

## Consumerlaw

# Protecting business names

GAELYN SCOTT

**T**he majority of the provisions of the Consumer Protection Act (CPA) (69 of 2008) will take effect in October 2010, unless otherwise decided.

The ambit of the CPA is very wide and its consequences far-reaching, offering significant protection to consumers. The Department of Trade & Industry (DTI) has said that “*the primary purpose of the new Act is to prevent exploitation or harm on consumers and to promote the social well-being of consumers.*”

While the CPA will have a significant impact on several other aspects of the franchise industry, the effect of the CPA on business names and “trading as” names and the resultant ramifications for franchises and the intellectual property rights of franchisors may be extensive.

The CPA applies to “*every transaction occurring within the Republic,*” with certain exemptions, but franchisees are specifically included under the definition of “*consumer*” and franchisors are regarded as “*suppliers*” in terms of the provisions of the CPA. Franchisees will accordingly be afforded similar protection to that granted to individual consumers and franchise agreements will consequently be required to comply with the provisions of the Act.

s79 of the CPA provides that:

“(1) A person must not carry on business, advertise, promote, offer to supply or supply any goods or services, or enter into a transaction or agreement with a consumer under any name except –

- (a) the **person’s full name** [own emphasis] as –
  - (i) recorded in an identity document . . . , in the case of an individual, or
  - (ii) registered in terms of a public regulation, in the case of a juristic person; or
- (b) a **business name** [own emphasis] registered to, and for the use of, that person in terms of Section 80, or any other public regulation, . . .

It will be necessary, therefore, for all companies to register the names of their trading divisions as business names.

The CPA sets out certain consequences for persons carrying on business under a name other than their full name or a registered business name. These include the National Consumer Commission (the Commission), established under this Act, issuing a compliance notice requiring them to apply for registration of a business name or to discontinue its use of the name.

With regard to franchises, traditionally franchisees have traded under a name incorporating the franchisor’s intellectual property. An example is

*Spar*, the franchisor and registered proprietor of the trade mark SPAR, which permits its franchisees to trade as “*Spar, Woodmead*” or “*Spar, Benmore.*” In terms of s79, the franchisee will no longer be able to trade as “*Spar, Benmore*” without registering the trading name as a business name.

s80 of the Act sets out the procedure to be followed when making application to the Registrar of Companies to register a business name. Prior to the CPA coming into effect, business / “trading as” names are not required to be registered

and indeed there is no business name register. Only company and close corporation names could be formally registered.

s80 of the CPA also provides that the procedures set out in s45 of the Companies Act (61 of 1973) for purposes of objecting to the registration of company names shall apply where the Registrar believes the requirements of s81 of the CPA have not been satisfied. While the Business Names Act (27 of 1960) had similar provisions (s5) relating to objections to business names, the Business Names Act is one of the statutes that has been repealed by the CPA.

s81 of the CPA provides that a business name must **not be the same as, or confusingly similar to** [own emphasis]:

- a registered company or close corporation name;
- a registered trade mark;
- a pending trade mark application; or
- a well-known trade mark as contemplated in s35 of the Trade Marks Act;

unless the applicant for registration of the mark as a business name is either the registered proprietor, or applicant for registration of the mark or has been granted the licence by the proprietor to use that mark.

The fact that a business name may not be the same as, or confusingly similar to, a registered company or close corporation name or a registered or pending trade mark may necessitate the conducting of a clearance or registrability search involving searches of the Companies, Close Corporations and Trade Marks Office registers prior to registration. Well-known trade-marks, which are not necessarily registered, also need to be considered.



Scott

## Consumerlaw

s81 also poses difficulties for the franchisee who will no longer be permitted to trade under the name “Spar, Benmore” without registering it as a business name. This business name will certainly be considered to be confusingly similar to the franchisor’s registered trade marks and/or registered company or close corporation name. Franchise agreements will need expressly to include a provision granting the franchisee a licence to use the franchisor’s intellectual property. Factually, however, the franchisor will, of necessity, need to countenance the registration by a third party franchisee of a business name incorporating its intellectual property.

All franchise, licence and agency agreements will need to be drafted with due regard for the provisions of the CPA. The franchisor’s/licensor’s rights in, and ownership of, their intellectual property forming part of the business name will need to be clearly acknowledged. A clear obligation will need to be placed on the franchisee/licensee to refrain from any infringing activities and to discontinue use of the intellectual property forthwith upon termination of the agreement. An obligation will need to be placed on the franchisee/licensee to deregister or change the business name to remove all reference to the franchisor’s/licensor’s trade mark on termination of the agreement.

It would be preferable when signing the agreement for the franchisee/licensee to grant a Power of Attorney in favour of the intellectual property rights holder to take the necessary action to deregister or change the name of the business in the event that the franchisee/licensee fails to comply with this provision. The agreement may also need to contain a consent by the rights holder for the user of its intellectual property to obtain registration.

Apart from the obvious contractual right to use the intellectual property in terms of the franchise/licence agreement, the question is whether it can be argued that an additional statutory right to use the intellectual property has been created. It could also possibly be argued, even after the termination of the agreement, that the statutory right continues to exist. There is also very likely to be a scenario where an agreement regulating the use of the intellectual property has not been concluded.

In the event of a termination of the agreement and the franchisee/licensee seeks to rely on the statutory right for continued use, the intellectual property rights holder could proceed against the infringer on the basis of trade mark infringement in terms of the provisions of the Trade Marks Act (194 of 1993). The common law remedies of passing-off and/or unlawful competition are also available. In certain instances, the provisions of the Advertising Standards Authority (ASA) Code of Advertising Practice would also come to the assistance of the rights holder.

In the event, however, that a conflict arises between the provisions of the CPA and those of the Trade Marks Act, s2(9) of the CPA provides that

those which extend greater protection to the consumer prevail.

An alternative argument is that, on legitimate termination of the franchise agreement, the franchisee is no longer viewed as a “consumer” *vis-à-vis* the franchisor and is accordingly not entitled to continue use of the business name incorporating the franchisor’s trade mark.

The relevant provisions of the CPA discussed in this article are likely to take effect on October 24 2010 at the earliest. The Commission, however, may not at any time take any action to enforce the provisions of the CPA against a person for the use of a business name if that person was actively conducting business under that business name for a period of at least one year before the relevant provisions took effect.

The CPA provides that the register of business names (as maintained by the Companies and Intellectual Property Registration Office (CIPRO) in terms of any of the repealed laws) is continued as the register contemplated by the CPA. The uncertainty arises due to the fact that there is currently no register of business names operated by CIPRO. As previously mentioned, under the current position it is in fact not necessary, or indeed possible, to register a business or “trading as” name. Presumably CIPRO will be creating the requisite register to facilitate compliance with the provisions of the CPA.

To summarise:

- Though presently there is no official register of business names, due regard to the provisions of the CPA should be given to facilitate ultimate compliance once it comes into effect.
- For parties which have actively conducted business under a business name prior to October 24 2009, the requirement of registration of the business name may not be enforced.
- For parties which commence use of their business name after October 24 2009, compliance with the Act is required.
- Given that there is no business names register, those parties should be advised to register their trading name as a company or close corporation name or to amend their current company or close corporation to their trading name.
- Any existing franchise or licence agreements should be amended to include the safeguard and consent provisions discussed, and any franchise or licence agreements that are being entered into, renewed or renegotiated should similarly be drafted to incorporate the necessary safeguards and any requisite consents. ♦

**Scott is a director, Intellectual Property Department at Edward Nathan Sonnenbergs**