoholically enhance any chosen mixer without detracting from the taste of the mixer.

158. Accordingly, I have no hesitation in concluding that the term "vodka" does have a reputation giving rise to a protectible goodwill.

### *ICB's survey*

159. ICB carried out a survey which was designed to obtain evidence as to the perception of the relevant consumers with regard to vodka. Quite properly, ICB first carried out a pilot survey and then applied to the court for permission to carry out and adduce in evidence a full-scale survey. They sought Diageo's consent to this. Diageo's solicitors replied:

"We do not believe that the survey of the kind you propose will serve any useful purpose. Even if you disagree with us on this point, we do not see that it can establish more than the public perceive vodka to be a tasteless, distilled, high strength, clear spirit but have no clear view as to precisely what it is made of or precisely how it is distilled. These are all matters that our clients are prepared to admit."

160. ICB's solicitors' response to this was that the survey was relevant to the issue of whether or not vodka was a clearly defined class of goods giving rise to a protectible goodwill. Diageo's solicitors reiterated that they did not think the survey would serve a useful purpose, and therefore did not consent to it, but stated that they would not oppose it.

161. At trial Diageo advanced a number of specific criticisms of the survey that had not been advanced in the correspondence I have just referred to. Counsel for ICB submitted that Diageo were estopped from advancing such criticisms as a result of their failure to voice them on the application. I do not accept that. The correspondence contains no express or implied representation by Diageo that no criticisms of the survey will be advanced at trial. If anything, the implication is the opposite, since Diageo's solicitors twice stated that they did not think that the survey would serve a useful purpose. That said, I think it would have been more helpful if these criticisms had been articulated at that stage. One of the main reasons for requiring parties to seek permission to carry out a survey is so that consideration can be given to the probative value and cost of the evidence before the bulk of the money is spent. That objective may be defeated if the opposing party saves its criticisms for trial, since then it is too late to modify the survey in response.

162. The first criticism concerns the sample of respondents. This was selected to be representative of persons who had consumed alcohol at least once in the preceding year except those who only drank wine, beer or cider. It was not limited to persons who had ever drunk vodka, let alone regular vodka drinkers. In my judgment this criticism is well-founded, since it means that the sample was not properly representative of the relevant consumers. It does not mean that the survey has no weight, but it means that the survey must be treated with caution.

163. The second criticism concerns the way in which the data was recorded and analysed. This did not permit consideration of sub-samples of the overall sample of respondents, and in particular 18-25 year olds, let alone 18-25 year old female respondents. To my mind this is not a significant criticism. The survey would no doubt have been more useful had that been possible, but since vodka drinkers are not confined to the 18-25 age group, let alone 18-25 year old women, it was not essential to enable that group to be selected.

164. The third criticism is that the questions were not all well drafted. I agree with this. The most obvious question "what is 'vodka'?" was not asked. The first substantive question was "what does 'vodka' mean to you?". This is a question that can be interpreted in a number of different ways. Unsurprisingly, it elicited a wide range of answers. The second substantive question was "what do you think is unique about 'vodka'?". Again, this question can be understood in more than one way. One third of the sample were unable to give any answer at all. There were then a series of more useful questions such as "what does 'vodka' taste of?", but even so not all of these were well drafted.

165. In my judgment the survey shows little more than Diageo stated in correspondence they were prepared to admit. First, respondents found the taste of vodka hard to describe. 34% said "nothing" or "tasteless", while 31% used words like "fire", "sour", "sharp" or "nail polish". Secondly, only 38% of the sample could answer the question "what is 'vodka' made of?". Of those who did reply, however, most identified potatoes and/or grains. Thirdly, the great majority of the two-thirds of respondents who answered the question as to how it was made said by distilling or in a distillery. Fourthly, a substantial majority of respondents thought that vodka was made in Russia, with substantial minorities identifying Poland and Eastern European. 22% said it came from a variety of countries. Fifthly, 51% thought that vodka has an alcoholic strength in the range of 30% and over, with 31% saying 34-40%, whereas only 12% thought it had a strength of 30% or less. The upshot is to confirm that vodka is generally perceived as a tasteless, distilled high strength spirit, but that the general alcohol-drinking public are not precise as to what it is made from, how it is made, where it is made or its alcoholic strength. This does not detract from the conclusion that it has a reputation and goodwill as stated above.

### Misrepresentation

166. The second main issue I have to decide is whether ICB's marketing of VODKAT has amounted to a

misrepresentation that it is vodka. On this issue Diageo put their claim in three alternative ways. First, they say that the name VODKAT in and of itself amounts to a misrepresentation. Secondly, they say that the name VODKAT amounts to a misrepresentation in the absence of a clear description of the product. Thirdly, they say that the name VODKAT amounts to a misrepresentation in the absence of a clear description of the product and when used in conjunction with a get-up reminiscent of vodka. The third way of putting the case is particularly directed at the Old Get-Up; but Diageo argue that the New Get-Up, although less objectionable than the Old Get-Up, does not suffice to prevent misrepresentation having regard to the previous history.

