

HIGH COURT

[1983-1984.

H. C. OF A.
1983-1984.

MOORGATE
TOBACCO
CO. LTD.

v.
PHILIP
MORRIS LTD.
[No. 2].

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1975 between Mr. Orcutt of Loew's and Mr. Hurley of Philip Morris. It was in the course of negotiations about a further licence agreement to commence when the existing one expired in late 1977. Mr. Orcutt gave evidence of what was said about the new cigarettes:

"... I said words to the following effect: 'We have test marketed a low tar and nicotine cigarette recently. The cigarette is known as KENT GOLDEN LIGHTS and the test market has shown a high degree of acceptance for this product under that name. You have advised us and we are aware that our license agreement will soon terminate. We both desire the development of an ongoing relationship under a new license agreement. Lorillard considers, as a basic part of a new license agreement, the introduction by Philip Morris Australia of a product that would be compatible to our understanding of the consumer interest in Australia for reduced tar and nicotine cigarettes. We feel that the acceptance of KENT GOLDEN LIGHTS in the U.S. would make it a strong entry to interest new consumers and strengthen the KENT franchise in Australia.'

Hurley replied in substance: 'That is very interesting. We'd certainly be pleased to look into it and let you have our impressions.'

I replied: 'We would be only too pleased to give you any assistance that we can. I'll ask Paul Clark (an employee of Loew's based in Hong Kong), Tom Jones, John Howley, and John Roberts (employees of Loew's based in America) to keep in touch with you about the matter and give you any assistance they can.'

On 18 December 1975, Mr. Orcutt wrote to Mr. Hurley canvassing a number of matters that had been discussed in the November meeting. After introductory pleasantries, the letter confirmed that Loew's was "prepared to re-negotiate the license agreement with Philip Morris (Australia) Ltd., which would embrace the changes we discussed". There followed a list of "elements" on which it was said that agreement "in principle" had been reached "subject to final framing". Under the heading "royalty", it was noted that Philip Morris had proposed an increase in "the existing rate from Australian \$0.30 to Australian \$0.35 per thousand" cigarettes and that Loew's proposed "that the new agreement provide for a royalty of Australian \$0.45 per thousand". The reference to the new low nicotine and tar cigarettes came immediately before a further reference to the "minimum royalty rate". It read:

"In accordance with our conversation, attached to this letter is a position paper on the proposed line extension for KENT in Australia. After you have had a chance to review the paper, we would be most interested to receive your proposal for the launch of a 'SPECIAL' KENT, which would include the marketing support that Philip Morris (Australia) would be prepared to

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commit to this product, as well as the remaining pertinent information.

As we discussed, the support of this line extension for KENT would in no way affect Philip Morris' marketing endeavours or continuing emphasis on regular KENT; i.e. KENT KING and KENT BOX."

The "attached . . . position paper" was in the form of an internal Loew's memorandum addressed to Mr. Orcutt. Its contents indicate that it had been prepared as a document to be forwarded to Philip Morris to help persuade Philip Morris of the advantages which it would derive from manufacturing and marketing the "low tar and nicotine line-extension of KENT in Australia" under licence from Loew's. After setting out arguments favouring the introduction of the product in Australia and referring to test marketing in the United States and Belgium, the document concluded:

"The old cliché of 'strike while the iron is hot' was never more valid when discussing marketing opportunities in the low T.&N. segment.

I believe that the opportunity obviously exists. The brand has inherent strengths in the white pack and health association, Lorillard has the technological capability to blend a good tasting, easy drawing cigarette within the acceptable range of numbers, and most importantly a KENT line-extension will give Philip Morris Australia another entry in the low T.&N. segment which appears to be dominated by their competitors."

The "position paper" referred to the fact that in Europe the word "Mild (Milde)" is the universally accepted name that signifies a low tar and nicotine category whereas in the United States "Lights" is the word that signifies that category. It stated that "a carton each of the U.S. and Belgian product, package flats and tear sheets of the advertising campaigns" were enclosed. The evidence, while inconclusive, indicates that this material was forwarded to Philip Morris.

