SHERIFF APPEAL COURT

[2023] SAC (Civ) 22
OBN-A13-21

Sheriff Principal N A Ross
Appeal Sheriff H K Small
Appeal Sheriff R D M Fife

OPINION OF THE COURT

delivered by Sheriff Principal N A Ross

in the appeal in the cause

CRERAR HOTEL GROUP LIMITED

Pursuer and Respondent

against

OBAN REGENT MANAGEMENT LIMITED

Defender and Appellant

Defender and Appellant: Bowen KC; E Thornton & Co
Pursuer and Respondent: MacKenzie, Solicitor Advocate; Shepherd & Wedderburn LLP

5 June 2023

[1] The parties each own a hotel on the Corran Esplanade, Oban. The hotels are 800 metres apart. They are both situated on Oban Bay. The respondent's hotel is the "Oban Bay Hotel". The appellant acquired the Regent Hotel on 9 September 2020 and, following redevelopment, rebranded it the "Muthu Hotel on Oban Bay" on 3 June 2021. The respondent took objection to the change of name. They raised proceedings for interim interdict and interdict to prevent the appellant (a) misrepresenting its hotel as the Oban Bay

Hotel and (b) from using the sign "on Oban Bay" and "the Oban Bay Hotel" or any similar name so closely resembling that name or sign as to be calculated to pass off the appellant's goods and services as those of the respondent.

[2] The respondent thereafter sought a debate, and moved for decree *de plano* on the basis of the pleadings alone. The sheriff issued his judgment on 7 October 2022 in which he found that the appellant's defence lacked candour, specification and relevancy. The sheriff awarded decree *de plano* for the interdicts sought by the respondent. The appellant challenges that decree, and submits that the respondent requires to lead evidence to prove its case.

[3] This appeal raises two separate but connected issues, namely (i) when defences can be repelled, and decree *de plano* awarded, at the stage of debate; and (ii) what requires to be proved in a passing-off action.

Repelling defences following debate

[4] There is a distinction between challenging defences at debate, and moving for summary decree under Ordinary Cause Rules "OCR" 17. The latter was first introduced in 1984 in the Court of Session to address the difficulty with the former. A disingenuous defender with no stateable defence could delay decree passing by forcing the pursuer to lead evidence (see *Notes* to Rules of the Court of Session, Rule 21). The reason for the new rule was that existing debate procedure did not provide a satisfactory mechanism to avoid such a situation. The present case is based on relevancy, not summary decree, and is subject to the limitations of that remedy.

[5] In *Urquhart* v *Sweeney* 2006 SC 591, the tenants of an agricultural holding obtained, without leading evidence, declarator and interdict against interference with their peaceable

possession of a right of access. The tenants averred the nature of their title. The defender, who claimed some property rights, lodged skeletal defences. Both the sheriff and, on appeal, the sheriff principal, noted there was no attempt by the defender to explain why he had title and interest to obstruct the tenants' access. There was no response to averments within knowledge. The Lord Justice-Clerk (Gill) noted that the appellant had "no serious interest in this case" and that:

> "Where a party lodges skeletal defences that are uncandid in their responses to positive averments of the pursuer, that party is not entitled to rely upon general denials to put the pursuer to the proof of his averments."

[6] The court found that the tenants' averments set out a prima facie case that called for specific averments in response if the tenants' rights were to be disputed. The court had granted decree in favour of the tenants which established the tenancy. The disposition of the land was expressly subject to the tenancy. If the defender sought to deny the right of access, it was necessary for him, in the face of those averments, to aver and prove why the prima facie right of access should be displaced.