*My assessment*

167. In my opinion the name VODKAT plainly suggests that the product either is vodka or a version of vodka or contains or is made from vodka. Given that VODKAT does contain vodka, I consider that it would probably have been possible for ICB to use the name without misrepresentation if sufficient care had been taken clearly to inform consumers what the product was and to differentiate it from vodka. Thus if (i) the product had been prominently described on the front label as "a mixture of fermented alcohol and vodka", (ii) the product had been presented in a get-up which was not in any way reminiscent of vodka, (iii) ICB had consistently instructed the trade to display the product amongst the liqueurs and speciality drinks and well away from the vodkas and (iv) the product had been advertised and promoted in a manner which educated the public as to what the product was, then I think it probable (although not certain) that no significant confusion would have been caused. In fact, however, none of these things happened. On the contrary: (i) the product was not described in a clear and comprehensible way at least in the first three versions of the Old Get-Up (I shall consider the impact of its description as "schnapps" separately); (ii) the Old Get-Up was reminiscent of vodka, particularly in its presentation of VODKAT in white letters against a red background and the prominent use of the word "imperial" (again I shall consider the impact of the New Get-Up separately); (iii) no such instructions were issued to the trade (although since these proceedings were launched ICB have suggested to some retailers that the product should be moved); and (iv) the product was advertised and promoted in a way which failed to educate the public as to what it was.

168. ICB contend that VODKAT has always been adequately differentiated from vodka by (i) the fact that it was not described as vodka but in different ways, (ii) the fact it was labelled as "22% vol" and (iii) its low price. I am unimpressed with the first point for the reasons given above. As to the second, I consider that many purchasers would not notice this. Of those who did notice, a proportion would not realise that this meant the product was of lower strength than vodka. Of those who did realise that, a proportion would conclude that the product was a weaker version of vodka. As to the price, it is true to say that VODKAT is usually retailed at a price appreciably below even COD vodkas. This is not always the case, however. Particularly in convenience stores, it is often sold at prices similar to those of cheaper vodkas. Even where it is the case, the differential between VODKAT and the COD vodka is generally about the same as the differential between the COD vodka and the next most expensive brand. I accept that this will alert some consumers who might otherwise be deceived to the fact that VODKAT could not be vodka, but I do not accept that it will alert all such consumers. I consider that many such consumers would believe that VODKAT was a bargain line of some kind. The Sainsbury's customer referred to in paragraph 185 below is an example of this, as are the four members of the public whose evidence is considered in paragraphs 213-217 below.

169. I have no hesitation in finding that the marketing of VODKAT in the manner described above was calculated to deceive a substantial number of members of the public into believing that the product is vodka. I also consider that an additional substantial section of the public is likely to have been deceived into believing that the product is a weaker version of vodka. Accordingly, I conclude that the second way in which Diageo put their case is made out, and therefore also the third way.

170. I do not regard this as a marginal case. Nevertheless, the conclusions I have expressed in the preceding paragraph are supported by a considerable body of evidence which in my judgment establishes not merely a likelihood of confusion, but also actual confusion, amongst a substantial number of members of the public. In the following section of this judgment I shall survey much of this evidence, but my account is not exhaustive.

*Evidence of likelihood of confusion and of actual confusion*

171. Advertising etc. In early July 2006 an advertising agency called Poulters, which had got wind that ICB were planning an advertising campaign for VODKAT, made an unsolicited speculative pitch for the business. On 7 July 2006 Poulters' business development director emailed ICB a creative proposal, the first page of which said:

"Vodkat is not a vodka [22% not 37%] – it is a vodka blend but is used just like  
Vodka [ie mixers etc].

...

The decline of the FAB market but rise in vodka consumption offers ICB an obvious opportunity with Vodkat."

This suggests that the author thought that VODKAT was "a vodka blend", in context it would appear a weaker version of vodka.

172. Subsequently an agency called fuse8, which I understand to be related to Poulterers in some way, described its work on the campaign on its website in the following terms:

"To give an unknown vodka maximum exposure on a limited budget, designers from our branding and advertising agency Industry devised a unique campaign that revolved around the search for real people, rather than models to represent a brand. A national PR campaign was set up and eventually 15 'Vodkats' were released on the world through national PR campaign, including TV advertising.

**Results** On the creative work alone Vodkat was stocked in Sainsbury's at the expense of their own label vodka. The campaign prompted a remarkable 1606% increase in sales of Vodkat (Nielsen MAT data to December 30<sup>th</sup> 2006)."

I have no reason to believe that the people who worked on the campaign were confused by the time that they actually did the work, but this clearly indicates that the person who wrote this copy thought that VODKAT was a vodka.

173. The advertising campaign gave rise to complaints to the Advertising Standards Authority. There were two types of complaint: first, that the advertisements suggested that the product could contribute to popularity, attractiveness or confidence; and secondly, that the models in the television advertisements were, or appeared to be, under 25. On 21 February 2007 the ASA issued an adjudication upholding the first type of complaint and dismissing the second which described the advertisements complained of as "A TV ad and four posters for vodka". It is clear that the ASA adjudicators believed that VODKAT was vodka.

174. Journalists. On about 30 October 2006 *The Grocer* published an article headed "Vodka-style spirit with a lower abv". The first three paragraphs read:

"A vodka-style product has landed on multiples' shelves to offer drinkers an entry-level spirit with lower alcohol and price.

Vodkat is described by producer InterContinental Brands as a premium spirit mix that can be enjoyed with ice or with mixers.

The brand has a lower alcoholic strength than vodka, at 22% abv, and so can only be described as a vodka-style product."

