National Aerated Water Co Pte Ltd v Monarch Co, Inc
[2000] SGCA 2

Case Number : CA 445/2000

Decision Date : 12 January 2000

Tribunal/Court : Court of Appeal

Coram : Chao Hick Tin JA; L P Thean JA; Yong Pung How CJ

Counsel Name(s) : Vinodh Coomaraswamy (Shook Lin & Bok) for the appellants; Howard Cashin and Lim Khoon (Lim Hua Yong & Co) for the respondents

Parties : National Aerated Water Co Pte Ltd — Monarch Co, Inc

Contract – Contractual terms – Licence to bottle trademark beverage – Clause restraining sale or distribution of other products – Whether clause constitutes restraint of trade – Effect of clause confining restraint to duration of licensing agreement

Contract – Contractual terms – Restraint of trade – Enforcement of restraint by court – Considerations of public interest

Contract – Contractual terms – Restraint of trade – Determination of reasonability of restraint by court – Considerations of freedom to contract against freedom to trade – Whether mutual consent excludes rule against restraint

Contract – Contractual terms – Restraint of trade – Whether clause ex facie unreasonable

Contract – Contractual terms – Restraint of trade – Whether severance of unenforceable portion possible – Whether severance altered nature of agreement

Damages – Compensation and damages – Counterclaim for damages – Whether any loss proven – Whether relief necessary if breach causes no loss

Trade Marks and Trade Names – Infringement – Registered trademark – Distribution confirming after termination of licence agreement – Whether relief should be granted

(delivering the judgment of the court): This appeal concerns a decision of the High Court which held that the plaintiff, The Monarch Company Inc, a corporation of the United States of America (the respondent herein, whom we shall refer to as \`Monarch\`), was entitled to terminate a licensing agreement involving the trademarks \`Kickapoo Joy Juice\` and \`Kickapoo\` registered in respect of non-alcoholic beverages and where the appellant herein, National Aerated Water Co Pte Ltd (\`NAWC\`), was the licensee.Lawyers

The background

On 3 October 1966, Kickapoo Joy Juice Ltd (KJJ), a Canadian company, and which was then the proprietor of the trademarks, entered into a licensing agreement with NAWC, which was in the business of producing and selling carbonated drinks (\`the 1966 agreement\`). NAWC is a Singapore registered company.

Under this agreement NAWC was permitted to produce, distribute and sell bottled carbonated drinks in Singapore and Malaysia bearing the trademarks (\`the beverage\`). A similar agreement entered into by KJJ with NAWC\`s sister company in Malaysia, National Aerated Water Co (KL) Ltd (\`NAWC (KL)\`), permitted the latter to produce and sell the beverage in bottles in Malaysia only. The founder and managing director of both these companies is one Mr Ching Kwong Yew (\`CKY\`).

It is not in dispute that KJJ`s rights to the trademarks were eventually assigned to Monarch. The rights of KJJ under the 1966 agreement were also assigned to Monarch.

The clauses of the 1966 agreement which are relevant to the present action are the following:

> *(a) The bottler (NAWC) was licensed to use the trademark only on and in connection with the preparation, distribution and sale of the beverage in the bottle form in Singapore and Malaysia. The concentrate for the preparation of the beverage was to be purchased by the bottler from the company [Monarch]. In the event that the company elected to sell or distribute, during the duration of the 1966 agreement, the beverage in cans within Singapore and Malaysia, the bottler would be entitled to a commission in accordance with trade practice (cl 2).*
>
> *(b) The bottler would only use the beverage concentrate, distinctive design bottle and crowns of the company, or such bottles and crowns as the company may prescribe, for the bottling, distribution and sale of the beverage. To this end, the bottler would purchase as and when necessary, a sufficient quantity of such bottles, crowns and beverage concentrate as would enable the bottler to prepare sufficient quantities of the beverage to continuously, adequately and efficiently service and supply the demand for the beverage in Singapore and Malaysia (cl 4).*
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> *(c) The bottler recognised that the company retained the right to use the trademark in the territory on and in connection with the sale of any beverage or product other than a bottled beverage (cl 6).*
>
> *(d) The bottler would not, during the life of the 1966 agreement, keep, handle, offer for sale, or sell, any restricted product as defined in cl 8. This clause will be set out in full and examined in some detail later.*
>
> *(e) The bottler would establish, maintain and continuously operate within Singapore a bottling plant or plants of such size and capacity and maintain such trucks or other equipment in Singapore and Malaysia as would be necessary to effectively, efficiently and vigorously service, supply and promote the sale of the beverage in Singapore and Malaysia and would maintain and operate such plant or plants, such trucks and equipment in such sanitary, healthful and attractive condition as the company would from time to time prescribe (cl 9).*
>
> *(f) In the event that the company was of the opinion that the bottler at any time was failing adequately to service, supply and promote the sale of the beverage in any part of Singapore and Malaysia, the company could in addition to other remedies available, give the bottler written notice of such failures. If at the expiration of 30 days of such notice, the bottler has not begun to serve that part of Singapore and Malaysia adequately, the company had the right to delete that partof Singapore and Malaysia from the 1966 agreement (cl 10).*
>
> *(g) Upon termination of the 1966 agreement for any reason:*
>
> *(1) all of the rights and privileges granted to the bottler shall immediately thereupon cease;*