[7] *Urquhart* does not represent an open invitation for pursuers to attempt to obtain decree based on inferred knowledge or failure of candour. The facts in *Urquhart* were extreme. The defence disputed an established right in rem without explanation. There was no comprehensible basis on which to do so. The defender claimed to be familiar with the title in question. He claimed to have a positive right which he could vindicate. He belatedly also claimed fabrication of the tenancy, a serious but late allegation of which the court doubted the propriety and which there was nothing to substantiate. The court found that the nature of the defences demonstrated "Scottish litigation at its worst". The case had been in dependence for three-and-a-half years. It showed a complete lack of candour by the defender. The nature of the defence in *Urquhart* was not simply to deny factual averments,

but actively to refuse to recognise a declarator of a real right. The cases of *Ellon Castle Estates Co Ltd* v *Macdonald* 1975 SLT(Notes) 66 and *Foxley* v *Dunn* 1978 SLT(Notes) 35, both frequently cited, also involved defenders who either admitted, or were logically fixed with knowledge of, specific contracts founded upon. The parties were therefore, unlike the present parties, not at arm's length. The cases of *Ellon Castle Estates Co Ltd, Foxley* and *Urquhart* were cases where the parties were in a proximate legal relationship, contractual or heritable, which meant that denials of prima facie rights required to be justified, not just asserted.

[8] "Lack of candour" is not by itself a plea in law. It is only exceptionally a basis for finding a defence irrelevant, and may justify no more than a contrary award of expenses. While a defender should admit any averment which is known to be true or is not truly in issue or in doubt (Macphail *Sheriff Court Practice* (4th ed) at para 9.27), that duty is primarily owed to the court. A defender comes under an obligation to make positive contrary averments where there is a prima facie case by the pursuer which requires specific averments in defence. That arises where the pursuer's case is based on rights which appear to be undisputable, and not merely claims of rights, and about which the defender is, or must have been, knowledgeable. Whether the defences are sufficiently lacking in candour to be irrelevant is established by scrutinising the defender's pleadings (*Urquhart* para 43). Unless there is such an obligation, a bare denial will be a relevant defence, albeit it may not survive a motion for summary decree, and will not support a positive defence. The question of candour is highly fact-specific.

Passing off

[9] Parties did not dispute the requirements of a passing-off action. It is a common law remedy, and an early judicial statement (*Erven Warnink BV* v *J.Townend & Sons (Hull) Ltd* [1979] AC 731 at p742 (per Lord Diplock) identified the essential elements as:

> "(1) a misrepresentation, (2) made by a trader in the course of trade, (3) to prospective customers of his or ultimate consumers of goods or 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 a business or goodwill of the trader by whom the action is brought or (in a quia timet action) will probably do so."

[10] The requirements were restated by Lord Oliver in *Reckitt & Coleman Products Limited* v *Borden Inc. (No.3)* [1990] 1 WLR 491, which can be summarised as a requirement for the claimant to prove: (a) that it had acquired a reputation or goodwill connected with the goods or services it supplied in the mind of the customer and such goods or services were known to the customer by some distinctive get-up or feature; (b) that the appellant had, whether or not intentionally, made misrepresentations to the public leading them to believe that the appellant's goods or services were the respondent's and; (c) that the respondent had suffered, or in due course was likely to suffer, damage because of the erroneous belief engendered by the appellant's misrepresentation (at page 499).

[11] Passing off actions serve to protect goodwill as a proprietorial right. Goodwill has been defined as:

> "the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force which brings in custom…goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates." (*IRC* v *Muller & Co's Margarine* [1901] AC 217 per L.Macnaghten; *PlanetArt LLC* v *Photobox Ltd* [2019] EWHC 1688 (Ch)).

[12] It must be noted that:

> "…a mere copying, however, deliberate and however provocative, of the name or style which another trader has used for his goods or services is not enough to found

an action in passing off" (*Planet Art*; *County Sound plc* v *Ocean Sound Ltd* [1991] FSR 367).

[13] When the dispute is about use of a name, the protection applies to the goodwill which one trader has built up in trading under the name, not to the name itself. (*Stair Memorial Encyclopaedia* Vol 19 para 1364). Confusion is not enough. The mere fact that the public is confused between the products of one trader and those of another will not justify an action of passing off. There must also be a misrepresentation (*Reckitt & Coleman* (above) at page 505), namely that the respondent's goods are those, or associated with those, of the claimant. An action of passing off does not require to prove intention (*William Grant & Sons Ltd* v *Glen Catrine Bonded Warehouse Ltd (No 2) 1999 WL 249855*). It is possible to commit the delict of passing off inadvertently.