In my view the impression this conveys is that VODKAT is a weaker version of vodka. It is not clear to me whether this impression derives from a press release issued by ICB or whether it is the journalist's interpretation. That does not alter the impact on the reader.

175. The ASA adjudication was reported by Valerie Elliott in *TimesOnline* (it is not clear whether or not the report was included in the print edition of *The Times*), by Daniel Farey-Jones in *Brand Republic* and by Branwell Johnson in *mad.co.uk* on 21 February 2007. All three reports described VODKAT as "vodka". Clearly this description was taken from the adjudication; but none of the journalists realised that it was wrong.

176. On 14 July 2008 the *Morning Advertiser* published an article by Ewan Turney, the first sentence of which read:

"ICB is to spend £2m on perimeter advertising at football grounds to promote its Vodkat vodka."

Clearly Mr Turney was under the impression that VODKAT was a vodka.

177. On 19 June 2009 *Off Licence News* published a "Growth Brands Report Spirits" about vodka sales trends headed "Vodka sets the Standards". This included the following passage:



"It's telling that four of the seven fastest growing spirits brands are vodkas, or a vodka liqueur in the case of Vodkat.

Since vodka overtook blended Scotch whisky to become the UK's bestselling spirit in the off-trade for the first time last June, the category continues to race ahead.

Intercontinental Brands' Vodkat has grown on the back of this strong category growth, with sales up 43% to £22 million. Similarly, Halewood International's Red Square has registered a 26% uplift, also to £22 million."

It appears from this that the journalist thought that Vodkat was a spirit, part of the vodka category and hence a version of vodka. Certainly that is the impression conveyed to the reader.

178. Supermarkets. There is evidence that some supermarket employees have been confused about VODKAT. Even if the staff were not confused, supermarkets have displayed VODKAT in a manner which will contribute to the likelihood of confusion, as result of ICB's failure to instruct them to display it in a manner which reduces the likelihood of confusion.
179. *Tesco*. Tesco started selling VODKAT in mid October 2007. It decided to categorise VODKAT in the vodka merchandising group for its corporate product file and ranging systems. Mr Gale was not involved in this decision, and he had not been able to speak to either of the two persons whose decision it might have been. He was therefore unable to explain the basis for it, although he said that the relevant senior buying manager had told him that the manager did not believe that VODKAT was a vodka. In the absence of an alternative explanation, it would seem likely that the person who took the decision did think that VODKAT was vodka or at least a version of vodka.
180. Mr Gale said that it was a result of this categorisation that Tesco's website featured VODKAT in the vodka section, which it did until July 2008 when ICB contacted Tesco about this (Tesco not having responded to an earlier complaint on behalf of Diageo). As counsel for Diageo submitted, it is striking that no-one in Tesco noticed the mistake. In any event, it would plainly have been likely to lead online purchasers to think that VODKAT was vodka.
181. Furthermore, VODKAT was described as "vodka" on Tesco till receipts during the same period. Mr Gale was unable to provide any explanation for this. The inference is irresistible that the person responsible was under the impression that VODKAT was vodka. Moreover, any purchaser looking at such till receipts would have been led to believe that VODKAT was vodka.
182. Unsurprisingly given what I have said above, Tesco displayed VODKAT amongst the vodkas in its stores. By way of example, a photograph of Tesco's Haverford West store in May 2008 shows VODKAT shelved between Tesco own-brand vodka and Tesco "value" vodka. What is more surprising is that this has continued even after the website and till receipts were corrected. Thus photographs taken at Tesco's Ash Hill Drive, Pinner store on 28 May 2009, 6 October 2009 and at the end of November 2009 show VODKAT stocked amongst the vodkas, in two out of three cases next to the Tesco value vodka. Even during the trial, on 7 December 2009, VODKAT was being displayed amongst the vodkas in Tesco's Great Dunmow store. What is particularly striking about this last photograph is that in this case VODKAT is not merely displayed between GLEN's and RED SQUARE (both inexpensive brands of vodka), but right in the centre of the vodka display with vodkas above and below it as well to either side. I am driven to conclude that the merchandising manager responsible for this display was under the impression that VODKAT was a vodka or at least a version of vodka. In any event, such merchandising is bound to foster the impression that VODKAT is a vodka.
183. *Sainsbury's*. Sainsbury's started selling VODKAT in early October 2006. Sainsbury's seems to have treated VODKAT in a similar way to Tesco's, except that there is no evidence that Sainsbury's ever described VODKAT as vodka on till receipts. The Sainsbury's website did list VODKAT in the vodka section. Again, this suggests that the person responsible thought that VODKAT was a vodka, or at least a weaker version of vodka.
184. Likewise there is evidence of Sainsbury's displaying VODKAT amongst the vodkas, sometimes next to Sainsbury's "basics" vodka. Examples are Sainsbury's Emerson Green, Streatham Common and Farnley Local stores in February, March and June 2008 respectively. In the case of Streatham Common, VODKAT was displayed below a sign that said "vodka".
185. Mr Almond first saw VODKAT when he was inspecting the spirits display in a Sainsbury's store. VODKAT was displayed amongst the vodkas and priced at £4.99. As he was standing there, he noticed a lady who had been browsing the vodkas take a bottle of VODKAT down and put it into her trolley. She then picked it up, took it to an assistant and asked if it was really £4.99. On being told that it was, she put it back in her trolley.