> *(2) the bottler shall immediately cease the use of the trademark and the use of any bottles, crowns or other material bearing such trademark, and shall promptly remove or obliterate the trademark from any and all buildings, plants, trucks and equipment of the bottler, other than bottles and crowns, such obliteration, removals and changes to be at the expense of the bottler; and*
>
> *(3) the company shall have the right to dispose by sale all bottles and crowns bearing the trademark and all used advertising material bearing the trademark belonging to the bottler (cl 17).*

It would appear that in 1986, Monarch`s predecessor orally granted NAWC permission to sell the beverage in clear plastic polythene bottles (PET bottles). Sometime in April 1987, Monarch`s predecessor granted NAWC permission to also produce, distribute and sell the beverage in cans. The first canning line was set up by NAWC in Malacca for economic reasons. The canned beverage was then transported to Singapore for distribution and sale.

The deterioration of the business relationship

From July 1992 onwards, differences developed between the parties over the sales performance of NAWC (KL), particularly in East Malaysia. These were encapsulated in Monarch`s letter of 29 March 1994 to NAWC (KL), and copied to NAWC, wherein Monarch stated:

> *Since 1990, we have been notifying you of our concerns and the corrective actions that must be undertaken to bring your performance into compliance with the above referenced agreement. The failure of National to employ effective management, marketing people, and a competent plant manager for Malaysia is indicative of National`s lack of performance of its obligation under paras 9 and 10 of the agreement to effectively, efficiently and vigorously service supply and promote sale of the beverage in the Territory. Our attempts to discuss these problems in Singapore have resulted in assurances that have to this date remained unfulfilled.*

At the time, Pepsi Cola was about to market their new product called `Mountain Dew` and Monarch felt that NAWC and NAWC (KL) should take urgent remedial action if `Kickapoo` was not to lose further market share. In that letter Monarch also proposed, in accordance with cl 2 of the 1966 agreement, to immediately appoint a third party franchisee for the distribution of the beverage in the form of non-returnable cans covering an area substantially overlapping NAWC (KL)`s contractual territory. Monarch was prepared to pay NAWC (KL) an appropriate commission for beverage concentrates sold to the new franchisee. But Monarch would insist that NAWC (KL) immediately cease and desist from selling the beverage in cans in Malaysia, although it would be permitted until further notice to produce the canned beverage in Malaysia for sale and distribution in Singapore only. Monarch also proposed further detailed discussion for the maintenance and development of the bottled beverage in Singapore be held between the parties in order to correct NAWC`s performance under the 1966 agreement.

On 15 June 1994, NAWC replied to Monarch stating, inter alia, that there was nothing to discuss about the development of the beverage in the returnable bottle form as Monarch`s market survey had already indicated that the market for the beverage packed in bottle was fast diminishing and would be taken over by packaging in cans and PET bottles.

On 4 August 1994, Monarch reminded both NAWC and NAWC (KL) that the licence by acquiescence granted to NAWC (KL) to sell the canned beverage was expressly terminated on 29 March 1994. Monarch further informed the two companies that Monarch had since then granted a third party, Sun Crest Trading, the right to sell and distribute the beverage in cans in Malaysia. Monarch also reiterated its request that the two companies cease to sell the beverage in cans in Malaysia. As regards the sale of the beverage in cans in Singapore, Monarch stated that it was prepared to continue its licence by acquiescence on a provisional basis provided that NAWC gave its immediate assurance that it would not sell the beverage in cans outside Singapore. In the absence of such assurance, the licence would be immediately terminated.

On 15 August 1994, Monarch informed NAWC and NAWC (KL) that as (a) it did not receive the requested assurance that NAWC would not distribute the canned beverage outside Singapore and (b) NAWC and NAWC (KL) had not stopped its unauthorised distribution of the canned beverage in Malaysia, the licence to distribute the canned beverage in Singapore was also terminated.

NAWC and NAWC (KL) denied that their sales were poor and construed Monarch`s actions in respect of the canned beverage licence as an attempt to take over the Malaysian business run through NAWC (KL) and a threat to terminate the licence in respect of the Singapore business. NAWC complained that it was not fair for Monarch to have given the franchise for cans and PET bottle packaging to Sun Crest Trading when NAWC had, in the previous 25 years, successfully promoted and obtained a market share for it.