Submissions

[14] The appellant submitted that the sheriff had granted decree because he had asked himself the wrong question about what had to be proved. The defences specifically denied critical issues, such as the existence of a secondary meaning in the words "Oban Bay", which required evidence. The defences denied the existence of misrepresentation or confusion. The sheriff erred in disregarding averments of intention which, while not part of the test for passing off, had evidential relevance. He had not paid sufficient regard of the differences between the "Oban Bay Hotel" and the "Muthu Hotel on Oban Bay". He had paid insufficient regard to the fact that Oban Bay is a descriptive name based on location, when there could be no monopoly on such a description. He erred in finding the averments sufficiently admitted evidence of confusion. At appeal, senior counsel moved at the bar to

insert a "Denied" at the start of Answer 11. That was not opposed on the grounds it did not affect the judgment, and was allowed.

[15] The respondent submitted that the sheriff correctly considered the entirety of the pleadings and found there to be an uncandid response. Admissions were made which called for an explanation, and none was given. The appellant had admitted instances of confusion. It was not necessary to prove intention to pass off. The question of confusion was for the sheriff to assess. Secondary meaning was made out. A descriptive name would still be protected where insufficient care had been taken to distinguish competing services. The sheriff was entitled to reach the conclusion he did on the basis of the averments as a whole.

Decision

[16] On our view of the pleadings and the authorities cited, the sheriff went beyond what could be achieved at debate in this case. The matter will require evidence.

[17] At the outset, there were two reasons to approach this question with caution. The first reason is that a defence is not irrelevant by reason of lack of candour unless there is a prima facie case by the pursuer which requires specific averments in defence. That situation will arise only infrequently, and the requirements are discussed above. The sheriff regarded this as such a situation. The court needs to be cautious that lack of candour is made out on the existing averments, to the extent that the pursuer need not lead evidence to obtain decree. It is not so in the present case. The respondent founded on the parties being in the same industry and physically proximate, but that does not prove they are expert in each other's affairs. There is no underlying legal or factual relationship. This action is based on the independent actings of two otherwise unrelated, arms-length hotel businesses. The

parties are not brought into legal proximity by any mutual contract, or title to property, or other legal relationship, unlike the cases discussed above. The respondent does not have rights against the appellant which are prima facie beyond dispute. The claimed rights must be proved. This is a case where the appellant's duty of candour may honestly be discharged by denial of detailed knowledge of the respondent's business.

[18] The second reason for caution is specific to cases which allege passing off. While there can be cases of passing off in which summary judgment is appropriate, and the question of likelihood of deception is one for the court, not the witnesses to decide, it is necessary to exercise caution (*Musical Fidelity* v *Vickers* [2003] FSR 50, CA). A judge may not be best placed, in any given case, to make that assessment, and evidence may not only assist but be required, if there is doubt (*Neutrogena Corporation* v *Golden Ltd* [1996] RPC 473 at 482; but see Kerly: *Law of Trade Marks and Trade Names* (16th ed at para 20-181).

[19] Turning to address the sheriff's discussion of the three elements identified in *Reckitt & Coleman*, the first question is what is admitted in the defences, and the second is whether the defences amount to an admission of the respondent's case.

Admissions on record

[20] The writ sets out the history and background. The Oban Bay Hotel has operated under that name for 52 years, and the turnover and occupancy figures are set out. They are substantial. The appellant responds with "not known and not admitted", a response appropriate when information is unknown. Specifically, the appellant states it does not know or admit that the Oban Bay Hotel "has for many years been known as a high quality, luxury hotel".

[21] The respondent states that the Oban Bay Hotel was awarded a four-star rating in October 2020, and an AA Rosette Award for Culinary Excellence. That is admitted. The respondent avers online ratings on three separate websites, which are admitted. It avers expenditure on advertising, and the number of clicks on their website, which the appellant does not know or admit.

[22] The respondent then avers (article 7) that it has built up substantial goodwill in the sign "Oban Bay Hotel", which mark has become known to the public and trade as denoting the respondent's goods, and that persons booking services and purchasing goods expect to receive the respondent's goods and no other. That is not known or admitted by the appellant. These are critical averments, because they set out the proprietary right which the respondent protects – the attractive force which brings in custom, or goodwill.