- Mr Almond then went up to the lady and asked if she knew that it was half-strength vodka. She replied that she did not know that, and replaced it with a bottle of Sainsbury's own label vodka. I am satisfied that the lady in question had thought that VODKAT was vodka, a belief to which the merchandising no doubt contributed.
186. On 10 June 2008 Mr Grek attended the Sainsbury's Local shop in Farnley, Leeds. VODKAT was displayed behind the counter. He asked the assistant for "a bottle of your cheapest vodka" to go with a bottle of tonic he had picked up from an open shelf. The assistant picked up a 70cl bottle of VODKAT and said "vodka tonic hey!", whereupon Mr Grek paid and left.
187. Mr Grek's purchase from Sainsbury's Local in Farnley was one of seven trap purchases which he carried out on 30 April, 1 May, 7 May, 3 June and 10 June 2008 upon which Diageo rely as evidence of confusion. Counsel for ICB criticised these trap purchases on four main grounds, which I will consider in turn.
188. First, counsel criticised the question that was asked, usually "can I have a bottle of your cheapest vodka please?" or words to the same effect. In my view this is a perfectly fair question. Counsel suggested that no normal shopper would ask such a question. I disagree: as Mr Patel's evidence confirms, it is a perfectly normal question. Counsel also pointed out that the question was unclear unless Mr Grek specified (as he did on one occasion, but usually did not) what size of bottle he had in mind. I accept that the question was imprecise, but consumers frequently do ask imprecise questions when shopping. I do not consider that the imprecision was material. The assistant might assume that a 70cl bottle was wanted, or a 20cl bottle, but it would not affect the result for present purposes. Nor would it affect the result if the assistant spotted the ambiguity and asked what size of bottle was wanted.
189. Secondly, counsel suggested that Mr Grek had pointed, nodded or otherwise indicated to the assistants that he wanted VODKAT. Mr Grek denied this, as did Mr Barlow who accompanied him on a number of occasions. I accept those denials. It is true that on three occasions Mr Grek, not having been offered VODKAT, asked a further question referring specifically to VODKAT. These occasions were clearly and candidly recorded in Mr Grek's attendance notes, however, and Diageo did not rely upon the responses to those questions. I agree that it would have been better if those questions had not been asked, but I do not accept that the fact that they were asked casts any doubt on the propriety of Mr Grek's conduct on the occasions relied on by Diageo. Equally, it is true that in the case of the Sainsbury's Local in Farnley Mr Grek went to the counter twice, as his attendance note recorded, because on the first occasion he could not see VODKAT on display, even though Mr Barlow had visited the shop shortly before and told him that it was stocked there. I accept Mr Grek's explanation that he wanted to be sure that the store did sell VODKAT so as not to waste his clients' money.
190. Thirdly, counsel submitted that the evidence was in any event of little probative value because the shopkeepers were not immediately notified of the incidents. Mr Willoughby explained that the reason for this was so as not to embarrass them in front of their customers. The retailers whom Mr Grek and Mr Barlow visited on 3 and 10 June 2008 were, however, promptly notified by Diageo's solicitors by letters dated 12 June 2008. Furthermore, ICB was given notice of a number of the trap purchases relied upon when Diageo's Particulars of Claim was served on 5 August 2008. The annexes to the Particulars of Claim included four of Mr Grek's attendance notes, including the one relating to the Sainsbury's Local in Farnley. Thus in those cases ICB could have investigated the incidents only about two months after they had occurred. Furthermore, on 19 January 2009 Diageo disclosed to ICB five other attendance notes of Mr Grek, including two relating to incidents upon which Diageo do not rely. ICB did not send anyone to visit the premises in question until Mr Black visited them between 4 September and 6 October 2009. In the case of the four incidents originally relied on, this was over a year after the attendance notes had been served. Moreover, at no stage did ICB attempt to repeat the experiment themselves to see if they got the same or different results. In the circumstances of this case I consider that the trap purchases do have probative value. This is not the kind of case where a retailer is being accused of fraudulent conduct. Nor is it the kind of case where it was critical to fix the conversation in the shop assistant's mind because of the likelihood of dispute as to what had actually happened. In my view ICB had an adequate opportunity to investigate and test the evidence and to adduce contrary evidence. Above all, the evidence is consistent with that available from a wide range of other sources.
191. Fourthly, counsel criticised the selection of the outlets on the ground that many of them were owned or operated by retailers of Asian extraction who were or might be teetotal. I am unimpressed by this. First, it does not appear from the evidence that all of the staff in question were of Asian extraction. Secondly, still less does it appear that they were all teetotal. Thirdly, I cannot see that it is significant even if they were teetotal, since they were still people accustomed to buying and selling alcohol.
192. *Iceland*. In a number of its stores Iceland has displayed VODKAT next to or below GLEN'S vodka. The only step taken by Iceland to differentiate the two, apart from price, is that it describes the latter as "Glen's vodka" on shelf edge labels whereas the former is simply described as "Vodkat". In my view many consumers will not read the shelf edge labels; even if they do, they will not notice that VODKAT is not described as a vodka; and even if they do notice, they will not appreciate the significance of that fact.