It was, however, common ground between the parties that Monarch`s purported termination on 15 August 1994 of the 1966 agreement in respect of the distribution and sale of the canned beverage was wrongful as the requisite 30 days` notice under cl 16 was not given. NAWC did not accept this `wrongful` termination and continued to obtain and deal with the canned beverage in Singapore until 1996.

On, or sometime after, 11 December 1994, Monarch discovered that NAWC was selling and distributing a product called `Kick`. This was evidenced by an invoice issued by NAWC to one Sim Guan Lee dated 11 December 1994 for the sale of four cases of `Kick`. As NAWC did not reply to Monarch`s previous solicitors`, Drew & Napier`s, letter alleging that NAWC had made such a wrongful sale, on 23 December 1994, Monarch through the same solicitors, issued NAWC with an ***instanter*** notice of termination under cl 8 of the 1966 agreement in these terms:

> *The sale and distribution of Kick by National Aerated/Singapore constitutes a violation of the Section 8 (of the agreement) in that the said product (i) is an imitation and/or substitute for Kickapoo Joy Juice and (ii) contains `Kick` as part of its name.*
>
> *Therefore, without any prejudice to, or in any way waiving, any other rights which Monarch may have, notice of immediate termination of the agreement is hereby given pursuant to and in accordance with Section 8 of the agreement.*

The position taken by NAWC was that in July 1994, Monarch had wrongfully refused to supply the beverage concentrates to them. Consequently, in order to mitigate its loss, NAWC negotiated with the Royal Crown Company (RCC) and obtained a licence to bottle RCC`s soft drink `Kick` in respect of which RCC had a registered trademark. This `Kick` trademark has been in use in the United States from May 1964. Notwithstanding the notice of 23 December 1994, NAWC continued to distribute and sell the canned and PET bottled beverage after that date purportedly because it was trying to utilise the remaining beverage concentrates in its possession.

On 29 February 1996, Monarch commenced the present action in respect of NAWC`s breach under cl 8 of the 1966 agreement. It pleaded that NAWC had, after the termination of the 1966 agreement, infringed its mark by trading in goods not manufactured or sold with Monarch`s licence. Invoices of the sale of 1.25 litre PET bottles of the beverage issued by NAWC in 1995 and 1996 were adduced in support of that allegation. It also claimed that NAWC had deceived and misled the trade and general public, by reason of the labelling on the PET bottles that stated that the beverage was produced by licence, into believing that NAWC`s goods were licensed when this was not the case and was thus liable for passing-off. Monarch sought, inter alia, (a) a declaration that the 1966 agreement was terminated, (b) injunctive relief against NAWC to prevent the latter from exploiting the trademark, (c) discovery, delivery up and the destruction upon oath of all goods in NAWC`s possession infringing the trade mark, and (d) an inquiry for damages.

NAWC denied that it had breached cl 8 of the 1966 agreement and counterclaimed for Monarch`s breach of the 1966 agreement on the ground of wrongful repudiation. Furthermore, though not pleaded, NAWC sought at the trial to argue that cl 8 of the 1966 agreement was illegal or unenforceable on the ground that it constituted an unreasonable restraint of trade.

The decision below

Before the trial judge, NAWC made the submission that the oral agreement permitting NAWC to can the beverage was a separate agreement from the 1966 agreement, even though that was not the position taken by NAWC in its pleadings nor was it so alleged in the evidence of the main witness for NAWC. However, the submission was rejected by the trial judge who felt that Monarch`s predecessor`s oral permission to allow NAWC to produce the beverage in PET bottling and canning forms was simply a logical expansion of the use of the trademark by NAWC so as to keep abreast of the technological advances made in the packaging and marketing of beverages in general in the Singapore market. It stood to reason that this oral permission was impliedly subject to the same terms and conditions under, and were part of, the 1966 agreement.

Next, balancing the principle of public policy against interference with freedom of trade and the principle of freedom of contract, the trial judge held that Monarch was entitled to restrict NAWC`s sale of products having any word or symbol or part of the term `Kickapoo`. This was necessary to avoid confusion and possible unfair competition. NAWC was quite free to produce and market any other beverage under any other name as part of its business without restriction. But having freely accepted the restriction, NAWC was therefore bound by it.

Finally, the trial judge held that NAWC was in breach of cl 8 when it sold the `Kick` beverage. This breach entitled Monarch to invoke cl 8 to terminate the 1966 agreement altogether, which meant that NAWC was no longer entitled to utilise the trademark for the beverage. Thus, when NAWC continued to use the trademark on its invoices and in relation to its business in Singapore, it had infringed the rights of Monarch to the trademark. NAWC`s explanation that it was disposing of old stocks could not be a defence in the light of cl 17 of the agreement. Such acts and conduct were also calculated to deceive and mislead the trade and public into believing that NAWC`s goods were licensed by Monarch. He further held that NAWC had also committed the tort of passing-off. The trial judge granted the reliefs prayed for by Monarch and dismissed NAWC`s counterclaim.