Subsequent discussions relating to the introduction of a KENT low tar and nicotine cigarette in the Australian market took place between representatives of Loew's and Philip Morris at meetings in April, June and August 1976. Neither those discussions nor documents associated with them greatly advanced the project. The evidence in relation to them discloses that Loew's continued to seek to arouse enthusiasm on the part of Philip Morris for the introduction by Philip Morris, under licence, of the proposed new cigarette in Australia and that Philip Morris was somewhat unresponsive to those efforts. Thus, in the April 1976 discussion, Mr. Hurley indicated that Philip Morris was studying the possibilities but that he feared that any such marketing would not increase the overall volume of sales of KENT cigarettes. In the June discussion, Mr. Hurley expressed the view that the low tar and nicotine

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cigarette market in Australia was a "God-dam leaky bucket". In the August discussion, he indicated that "he was still very much negative about the project" for the reason "that he would prefer to get the parent brand healthy again". It is possible that the apparent enthusiasm for the new product on the part of representatives of Loew's and the apparent lack of it on the part of Mr. Hurley are explained by the fact that the parties were still engaged in negotiations about the rate of royalty to be paid by Philip Morris under any "ongoing license agreement". One factor which did emerge from those discussions was a growing conviction on the part of Loew's that the new product should, if introduced into the Australian market, be under the mark "KENT GOLDEN LIGHTS". In that regard, it is relevant to mention that a successful "national launch" of the low tar and nicotine cigarette under that mark had taken place in the United States during March and April 1976.

From 6 to 9 November 1976, there was a number of meetings in Melbourne between a representative of Loew's and executives of Philip Morris, including Mr. Hurley. In the course of discussion, Mr. Hurley raised the subject of "KENT GOLDEN LIGHTS". He stated that Philip Morris was aware of what was needed to market the product and that he would be visiting New York around 13 November and would "call" Mr. Orcutt. On 16 November, there was a meeting, in New York, between Mr. Hurley and two senior executives of Loew's (Mr. Howley and Mr. Roberts). The discussion is summarized in a Loew's internal document headed "Minutes of Meeting". These "Minutes" indicate that a large part of the "Meeting" consisted of discussions about a new licence agreement after the expiry of the current agreement and that Loew's maintained its position that the royalty under the new agreement should be \$A0.45 per thousand units while Mr. Hurley indicated that Philip Morris would be prepared to raise the royalty rate from the then current \$A0.30 per thousand units to \$A0.40. The Minutes summarize the discussion about "KENT GOLDEN LIGHTS" as follows:

"Mr. Hurley stated that the Philip Morris Marketing Department is starting work on the details of a marketing plan for a low tar and nicotine version of KENT. When the plan is completed and approved by Australian management, Philip Morris will open discussions with Lorillard to obtain the appropriate licences.

It was stated that Philip Morris should pursue development of the U.S. Golden Light pack and not the European Special Mild design. Mr. Hurley agreed and stated that Philip Morris marketing will start out by determining the proper name for the product, GOLDEN LIGHTS or Special Mild. Philip Morris, Australia is now conducting research on the MARLBORO LIGHTS

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name and what it means. Current thinking is that Mild appears to be more acceptable to Australian consumers than Lights."

That discussion must, of course, be understood in the context that Loew's had, throughout, been attempting to persuade a seemingly reluctant Philip Morris to manufacture and market the new product in Australia under a licence agreement involving the payment of a royalty to Loew's. In that context, the reference to Philip Morris "starting work on the details of a marketing plan" would appear to be a reference to Philip Morris preparing a marketing plan essentially for its own purposes and setting out its own market assessment and intentions. That this was so is confirmed by the next statement attributed to Mr. Hurley in the above extract, namely, that, when the plan was completed and "approved by Australian management" of Philip Morris, Philip Morris would take steps "to obtain the appropriate licences".

In the absence of objection, Mr. Orcutt was permitted at the trial to say that Loew's "felt" that Philip Morris "had given ... an obligation to deliver" to Loew's the above-mentioned "marketing plan". Mr. Orcutt was, however, not present at the discussion of 16 November 1976 which was the only occasion on which it is suggested that such a proposed plan was mentioned: "the details" of that discussion had been reported to him by Mr. Howley. Mr. Howley's direct evidence and the contemporaneous record of the discussion contained in the "Minutes", which are plainly to be preferred to Mr. Orcutt's evidence on the point, indicate that no such "obligation" had, in fact, been expressly undertaken by Philip Morris. In the context of previous statements that Philip Morris would let Loew's have its "impressions" and that Loew's would be interested to "receive" a "proposal" from Philip Morris, it is possible that there was a common understanding that Philip Morris would provide Loew's with information about its marketing plans when it "opened discussions with Loew's to obtain the appropriate licenses" to manufacture and market the new product in Australia. Be that as it may however, there is no basis in the evidence for a finding that Philip Morris either undertook to act on behalf of Loew's or was in fact so acting in relation to the preparation of that marketing plan and there is no finding to that effect in any of the judgments in the courts below. To the contrary, the evidence plainly indicates that the marketing plan was to be prepared by Philip Morris acting on its own behalf so that it might be placed before its own "Australian management". The proper conclusion from all the evidence is that expressed by Hope J.A. in the Court of Appeal, namely, that the discussions and communications "in respect of the project of selling the new cigarettes in Australia" were and remained business

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discussions and communications "between business people dealing, in this regard, at arms length".