193. Mr Broadhurst of Iceland accepted that the uninformed purchaser could think that VODKAT was vodka. This is borne out by Iceland's consumer complaints file in relation to VODKAT, which Mr Broadhurst exhibited to his witness statement. This contains three explicit complaints that the product is deceptive, a further seven complaints in respect of which I consider it is clear that the customer thought that VODKAT was vodka (e.g. "vodka had a nasty taste to it, not same as normal") and a further two in respect of which I consider that it is probable that the customer thought that VODKAT was vodka.
194. *Budgens*. In October 2008 Budgens were displaying VODKAT between genuine vodkas and were describing the product on a prominent sign as "Vodkat Vodka". The person who was responsible for this was clearly confused, and the description would plainly cause confusion amongst consumers.
195. *Scotmid Co-op*. In July 2009 Scotmid Co-Op in Edinburgh was describing VODKAT as "blended vodka" on signs and labels and as "vodka" on till receipts. Again, the person who was responsible for this was clearly confused, and the description would plainly cause confusion amongst consumers.
196. *Asda*. In August 2009 Asda was displaying VODKAT alongside vodkas.
197. Cash & carry outlets. The position with regard to cash & carry outlets is similar to that in respect of supermarkets.
198. *Booker*. Ms Matthews' evidence was that VODKAT is generally displayed with vodka in all Booker stores. A striking example of this is a photograph taken in the Cambridge store on 14 June 2008 which shows what I take to be half-cases of 35cl bottles shrink-wrapped together. VODKAT is displayed between GLEN'S and VLADIVAR vodkas, with another brand below. The VODKAT bottles are contained in a cardboard tray which conceals the lower half of the label. As a result, the description of the product on that part of the label is not visible. So far as can be seen from the photograph, the tray does not bear a description of the product.
199. Furthermore, in response to a search for "vodka", the Booker website displayed a "suggestion" pointing to VODKAT and VODKOVA. Ms Matthews accepted that it was a fair inference from this that the programmer of the website thought that a customer wishing to purchase vodka would be interested in VODKAT. She also accepted that the website does not tell a would-be customer where the alcohol in VODKAT comes from.
200. There is also in evidence a Booker promotional leaflet dating from around February 2008 containing a list of "Top 10 Liqueurs and Speciality Drinks" in which the sixth entry is "Vodkat Vodka". This list, and the description of VODKAT as vodka, emanated from A.C. Nielsen. Thus it appears that both someone at Booker and someone at A.C. Nielsen were confused. Moreover, the leaflet would be likely to confuse readers.
201. *Makro*. In June 2008 Makro was stocking boxes of VODKAT amongst the vodkas, and individual bottles were displayed next to bottles of vodka. Furthermore, Makro displayed a product information sheet reading as follows:

"Product category Spirits : Vodka

Item description Vodkat Vodka Blend

...

Palate All the taste of Vodka at a much lower abv

...

- Vodkat is the number one mid strength vodka brand in the UK

...

- Maximise your profits & give you customer promotions they want using Vodkat in place of full strength vodka"

This clearly represents that VODKAT is a mid strength vodka.

202. Mr Patel brought to court a Makro brochure for the period 7-20 September 2009 in which VODKAT is described as a "vodka blend 22%" and listed next to "Glens vodka". In my view the impression given is that VODKAT is a weaker version of vodka.
203. *Batleys*. In June 2008 Batleys was stocking boxes of VODKAT amongst vodkas and displaying individual

bottles next to vodkas.

204.*Bestway*. In June 2008 Bestway was stocking boxes of VODKAT amongst vodkas.

205.*HT & Co*. Mr Patel brought to court a shelf-edge label dated 28 September 2009 from a cash & carry in Park Royal, London which described VODKAT as "vodka". Clearly whoever was responsible for this label was confused. Furthermore, it would be liable to be confuse customers of the store.

206.Convenience stores. Mr Patel has run his convenience store in Mortlake, London for over 25 years. He himself is only an occasional drinker, but he clearly has considerable experience in buying and selling alcohol. He first came across VODKAT when he saw it in a Bestway cash & carry about three years ago. He purchased it believing to be vodka, because it was stocked amongst the vodkas and its overall appearance was that of vodka. He stocked VODKAT alongside SMIRNOFF in his shop. Several of his regular customers asked for "VODKAT vodka". He would sometimes be asked by a customer for a bottle of his cheapest vodka, and would sell the customer VODKAT. He only discovered that VODKAT was not vodka when a trading standards officer posing as a customer asked for a bottle of the cheapest vodka, and Mr Patel sold him a 70cl bottle of VODKAT. Only then did the trading standards officer identify himself and inform Mr Patel that VODKAT is not vodka.

207. There is nothing in either Mr Patel's evidence or the surrounding circumstances to suggest that Mr Patel was in any way unusual or unrepresentative. On the contrary, the evidence points firmly in the opposite direction. First, a number of trap purchases were carried out by Mr Grek in similar establishments with the same result as had occurred in Mr Patel's shop up to the trading standards officer's visit. Secondly, Mr Willoughby gave evidence of three occasions on which he was sold VODKAT in response to requests for the "cheapest vodka" in such stores. Thirdly, there is evidence of a considerable number of other convenience stores in which VODKAT was displayed amongst the vodkas. Indeed, in one of these, a Premier store in North Harrow, as recently as 1 November 2009 the VODKAT was positioned not merely amongst the vodkas, but directly above a prominent sign on the shelf which said "vodka". Fourth, in about April 2008 one convenience store had a handwritten poster displayed in its window advertising "VODKAT VODKA". I conclude that there is substantial confusion amongst the proprietors and employees of convenience stores. I also conclude that the way in which VODKAT is sold in such stores is likely to lead, and has led, to substantial confusion amongst their customers.