Nature of cl 8

Before us the same three main issues were canvassed: (i) the enforceability of cl 8; (ii) was NAWC in breach of cl 8 entitling Monarch to terminate the agreement; (iii) was the oral permission granted to NAWC to produce the beverage in PET bottles and in cans a separate agreement from the 1966 agreement. We will consider each of these issues in turn.

As pointed out above, the question of the illegality or unenforceability of cl 8 of the 1966 agreement was not specifically pleaded by NAWC in its defence. While absence of pleading would not restrain the court from declaring a contract unenforceable if it is ***ex facie*** illegal, NAWC is precluded from relying on any facts not pleaded that are necessary to establish the illegality. The court would be confined to the terms of the agreement. In the words of Viscount Haldane in **North Western Salt Co Ltd v Electrolytic Alkali Co Ltd** [1914] AC 461 at 469:

> *... it is no doubt true that where on the plaintiff`s case it appears to the court that the claim is illegal, and that it would be contrary to public policy to entertain it, the court may and ought to refuse to do so. But this must only be when either the agreement sued on is on the face of it illegal, or where, if facts relating to such an agreement are relied on, the plaintiff`s case has been completely presented. If the point has not been raised on the pleadings so as to warn the plaintiff to produce evidence which he may be able to bring forward rebutting any presumption of illegality which might be based on some isolated fact, then the court ought not to take a course which may easily lead to a miscarriage of justice. On the other hand, if the action really rests on a contract which on the face of it ought not to be enforced, then, as I have already said, the court ought to dismiss the claim, irrespective of whether the pleadings of the defendant raise the question of illegality.*

Clause 8 of the 1966 agreement, where the restriction imposed is set out, reads as follows:

> *Bottler will not, during the life of this agreement keep, handle, offer for sale, or sell, any product which is an imitation of or a substitute for Beverage, or which contains as a part of its name or descriptive designation or as the term under which it is sold, offered for sale, or referred to, the term `Kickapoo Joy Juice` or any syllable or part of the term `Kickapoo Joy Juice`, and in the event of a violation by the Bottler of this provision this agreement may be cancelled instanter, at the option of the company, by written notice of cancellation mailed by registered mail to bottler at bottler`s last known place of business.*

The first question we have to consider is, whether that is a clause in restraint of trade. A large number of previous cases, especially the older ones, were concerned with the situations where an apprentice or a craftsman agreed with his master that he would not compete with him after leaving his service or where a trader, having sold his business, agreed that he would not thereafter compete with the purchaser of his business. But there were cases which applied or extended the doctrine beyond such traditional bounds. In **McEllistrim v Ballymacelligott Co-operative Agricultural and Dairy Society Ltd** [1919] AC 548 the society changed its rules which prevented any member from selling (except under heavy penalty) any milk produced by him in a large area of County Kerry to anyone except the society, and a member could not terminate his membership without the society`s permission. The plaintiff, who was a member, sought a declaration that the new rules were in unreasonable restraint of trade. The House of Lords, having assumed that the rules were in restraint of trade, held that they were unreasonable.

In **Esso Petroleum Co Ltd v Harper`s Garage (Stourport) Ltd** [1968] AC 269 the respondents, in consideration of the appellants` supply of petrol, agreed to give up their right to sell petrol not supplied by the appellants at their two garages. The House of Lords held that the agreement was within the scope of the doctrine of restraint of trade inasmuch as the respondents gave up their previous right to sell other brands of petrol at the site.

Various attempts have been made to define what is a contract in restraint of trade. In the locus classicus, **Nordenfelt v Maxim Nordenfelt Guns and Ammunition Co Ltd** [1894] AC 535 at 565, Lord Macnaghten said:

> *All interference with individual liberty of action in trading, and all restraints of trade of themselves, if there is nothing more, are contrary to public policy and therefore void. That is the general rule. But there are exceptions ...*

In **Petrofina (Great Britain) Ltd v Martin** [1966] Ch 146 at 180, Diplock LJ said:

> *A contract in restraint of trade is one in which a party (the covenantor) agrees with any other party (the covenantee) to restrict his liberty in the future to carry on trade with other persons not parties to the contract in such manner as he chooses.*

In ***Esso Petroleum*** , supra, at p 337, Lord Wilberforce, after reviewing the case law on the subject recognised that while contracts which were found to be in restraint of trade might be categorised, the categories could never be closed. It is thus necessary to examine the restraint which was sought to be imposed on NAWC.

What the clause sought to do was, inter alia, to restrict NAWC from selling any other product, apart from the beverage, which satisfied the criteria stipulated therein. Before NAWC entered into the 1966 agreement, it would have been free to sell any other product and this NAWC could no longer do because of cl 8. It is true that the restriction, among others, was the price which NAWC had to pay to use the trademark. The fact is NAWC did give up some freedom in order to be able to use the trademark. Thus, Monarch`s argument that NAWC had not given up any freedom which it previously had is obviously not correct. The agreement went beyond mere licensing. It restricted the freedom of NAWC to trade or sell any beverage of its choice which came within the criteria listed. In our view, this clause was in restraint of trade.