The above extract from the "Minutes" of the 16 November 1976 conversation indicates that the question of the name to be used for the new product, if introduced in Australia, remained an open one. While the combination of "Golden" and "Lights" had been devised by Loew's, both words were well-known descriptive words in the trade. Thus, the Australian Register of Trade Marks includes, in respect of tobacco products, many instances of the use of the word "golden" including such evocative examples as "Golden Throat", "Golden Shag", "Golden Arrow" and "Golden Teens": the evidence is that the word "golden" was understood to refer to the "richness" of the product rather than the colour of nicotine stain. The word "Lights" was, as both sides well knew, already being used by the Philip Morris group in Australia in relation to the "MARLBORO LIGHTS" low tar and nicotine cigarettes. More importantly, P.M. Inc. was registered in Australia as the proprietor of the trade mark "Lights" in respect of cigarettes and was, while it remained so registered, in a strong prima facie position to prevent either the registration or use of "GOLDEN LIGHTS" as or as part of a trade mark in respect of cigarettes by anyone other than itself.

In March 1977, negotiations commenced between Loew's and the British American Tobacco Company Group ("B.A.T.") for the acquisition by B.A.T. of the "International Sales business" of Loew's in cigarettes "and the goodwill associated therewith". Included in the proposed sale were the Australian KENT and MICRONITE trade marks and the benefit of the licence agreement. The evidence indicates that the view was taken by those executives of Loew's who customarily dealt with Philip Morris in relation to the licence agreement that, if the sale went through, it was likely that B.A.T. would itself, through one of its subsidiaries, commence the manufacture and marketing of KENT products in Australia. In other words, there would be no "ongoing licence agreement" with Philip Morris. On the other hand, Loew's plainly did not desire summarily to terminate the discussions with Philip Morris about a new licence agreement and the new cigarettes while there was any possibility that the proposed sale to B.A.T. would fall through. To use the phraseology of senior counsel for the respondents, Loew's "began to keep house" and to avoid any discussions with representatives of Philip Morris. Nothing was done to alert Philip Morris to the possibility that any work it was doing or money it was expending in relation to the proposal that it manufacture and market the new product in Australia was likely to be or might be wasted. To the contrary, on 20 April 1977 Loew's wrote to Philip Morris advising that the "long-delayed trip to

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Australia still seems to be delayed" and stating that "[o]ur feeling is now if we are not able to negotiate a new licence agreement prior to the date of expiration of the existing agreement (November) we should extend this existing agreement by six months or until a new one can be executed".

In early June 1977, Mr. Hurley of Philip Morris received information that B.A.T. was negotiating with Loew's for the acquisition of the Loew's tobacco and tobacco products business outside the United States. On 7 June 1977, he called on Mr. Orcutt in New York. He expressed to Mr. Orcutt his understanding that the Loew's "international cigarette business" was "being sold" and said that, if the sale did not go through, Philip Morris "would be very interested in purchasing the KENT brand". Mr. Orcutt refused to comment on Mr. Hurley's statement. On 22 June 1977, Moorgate and Loew's entered into a formal agreement for the sale to Moorgate of Loew's business outside the United States "in cigarettes, and the goodwill associated therewith". The purchase became effective at 10 a.m. (New York time) on that day. Included in the sale were Loew's Australian trade marks, trade names and rights relating thereto. It is common ground that, pursuant to the assignment of assets effected by that agreement, Moorgate became the licensor under the licence agreement. Thereafter, Loew's moves out of the picture. Its place is taken by Moorgate of the B.A.T. Group which was and is a leading competitor of the Philip Morris Group in the Australian market.

Internal communications within the Philip Morris Group indicate that Philip Morris did not abandon all hope of continuing to manufacture and market KENT cigarettes in Australia after the expiry of the licence agreement until 21 September 1977 when Mr. Hurley met with Mr. Sheehy, the chairman of Moorgate, in Miami. Mr. Sheehy informed Mr. Hurley that it was not "worth going over" matters that were in the past and that "we had bought this asset in order to develop it world wide, and that it was clearly more beneficial for us as a group to have it manufactured by a group company rather than not, wherever this was possible". Mr. Hurley asked about the possibility of purchasing the KENT business in Australia and was informed that Moorgate was not interested in such a sale. Mr. Hurley expressed his acceptance of the position that Philip Morris would be unable either to obtain a new licence agreement for Australia or to purchase the KENT name or business in Australia.

As has been mentioned, the application by Philip Morris for registration in Australia of the trade mark "GOLDEN LIGHTS" was made on 12 July 1977, that is, about three weeks after Loew's had

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