208.Pubs and bars. Mr Darby, Mr Dixon, Ms Farishta, Ms Osborne and Ms Taylor all gave evidence of occasions on which they had ordered "vodka and tonic" (or "vodka and coke", "vodka and Red Bull" etc) in pubs and bars and were served VODKAT. In some of these instances, although not all, the bar staff were notified immediately. For example, Ms Taylor was served VODKAT after ordering a vodka and coke in Newstead Abbey Hotel on 27 December 2008. She challenged the barmaid, who initially said "Oh did you want the Smirnoff?" and then "I was just trying to give you the cheapest one". On further questioning, the barmaid went and got the landlord. The landlord said that he appreciated that VODKAT was not vodka, and said "obviously it's my fault for not training her well enough". He went on to say that he promoted VODKAT as a "house double" and that his suppliers, Batleys, promoted VODKAT as vodka.

209. This evidence both corroborates, and is corroborated by, a database (referred to as "the Siebel database") kept by Diageo recording 239 instances since 11 September 2006 when Diageo representatives noticed and reported that VODKAT was being sold in the on-trade. On 20 occasions between 11 September 2006 and 18 August 2009 VODKAT was being sold as vodka. Counsel for ICB suggested that the pubs and bars visited by Mr Darby and the others were all selected from this list, but that is not correct.

210. Furthermore, as counsel for Diageo pointed out, it is not without significance that on a number of occasions pubs and bars were promoting the sale of VODKAT and Red Bull.

211. In my judgment it is clear from the evidence described above that there is a significant degree of confusion amongst staff in pubs and bars. It is possible that in some instances the proprietors were deliberately deceiving their customers, but in the light of the evidence as a whole I think it more likely that even those who knew that VODKAT was not vodka nevertheless thought that it was related to vodka, such as a weaker version. Confusion amongst staff in pubs and bars will, of course, contribute to confusion amongst their customers.

212.Members of the public. As noted above, Diageo called four members of the public who had actually been confused. It is worth noting that these witnesses were not found by means of a survey or "witness collection programme". In each case they came to Diageo's attention through contact with someone who knew about the litigation.

213.*Ms Gannon*. Ms Gannon graduated from university in 2008. Since then she has completed a Diploma in Law and is now on a Legal Practice Course. Her evidence was that she had purchased VODKAT regularly when she was a student, believing it to be cheap vodka. She attributed that belief to the name, the packaging (in particular the red colour) and the fact that it was stocked amongst the vodkas in retail outlets. It never occurred

- to her to look at the alcoholic strength and she always drank it with a mixer. She only discovered that VODKAT was not vodka when she undertook work experience with Mr Evans. It turned out that Ms Gannon had misremembered one of the outlets from which she had purchased VODKAT, but I do not consider that that undermines the cogency of the rest of her evidence.
- 214.*Ms Gill*. Ms Gill studied fashion at art college and is now training to be a television costume designer. Her evidence was that she had purchased a bottle of VODKAT from a branch of Sainsbury's in July 2009 believing it to be vodka. She attributed that belief to the name, the packaging (in particular the red colour and the word "imperial") and the fact that she recollected it being stocked amongst the vodkas. She did not recognise VODKAT as a brand name as such. She did not think the price indicated that it was not a vodka. She normally purchased the cheapest vodka on display and drank it with a mixer. She put the bottle of VODKAT in a freezer and it froze. She only discovered that VODKAT was not vodka when she complained about this to a friend who happened to know a solicitor acting for Diageo in this litigation. Ms Gill said that four other people overhearing the conversation then said that they had thought that VODKAT was vodka.
- 215.*Mr Black* gave evidence of a visit to the shop in question suggesting that it had never stocked VODKAT amongst the vodkas. Even if that is right, I do not regard it as important. Ms Gill accepted that she was probably in something of a hurry on the day in question, but I understood her to mean the sort of hurry that people commonly are in when shopping in supermarkets. Ms Gill was also uncertain as to how long she had left the VODKAT in the freezer, but in my view that is not material.
- 216.*Ms Gottlieb*. Ms Gottlieb is a script editor. In August 2009 she visited a small off-licence in north London and purchased a small bottle of VODKAT believing it to be vodka. She had not heard of VODKAT before. It was displayed next to some brands of vodka she recognised. She thought that it was a cheap Polish brand of vodka. She attributed that belief to the name, the packaging (in particular the red and white label) and the positioning. She and some friends subsequently drank the VODKAT mixed with bitter lemon. They thought it tasted a bit weak, but did not realise it was only 22%. They only discovered that it was not vodka when Mr Chatterton arrived, who knew a solicitor acting for Diageo in these proceedings. It emerged in cross-examination that there was an error as to the date of the event in question in Ms Gottlieb's witness statement, but I do not consider that this affects the remainder of her evidence.
- 217.*Ms Laverick*. Ms Laverick is a medical student. Her evidence was that in May 2009 she purchased two bottles of VODKAT from her local Sainsbury's believing them to be vodka. She attributed that belief to the name and the packaging (in particular the red and white colours). VODKAT was on display next to some RTDs. This did not stop her from thinking that it was vodka as she thought it was on special offer or part of a promotion. When she got home, Ms Laverick tasted the VODKAT mixed with coke and thought that it tasted weaker than normal. She then took a closer look at the bottle, saw that it was only 22% and realised that it was not vodka. Subsequently she took the VODKAT to a party and told a friend about it, who in turn told someone at Diageo's solicitors. It was suggested to Ms Laverick in cross-examination that she had been a little careless that day. She did not accept the suggestion and nor do I.
218. There is nothing in either the evidence of these four young women or the surrounding circumstances to suggest that they were in any way unusual or unrepresentative. On the contrary, the evidence points firmly in the opposite direction. As counsel for Diageo submitted, what is particularly telling about their evidence is that not only were they deceived, but also three of them only found out the truth from someone who knew it directly or indirectly as a result of the litigation.
- 219.*Complaints to ICB*. In addition to these live witnesses, Diageo relied by way of hearsay evidence upon four other sources of evidence of confusion amongst members of the public. The first consists of the complaints to Iceland which I have already discussed. The second consists of complaints to ICB. There have been half a dozen complaints to ICB from members of public where it is clear, or at least appears likely, from the complaint that the complainant thought that VODKAT was vodka. For example, one wrote on 21 April 2008:
- "As a vodka drinker I bought this bottle of vodka on Saturday. The smell was terrible and the taste was disgusting..."
- 220.*Blogs*. The third is a considerable number of instances of apparent confusion evidenced by postings on internet blogs. These fall into two main categories. The first consists of postings from which it appears that the author believes that VODKAT is vodka, or sometimes a weaker version of vodka. The second consists of postings from which it appears that the author has discovered that VODKAT is not vodka and is complaining about that fact. Obviously this type of evidence must be treated with considerable caution, since the authors are frequently anonymous or pseudonymous. Even where apparently real names are given, the authors are difficult to trace, and Diageo have made no attempt to do so. Nevertheless, this evidence is entirely consistent with the picture presented by other types of evidence in the case. It therefore supports the conclusion that a substantial number of people have been misled.