We would further add the mere fact that the restraint of trade imposed in cl 8 was confined to the `life` of the agreement did not render the clause any less subject to the doctrine. In ***Esso Petroleum*** the restraint was imposed during the currency of the agreement. See also **A Schroeder Music Publishing Co Ltd v Macaulay** [1974] 3 All ER 616[1974] 1 WLR 1308.

Reasonableness of the restraint

The next issue to consider is whether the restraint imposed was reasonable. It is well established that the court will not enforce a restraint which goes further than affording adequate protection to the legitimate interests of the party in whose favour it is granted. The rationale for this is that too wide a restraint is against the public interest: see ***Esso Petroleum*** , supra. To determine whether a restraint is reasonable the court would need to balance the freedom to contract against the freedom to trade. It does not matter that the parties have freely entered into the restraint as the rule against unreasonable restraint is based on public policy and may not be excluded by mutual consent.

We recognise that cl 8 does not impose an absolute bar on NAWC to manufacture and sell other carbonated drinks, only those that infringe the criteria set out therein. Nevertheless, a restraint is only valid if it goes no further than is reasonably necessary for the protection of the convenantee`s interest: **Morris v Saxelby** [1916] 1 AC 688. As an illustration, in **Hawkesbury Bakery Pty Ltd v Moses** [1965] NSWR 1242, the restriction on a baker was held unreasonable as it went beyond the products in which the plaintiffs possessed goodwill. NAWC does challenge the reasonableness of the scope of the present restraint. It says that the last limb of the restraint relating to the sale of products whose name, descriptive designation or term under which they are sold contain any syllable or part of the term `Kickapoo Joy Juice`, was far too wide and unnecessary to protect the interest of the covenantee. It means that NAWC could not sell any drink which has any of these five syllables: `Kick`, `Ka`, `Poo`, `Joy` and `Juice`.

Obviously, Monarch is entitled to protect the distinctiveness of the mark and to prevent any confusion that might result from the use of similar marks by NAWC in respect of other carbonated drinks. There can be no dispute that Monarch was entitled to restrain NAWC from dealing with inventions, substitutes or products whose indicia incorporate the whole term of the trademark. But what troubles us is that the restraint sought also to restrict NAWC from the use of the terms `joy` or `juice`, two very common English words. It seems to us that this must be the very reason why in the mid-eighties when Monarch`s predecessors sought to have the mark `Kickapoo Joy Juice` registered in Singapore, they were required to disclaim any right to the exclusive use, separately, of the words `Joy Juice`. This disclaimer is reflected in the Trade Marks Register. Thus, Monarch`s proprietary interest in the trade mark does not include the words `Joy Juice`.

Accordingly, it seems to us that the restraint imposed by cl 8 is ex facie unreasonable in so far as it sought to restraint NAWC`s right to use two very ordinary English words. It meant that if NAWC were to introduce a product called `Orange Juice Squash`, this would infringe the restraint. Yet, no reasonable person on seeing this latter product could ever confuse it with `Kickapoo Joy Juice`.

As mentioned above, unless the pleadings raised the point, the court should only declare a restraint clause unenforceable if it is ex facie unreasonable. But it would be difficult to say, in the absence of complete evidence as to the prevailing circumstances at the time of the agreement, whether it would be reasonable to restrict NAWC on the use of any syllable of the term `Kickapoo`. As NAWC has not pleaded the issue of the unenforceability of the restraint clause, we thus will say no more on this.

In the court below, the trial judge did not consider the aspect of the restraint involving the two words `Joy` and `Juice`. He seemed to have, in considering the scope of cl 8, concentrated on the term `Kickapoo` and not the two common words `joy juice`. He said `the restriction imposed on (NAWC) only concerned the production, and sale of soft drinks under a word or syllable of "Kickapoo"`. However, in our opinion, in considering the reasonableness of such a covenant, the covenant as a whole must be considered, and not just in relation to the particular breach. The trial judge seemed to have taken this narrower but erroneous approach of merely viewing the particular breach in the light of the restraint clause. He held that as `Kick` was likely to cause confusion with the term `Kickapoo` and would give rise to unfair competition, the restraint in cl 8 was reasonable and that the potential instances of breach of cl 8 cited by NAWC were extravagant or fanciful.