[23] The respondent also avers that the words "Oban Bay" have a secondary meaning in relation to hotels, namely as describing the respondent's goods and services. The public and trade take this to mean the respondent's services and no other. That is denied. The respondent then sets out details of the appellant's business, which the appellant appropriately addresses, and that their hotel name has no online profile, which is also denied.

[24] Article 11 sets out briefly details of a trap purchase, which is claimed to have used the words Oban Bay in relation to the appellant's hotels. That is denied (denial added on appeal, unopposed), and the details of the conversation are disputed. Article 12 sets out the allegedly infringing activities, which the appellant appropriately addresses, principally to the effect that the name "Oban Bay" is descriptive, available for others to use, and used in a manner distinctive to the appellant's services, not those of the respondent.

[25] Article 13 claims both the public and trade have been deceived, and gives 19 examples. These include five instances of guests attempting to check-in having reserved a room in the appellant's hotel; four instances of mis-delivered parcels; local and trade rumours of the hotel being sold; a guest leaving an online review of the appellant's hotel on the respondent's website; three instances of online chats about guests being confused; two instances of an online booking agent using a photograph of the wrong hotel; a transcript of the respondent's answerphone message referring to the "Muthu Oban by Bay Hotel". All of this is met with a denial, and averments that the appellant is not responsible for third party booking agencies. The appellant thereafter denies that they are trading on the goodwill of the Oban Bay Hotel, or that the respondent has suffered damage. There is no basis to assume the appellant knew or must have known of these incidents.

[26] The sheriff noted the respondent's trading history, and that the appellant is a worldwide hotel business and owns around 28 hotels. It has three hotels on Corran Esplanade, namely the "Best Western Muthu Queens Hotel", the "Muthu Alexandra Hotel" and the subject hotel. The latter formerly traded as the "Regent Hotel", but on purchase by the appellant in September 2020 was reopened on 3 June 2021 under the name "Muthu Hotel on Oban Bay". It is approximately 800 metres away from the Oban Bay Hotel.

[27] He noted that the goodwill of a hotel is an interest which can be protected by law (*The Great North of Scotland Railway Co* v *Charles Mann* (1892) 19 R 1035). He noted the three requirements for an action of passing off, stated in *Reckitt & Coleman* (above). The first is that the respondent's services have acquired a reputation in the market which the public recognises as specifically distinctive of the respondent's services. The second is that there is a misrepresentation, intentional or otherwise, leading, or likely to lead the public to believe that the appellant's services are those of the respondent. The third element is that the

respondent has suffered, or is likely to suffer, damage as a result of this mistaken belief caused by the appellant's (mis)representation.

[28] The sheriff, on an overview of the averments, considered that all three requirements were met. In our view, the admitted averments only partly do so, and there remain facts which the respondent requires to prove by evidence.

Whether the requirements for passing off are established

[29] The first element in *Reckitt & Coleman* requires that the respondent has acquired goodwill in the name in the mind of the customer. The sheriff accepted the respondent's submission, that goodwill was to be deemed admitted on the basis that the respondent's awards and ratings were admitted. The sheriff read productions, namely newspaper articles, which refer to the hotel as "much loved". He then noted that OCR 9.7 deems admissions to be made where an averment of fact is not denied. He then referred to the appellant being a world-wide hotel operator, from which he inferred as inconceivable that they would not have researched the area before purchasing their own hotel, and deduced that the respondent's hotel business must be within the appellant's knowledge. From this, he deemed an admission that the goodwill in the mark was admitted. Further, and separately, he found that the admissions of the Oban Bay Hotel's awards and favourable ratings were wholly inconsistent with not knowing or admitting that the respondent had built up substantial goodwill in the mark "Oban Bay Hotel". He inferred, as a matter of logic, giving rise to a presumption, that admitting both reputation and the use of the mark meant that goodwill must be treated as admitted.