221. *Miscellaneous*. The fourth consists of other miscellaneous items of documentary evidence. One example will suffice, namely a record of a Trafford Football Club Christmas Draw in which the seventh and eighth prizes were "Bottle of Vodkat Vodka".

222. Trading standards officers and other regulators. Both Mr Charnley (Sandwell) and Mr Ferris (South Gloucestershire) expressed the opinion that VODKAT was misleading. Indeed, Mr Charnley used it as an example of a misleading product in his lecture course. It is apparent from the documentary evidence that this opinion was shared by the Worcestershire Public Analyst; trading standards officers in Richmond-on-Thames, Barnsley, Reading, Staffordshire and Oxfordshire; the DEFRA lawyer; and members of the LaCORS panel. I agree with counsel for ICB that this evidence on its own is not of great weight, particularly bearing in mind that NYTS have evidently taken a contrary view; but on the other hand it does provide some support for my own assessment.

223. In the case of Mr Ferris, however, the evidence is not merely of his opinion. He asked six members of his office's administrative staff to visit four different shops and note the prices of the cheapest products in six different categories, one being vodka. Mr Ferris told them the reason for the request was a pricing issue. Of the five that visited Iceland, all noted that VODKAT was the cheapest vodka. Counsel for ICB criticised this exercise on the ground that Mr Ferris had not checked in advance that the Iceland stores did stock vodka. I accept that it would have been better if this had been done, but it was not shown that the stores did not stock vodka. While I do not place much weight on this piece of evidence, it is consistent with the general picture.

224. Another striking small piece of evidence in this category is a press release issued by Stoke-on-Trent City Council on 14 December 2006 which states:

"Consumer protection officers from Stoke-on-Trent City have seized counterfeit vodka, in a raid on two premises in the city.

Eight cases of Vodkat vodka were seized from shops in the Burslem and Stoke area after a tip from Customs officers.

...

Analysis has proved although the Vodkat vodka is fake, it is safe to drink. However officers believe that shoppers may have unwittingly bought bottles believing them to be the genuine article."

225. The Defendant's survey. The Defendant's survey did not address the question of likelihood of confusion. Nevertheless it generated one instance of apparent confusion. In answer to the question "what price range do you think it [i.e. vodka] comes in?", one respondent replied "£11.99 to £12.00 a litre or cheap Vodkat for £5". I infer that that respondent thought that VODKAT was a version of vodka.

226. A substantial number? ICB accept that there have been a small number of instances of confusion. ICB contend, however, that, having regard to the length of time VODKAT has been on sale and the sales of it during that period, the number of such instances is insubstantial. I do not accept this contention. First, I consider that the instances of actual confusion of which there is evidence show that a substantial number of persons have been confused. Secondly, I am satisfied that the instances of actual confusion proved in evidence are representative of a significantly greater number that will have occurred. I consider that a substantial number of those who have been deceived will not have realised that they have been deceived and a further substantial number will have realised but not have bothered to complain. The fact that some will not have bothered to complain is supported by evidence that consumers in the 18-21 age group tend not to complain about products.