It is clear that where a restraint clause is valid in all the ordinary circumstances of the case which could have been contemplated by the parties, it remains so notwithstanding that it could cover unlikely situations outside their contemplation: ***Home Counties Dairies Ltd v Skilton*** [[1970] 1 All ER 1227; [1970] 1 WLR 526. In ***Home Counties*** the court was concerned with the construction of the entire agreement and the term `a diary business` in the restraint, and it held that the term referred to the business that the covenantee was interested in and not merely every other conceivable business that concerned dairy products. The court also endorsed the proposition in **Haynes v Doman** [1899] 2 Ch 13 (at p 25) that:

> *Agreements in restraint of trade, like other agreements, must be construed with reference to the object sought to be attained by them. In cases such as the one before us, the object is the protection of one of the parties against rivalry in trade. Such agreements cannot be properly held to apply to cases which, although covered by the agreement, cannot be reasonably supposed ever to have been contemplated by the parties, and which on a rational view of the agreement are excluded from its operation falling, in truth, outside and not within, its real scope.*

However, while we agree that a restraint should be construed purposively, this must always be subject to the wording of the restraint itself. In the present case, the restraint is very clear: NAWC could not use any syllable or part of the term `Kickapoo Joy Juice`. For this court to ignore the words `Joy Juice` in the restraint would be to re-write the agreement for the parties, which we would not do. Of course, this is not the end of the matter. There is the need to consider the doctrine of severance, to which we now turn.

Severance

There is no doubt that there were legitimate interests of Monarch which were required to be protected by the restraint. But, as mentioned before, the restraint clause is ***ex facie*** too wide. The question remaining is whether the offending portion of cl 8 can be severed in order to leave behind a valid restraint. Severance is permissible, inter alia, if the contract is one that is void or unenforceable at common law on the grounds of public policy.

The doctrine of severance may be invoked to serve two purposes. The first is to cut out altogether an objectionable promise from a contract leaving the rest of the contract valid and enforceable. Second is to cut down an objectionable promise as to its scope but not to cut it out of the contract altogether. An unreasonably wide restraint of trade clause would be a classical example of a case falling within the second category.

It is not entirely easy to reconcile all the cases on severance in relation to a restraint of trade clause. We would refer to two cases to illustrate the problem. In **Attwood v Lamont** [1920] 3 KB 571, A carried on business as a draper, tailor and general outfitter in a shop at Kidderminster which was organised in different departments. X, who was headcutter and manager of the tailoring department agreed that he would not at any time either on his own account or on behalf of anybody else carry on the trades of a tailor, dressmaker, general draper, milliner, hatter, haberdasher, gentleman`s, ladies` or children`s outfitter at any place within ten miles of Kidderminster. It was argued that this restraint clause should be severed and limited to the business of a tailor. The divisional court agreed to the severance as it took the view that the agreement constituted `a series of distinct obligations in separate and clearly defined divisions` and that it was possible to run a blue pencil through all the trades except that of tailoring without altering the main purport and substance of what the parties had written. The Court of Appeal, however, disagreed and reversed that decision. Younger LJ said at p 593:

> *... there is in truth but one covenant for the protection of the respondent`s entire business, and not several covenants for the protection of his several businesses. The respondent is ... not carrying on several businesses but one business, and, in my opinion the covenant must stand or fall in its unaltered form.*

In **Goldsoll v Goldman** [1915] 1 Ch 292, the defendant sold his imitation jewellery business to the plaintiff and agreed that for a period of two years he would not, either solely or jointly, deal in real or imitation jewellery in any part of the United Kingdom or in France, USA, Russia or Spain or within 25 miles of Potsdammerstrasse, Berlin or St Stefans Kirche, Vienna. It was clear that the restraint on the defendant in dealing with imitation jewellery in the United Kingdom was reasonable, but not outside the UK. Similarly, the restraint on the defendant in dealing with real jewellery was also not reasonable. The court allowed severance in two respects: (i) the area outside the UK and (ii) the prohibition against dealing in real jewellery.

While the fact situations in ***Attwood and Goldsoll*** are different, it is not easy to see as a matter of logic why severance was not permissible in Attwood. We would have thought that if it were possible to run a blue pencil though the objectionable parts, arguably each of those could be considered to be separate and distinct obligations. In a sense, the covenant in Goldsoll was no less a single covenant as that in Attwood. In ***Goldsoll*** the covenant was too wide in terms of territorial extent and in ***Attwood*** it was in respect of the scope of activities. The learned authors of ***Cheshire Fifoot & Furmston`s Law of Contract*** (12th Ed) sought to differentiate these two cases as follows (at p 425):

> *The crux of the matter seems to be whether in each of these cases the contract as framed by the parties was divisible into a number of separate promises, for if so, and only if so, the elimination of one or more of the objectionable promises would still leave the substantial character of the contract unchanged. It may perhaps fairly be said that this basic element of divisibility, while present in **Goldsoll v Goldman**, was absent in **Attwood v Lamont**, for in the latter case the enumeration of the various trades was only a laborious description of the entire business carried on by the employer. Since the contract was essentially indivisible, it had to stand or fall as originally drafted.*