[30] In our view the sheriff erred in his approach to the pleadings at debate. We consider that he was somewhat misled by poor pleading practice. Pleadings should not simply

incorporate productions *brevitatis causa*. It is for the pleader to abstract and summarise the relevant parts of any productions and present them as building blocks of the case. The pleadings should not plead evidence, but rather the principles to be abstracted from that evidence (see Macphail: *Sheriff Court Practice* (4th ed) at para 9-16). The sheriff was invited to treat the terms of a newspaper article, incorporated *brevitatis causa*, as if they were pleadings, and thereby inadvertently embarked on the very "trial by pleading" that Macphail (above) warns against. That is not a legitimate exercise, as a journalistic publication cannot be expected to meet the exacting requirements of pleadings. He should not have been placed in that position.

[31] The sheriff embarked on assessment of how the pleadings fit together, and whether the averments were so inconsistent with each other that the respondent's claims of established goodwill should be deemed to be admitted. That process was unsound in three respects.

[32] First, the circumstances for treating bare denials (or denial of knowledge and non-admission) as irrelevant are limited to where there is a clear prima facie case, as discussed already. They do not exist here. There is no reason to fix the appellant with detailed knowledge of the respondent's business, customers, or services, or their claims in law, and as such the authorities such as *Urquhart* fall to be distinguished.

[33] Second, the sheriff went beyond the pleadings. While admissions may be held sufficient to support a reasonable inference adverse to a defender (*Macphail* para 9.25), the pleadings do not contain sufficient information to allow the court, without evidence being led, to infer that goodwill is admitted. The sheriff went beyond the pleadings to speculate about what the appellant may have investigated prior to purchasing the hotel, and that the respondent's reputation with the public must be within the appellant's knowledge. Those

alleged facts were not admitted, and admission could not reliably be inferred from the defences. The sheriff's conclusions were based, in part, on inferences which were themselves soundly based on the averments. Some inferences were, however, made in the face of specific denial. The effect was to stray from reliable inference into speculation. On the same facts, for example, it is possible to speculate in a different direction, namely that the appellant paid little heed to the Oban Bay Hotel because it was in a different price sector of the market. The nature of the sheriff's enquiries will be, ultimately, legitimate, but they require testing and interrogation at proof. At present the defences do not admit that the respondent's averments about customer base of the Oban Bay Hotel, or the mindset of its customers, are proved, or that the appellant is legitimately fixed with knowledge of such information.

[34] Third, the sheriff found inconsistency to be fundamental, where the averments should have been consistent. He deemed that Answer 7, in stating that the goodwill of the hotel is not known and not admitted, was inconsistent with the admissions of the award of four star ratings and an AA rosette. They are not, however, opposites, or inconsistent. Goodwill, being the attractive force of a business, relates to the mark, not the existence of a quality rating. It requires to be established on what customers say and do, the trading figures and the perceived effect of the competing business. These are matters which may be legitimately beyond the knowledge of a third party such as the appellant. There is no basis on averment to establish that the expectations of the Oban Bay Hotel customers, or indeed anything but the bare basics of the respondent's business, are known to the appellant. It follows that not knowing and not admitting these factors is a fair response, or at least cannot be said at the stage of debate to be a response which demonstrates lack of candour. The respondent must aver and prove them. Further, we do not accept that a quality award is

necessarily equiparated with goodwill: it is the effect of that award on trade which creates goodwill, not the award itself. If a customer selects the Oban Bay Hotel because it has a four star rating, that does not inevitably prove that there is goodwill in the mark.

[35] The sheriff accepted that there is no unqualified right to use a geographical or descriptive mark. Use can, however, be restrained where it has built up a secondary reputation as denoting the trader's goods and no other (*William Grant*, above). That, however, underlines the need for the respondent to prove such a secondary reputation. The respondent's averments might be consistent with customers simply wanting a hotel overlooking Oban Bay, and being untroubled whether they reside in the respondent's hotel or some other. The few complaints about poor quality experiences at the appellant's hotel do not necessarily show that the guest was expecting to receive the respondent's services, merely that they expected a better service. There needs to be significant number of instances of confusion, enough for there to be a real effect on goodwill (*Neutrogena Corporation*, above). It is to be expected that two hotels in close geographic proximity, offering similar services (if that is the case), would impinge to some extent on each other's business. That is the nature of competition. It is for the respondent to prove that the competition was unfair because the appellant misrepresented their own business as that of the appellant, and not because of other market forces.