*ICB's state of mind*

227. Diageo do not suggest ICB intended to deceive consumers by adopting the name VODKAT or the Old Get-Up. Counsel for Diageo did submit, however, that ICB had been reckless as to the possibility of confusion. I accept that submission. In my view the confusion that has occurred was caused by ICB's failure, having decided to adopt a brand name which carried with it an obvious risk of confusion, to take sufficient care to neutralise that risk. It is true that NYTS appears to have considered that changing the description of the product to "alcoholic spirit drink" and then "classic schnapps drink" would suffice; but it does not appear that NYTS was aware of much of the evidence showing the likelihood, and actuality, of confusion. Furthermore, I have to say that, to my mind, ICB's subsequent launch of BRANDX, G&N, RUMMY and SCOTCHED speaks volumes about their attitude.

*The fourth version of the Old Get-Up*

228. The fourth version of the Old Get-Up described VODKAT as a "Classic Schnapps Drink". Counsel for Diageo

submitted that this was too little, too late to avoid confusion. I agree. First, the wording was fairly inconspicuous. Secondly, as related above, the word "schnapps" is one that means little or nothing to the majority of UK consumers. Counsel for ICB accepted that this was so, but submitted that it did at least suffice to indicate that the product was not vodka. I accept that in some circumstances use of the word "schnapps" would assist consumers to understand that a product is not vodka, but in my judgment it is not a strong enough descriptor to have that effect when other factors are leading consumers to believe that a product is vodka. Thirdly, by the time this change was made VODKAT was well established in the market. The change was quite insufficient to undeceive consumers who had already been deceived. Fourthly, when the change was made ICB made no greater effort to instruct the trade as to how to merchandise the product or to educate the public as to what it was. Fifthly, a considerable proportion of the evidence of confusion described above post-dates this change.

#### *The New Get-Up*

229. It is fair to say that the New Get-Up is considerably less objectionable than the Old Get-Up. It is less reminiscent of vodka, and the description of the product as "schnapps" is more prominent. Counsel for Diageo submitted, however, that in the light of the previous history the change was not enough to avoid confusion. I agree. The change was made over four years after VODKAT was first launched. As ICB themselves contend, VODKAT had become a well-established brand by then. The change in get-up will have been perceived by many, if not most consumers, in exactly the way ICB promoted it, namely as a new look for the same old product. I am prepared to accept that the New Get-Up was less likely than the Old Get-Up to deceive consumers encountering it for the first time, but I do not think it went far enough to avoid the likelihood of confusion altogether given the propensity of the brand name to confuse and the absence of a clearly understood description of the product. Furthermore, I do not consider that the New Get-Up will have been effective to undeceive many consumers who were already deceived. I note that some of the evidence of confusion referred to above post-dates the change.

#### *VODKAT CLASSICS and VODKAT SMOOTHIES*

230. These products are classic brand extensions. They are marketed, and would be perceived, as drinks which contain VODKAT. It follows that, to the extent that consumers believe that VODKAT is vodka (or a version of vodka), they will be just as deceived by these products as they are by VODKAT itself.

#### Damage

231. The third main issue I have to decide is whether Diageo have suffered, or are likely to suffer, damage as a result of the misrepresentation. Diageo contend that they have suffered, or are likely to suffer, damage under two heads. The first is loss of sales of SMIRNOFF. The second is erosion of the distinctiveness of the term "vodka".

#### *Loss of sales*

232. Diageo accept that: (i) sales lost due to mere competition between VODKAT and vodka, as opposed to sales lost due to confusion, are irrelevant; (ii) most sales lost due to confusion will be sales of brands of vodka other than SMIRNOFF; and (iii) Diageo cannot rely upon lost sales of other brands. Nevertheless, Diageo contend that they have lost some sales of SMIRNOFF to VODKAT due to confusion.

233. In the on-trade something like 85% of the vodka sold on Optics is SMIRNOFF. Mr Woodard accepted that VODKAT could have a significant effect on the sales of SMIRNOFF in this sector. The majority of these losses must be discounted as being due merely to competition from a cheaper product. Nevertheless, I am satisfied that there will have been some sales lost due to confusion. What I have in mind in particular is the scenario where a pub or bar stocks SMIRNOFF as its main vodka and VODKAT as the "house double" vodka. A customer who is confused will accept the VODKAT, whereas a customer who is not confused may well insist on the real thing.

234. As to sales through off-licences, no doubt most lost sales will be of other brands. Nevertheless in 2007 A.C. Nielsen estimated that 3% of VODKAT sales were made at the expense of SMIRNOFF. Again, some of these will be due to mere competition, but I am satisfied that others will be due to confusion. This is particularly so in convenience stores where the price differential is often much less than in supermarkets. Even where there is a price differential, as Mr Patel described, consumers may decide to buy two bottles of VODKAT rather than one bottle of SMIRNOFF. This is particularly likely in the case of consumers who are under the impression that VODKAT is a weaker version of vodka.

#### *Erosion of distinctiveness*

235. Even if there was no evidence of lost sales, I consider that it is clear that ICB's marketing of VODKAT is likely to erode the distinctiveness of the term "vodka". It will cease to be a term reserved for 37.5% ABV spirits, and will come to be seen as a term applicable to lower strength products which include fermented

alcohol. Indeed, I think there is some evidence that this is already starting to happen. The advent of the me-too products like VODKOVA is likely to accelerate this trend if it is not checked.

#### Conclusion

236.I conclude that ICB has passed off VODKAT as vodka, both in the Old Get-Up and in the New Get-Up.

#### Annex I