Reverting to our present restraint clause, if severance is permitted, all that needs to be done would be to delete the two words `Joy Juice` as indicated below:

> *Bottler will not, during the life of this agreement keep, handle, offer for sale, or sell, any product which is an imitation of or a substitute for Beverage, or which contains as a part of its name or descriptive designation or as a term under which it is sold, offered for sale, or referred to the term `Kickapoo Joy Juice` or any syllable or part of the term `Kickapoo Joy Juice` ...*

The only question that remains is whether, taking the approach in Attwood, if severance is allowed, would it alter the nature of the covenant. The clause was intended to cover any of the syllables contained in the term `Kickapoo Joy Juice` and could be construed as distinctive and separate restrictions in respect of each of them. The removal of the two words would not change the nature of the covenant which was to restrict the products which NAWC could sell, whilst the 1966 agreement was in force. More importantly, the severance of `Joy Juice` from the restraint would, in fact, bring the protection within the legitimate ambit of what is the proprietary interest of Monarch in the trademark. This fact would differentiate the position here from that in ***Attwood*** .

We would accordingly permit the severance of the two words `Joy Juice` from the restraint clause. As NAWC has not demonstrated, apart from the public interest in an individual`s freedom to trade, other tangible public interests that would be unreasonably affected by this reduced restraint, the restraint as so severed will be enforced.

Was there a breach of cl 8?

There is no serious dispute that NAWC did sell the `Kick` beverage before the issue of the notice on 23 December 1994. Counsel for NAWC conceded as much in the trial below. It cannot be disputed that the product `Kick` consisted of a part or a syllable of `Kickapoo`. Thus, there was a breach on the part of NAWC. We would, however, add that NAWC sought to argue that there was no evidence of confusion resulting from the sale of `Kick` or that the get-ups of Kick and the beverage were in any way similar. In our view, these arguments are beside the point. The notice of termination was founded on the breach of NAWC`s contractual obligations under cl 8, not any passing-off or trademark infringement resulting from the sale of `Kick`. Equally irrelevant was the disagreement between the parties over the licence agreements with NAWC (KL).

In this connection there is one other matter which we need to briefly touch on. It will be recalled that on 15 August 1994 Monarch sought to terminate NAWC`s canning licence. Monarch has conceded that that termination was wrongful because it failed to give the required 30-day notice. The trial judge in his grounds of judgment stated that `both (Monarch) and (NAWC) became aware of the short notice.` In its case, NAWC submitted that this finding was erroneous. It is not entirely clear to us what the point is that NAWC sought to make in saying that the trial judge had erred on that finding. Assuming that NAWC meant to argue that NAWC had not elected to affirm the contract in spite of Monarch`s repudiatory breach, we do not see how that position may be taken bearing in mind that NAWC continued to sell the canned beverage after 15 August 1994 until 1996. Clause 17 provided that upon termination `(a) all the rights and privileges herein granted to (NAWC) shall immediately thereupon cease and terminate; (b) (NAWC) shall immediately cease the use of the trademark ...` NAWC had not complied with cl 17. It had acted as if the purported termination had not been effected. It had clearly elected to affirm the continuation of the licence for canning the beverage.

Whether the licences to sell the beverage in different packaging were separate from the 1966 agreement

Counsel for NAWC seeks to challenge the finding of the trial judge on this point on several grounds. First, Monarch`s own pleadings (its reply and defence to counterclaim) stated that the licence to can and PET bottle the beverage was pursuant to a distinct and separate agreement. Monarch averred that under the 1966 agreement any variations had to be in writing by Monarch`s President or Vice President. Such variation in writing was absent here. Second, Monarch had by its letter of 15 August 1994 informed NAWC that continued distribution of the canned beverage in Malaysia or Singapore after termination of the relevant licence would be an event of default under the 1966 agreement. This would only be consistent with the agreement being separate from the oral licence. Third, after 15

August 1994, Monarch sought to prevent delivery of cans and concentrates to NAWC`s supplier pursuant to the purported termination, whilst recognising NAWC`s continuing right to sell the beverage in bottles. This conduct would be inconsistent with the termination of a single licence agreement covering the production of the beverage in all forms of container.

Accordingly, counsel for NAWC submits that there was a separate oral agreement on the same terms as the 1966 agreement for the distribution and sale of the canned and PET bottled beverage respectively. It is inconceivable that the new agreement would merely amount to a licence terminable at Monarch`s will in view of (a) the fact that substantial capital would have to be injected by NAWC into the canning line, (b) the long standing business relationship between the parties and (c) the fact that the licence only related to different forms of packaging, namely cans and PET bottles.

In response, Monarch made three points. First, the status of the oral licences in respect of the canned and PET bottled beverage was never pleaded; nor was it raised in the evidence in chief of the NAWC. In fact, CKY specifically stated that the can and PET bottle licences were part of the 1966 agreement. Second, at the trial, NAWC did not put to Monarch`s witnesses that the can and PET bottle licences were separate agreements. Third, it reiterated the reasoning below that giving the can and PET bottle licences were logical expansions of the original agreement.