[36] We do not accept that these defences are properly regarded as inconsistent. The appellant's denials appear to be properly restricted to those things which it does not accept to be true, and its denial of knowledge or admission properly restricted to things which may be true but are beyond its knowledge. The respondent requires to lead evidence to demonstrate that it has goodwill. That requires it to show that customers, in seeing the words "Oban Bay", expect to obtain the services of the respondent and no other.

[37] The second element in *Reckitt & Coleman* requires misrepresentations made to the public, knowingly or otherwise, leading them to believe they are those of the respondent.

[38] The respondent offers to prove a considerable number of instances of confusion. Those averments are denied, and require evidence. The sheriff deemed denial to be inconsistent with admissions made, and to require explanation. As for the first test, we do not accept that this is a situation where the parties are in such a legally proximate relationship that explanation is required.

[39] Further, even if this were wrong, there is a difference between confusion and misrepresentation. For example, mis-delivery of goods shows no more than that the public has been occasionally, or even regularly, confused between two hotels which have similar names. It does not demonstrate that the respondent (or for that matter the appellant) trades under a name which has become associated in the mind of the public with any particular qualities. The respondent requires to establish both elements. Goodwill is in the minds of those who create the economic value of the goodwill, namely the customers. There is no averment, far less admission, that any customer was disappointed having requested but not received the respondent's services. None of the incidents referred to unequivocally proves reputation, as opposed to confusion, and they are in any event denied.

[40] Misrepresentation is a matter for a judge to assess (see above). However, it has to be exercised with caution. Deception must be assessed on the entirety of evidence before the court, and a single instance may not be enough (*Kerly*, above, at 20-180). The sheriff did not carry out any comparative assessment of the two marks. It is relevant that appellant's mark is not "Oban Bay", but is "Muthu Hotel on Oban Bay". The sheriff did not assess misrepresentation as a matter of comparison between the two marks. This is particularly necessary where the marks incorporate descriptive or geographical terms, because courts

will not readily assume that common words are likely to cause confusion, and will easily accept small differences as adequate to avoid confusion (*Office Cleaning Services Ltd* v *Westminster Window* (1946) 63 RPC 39; *PlanetArt*). The scope of protection afforded in respect of a descriptive name with a secondary meaning is narrower than for a fancy name. A secondary meaning, relating specifically to the respondent's services, must be found. It cannot presently be found in the admissions, or deemed admissions, of the appellant.

[41] The third element in *Reckitt & Coleman* requires that the respondent has suffered damage, or is likely to do so. The sheriff proceeded by identifying averments which call for explanation, and by deeming admission. For reasons already discussed, this was not an approach open to the sheriff. The nature and extent of damage (if any) suffered by the respondent's business is peculiarly within the knowledge of the respondent. There is no basis to fix the appellant with deemed knowledge of the respondent's losses. We note that this action does not qualify as a quia timet action (see *Erven Warnink*, above) for the purposes of the third test in *Reckitt & Colman*. This action was raised after trading had commenced, and not in anticipation of a wrong. The respondent will require to prove damage, which cannot be left to assumption alone. If guests were misdirected, did they care, or even notice, that they were not in the Oban Bay Hotel? Were complaints about the appellant's hotel caused by disappointment that they did not receive the respondent's services, or merely disappointment with the facilities? These are the issues that can only be resolved by evidence.

[42] For completeness, we do not identify that a motion for summary decree under OCR 9.7 would have been any more successful than seeking a debate on relevancy. It would not cure the absence of any clear admission by the appellant of the respondent's goodwill or damage allegedly sustained. Evidence would still be necessary.

Disposal

[43] We will therefore allow the appeal, and remit the cause to the sheriff to proceed as accords. Parties agreed that expenses should follow success, so we find the respondent liable to the appellant in the expenses of the appeal, as taxed. Due to complexity, we find the appeal suitable for sanction for the employment of senior counsel.