There are two general observations we would like to make in this regard. First, there is very little evidence on how the oral licences for packaging in PET bottles and cans came about. Monarch was not the relevant contracting party at the time, and so the witnesses for Monarch, Mr Stutz, could only testify generally that KJJ had some time in or about April 1987 acquiesced to NAWC producing, distributing and selling the beverage in cans. Stutz did not know of the circumstances under which the franchise for cans came into being. As for CKY, all he could state in his affidavit of evidence-in-chief was -

> *... KJJ orally agreed with the defendants [NAWC] to allow the defendants to produce, distribute and sell the beverage in cans. It was expressly agreed or alternatively, implied that the defendants` right to produce, distribute and sell the beverage was to form part of the agreement, or alternatively, to be on the same terms and conditions as the agreement.*

Secondly, and rather ironically, both parties at the trial and in this appeal are seeking to assert a legal position vis-Ã -vis the 1966 agreement that is inconsistent with their earlier conduct, the evidence or the pleadings. On the one hand, Monarch sought originally to deny in para 3 of their reply and defence to counterclaim that the can and PET bottle licences were part of the 1966 agreement or granted on the same terms as the bottled beverage. They have since retracted this position, admitting that the licences were incorporated into the 1966 agreement by variation and were on the same terms as the glass bottle licence. Accordingly, they have conceded that their purported termination of NAWC`s can licence on 15 August 1994 was invalid on the ground that it was not in accordance with cl 16 of the 1966 agreement. On the other hand, NAWC has pleaded and CKY testified that the oral licences formed part of the agreement or alternatively on the same terms and conditions as the agreement. However, their case at the end of the trial and in this appeal is that there was a separate agreement in respect of each type of container.

In these circumstances, the task lies with the court to determine, in the light of the available evidence, the true position on the two oral licences. The only person who had any first-hand knowledge of the position is CKY and the following answers of his in cross-examination are pertinent -

Q: Put - production by cans and PET were incorporated into the 1966 licence agreement?

A: I disagree.

Q: Originally, the agreement provided for bottling by cl 2 of the licence agreement and in those days as only glass bottles were produced, bottles meant implicitly glass bottles. So in 1986 when canning and PET bottling were already in vogue, the plaintiffs allowed you to can and use PET bottles for production of beverage under the agreement?

A: Yes.

Q: But the terms of the licence agreement still remained the same?

A: ***No mention of the terms*** *.*

Q: But agreement was not otherwise changed?

A: ***But they gave us acquiesce [sic] to can*** *. They helped us source machinery. [Emphasis added.]*

It seems to us improbable that a completely separate oral agreement could have been intended when no other terms, apart from the extended scope of the licence to use the trade mark, were discussed. We would be inclined to agree with the trial judge`s reasoning that the agreement was a logical development of the 1966 agreement in the face of technological advances. It was really a variation. There is no evidence that the parties wanted to review any other aspect of the parties` contractual obligations under the 1966 agreement. There does not appear to be any reason for creating a wholly separate agreement just to allow for the packaging of the beverage in a different type of container.

Furthermore, we would point out that cl 2 of the 1966 agreement reserved the right of KJJ (and Monarch) to sell the beverage in cans. But Monarch would be obliged to pay the bottler a commission in accordance with the trade practice. If NAWC`s assertion that the 1966 agreement was not in fact varied is correct, then NAWC would technically still have been entitled to the commission, as the licence to can would have been distinct and separate. This also demonstrates that the assertion of NAWC could not be correct.

Finally, before we leave this issue, cl 20 of the 1966 agreement must be addressed. It reads:

This writing contains the entire agreement of the parties hereto, and the same can be added to, varied or modified, only in writing making express reference hereto, executed by the bottlor [sic] and the company, by its President or one of its duly authorised Vice-Presidents.

This clause seems to militate against the finding of the trial judge. But, like all other contractual obligations, this requirement could implicitly have been waived by the parties. It was not a statutory requirement. In any event, there is no dispute that oral agreements were in fact made concerning canning and PET bottling of the beverage. In the circumstances, the parties must be taken to have implicitly agreed to a waiver of that requirement.

Accordingly, we do not find any reason to disturb the finding below that the oral agreements of 1986 and 1987 were variations to and formed part of the original 1966 agreement. It, therefore, follows that the termination of the 1966 agreement on 23 December 1994 covered the licences in respect of all three types of packaging.

Consequential relief for trade mark infringement and passing-off

Finally, Monarch also claimed reliefs based on trademark infringement and passing-off. It is not in dispute that NAWC continued to sell the beverage in PET bottle bearing the trademark and representation that the beverage was manufactured under licence after the termination of the 1966 agreement. It is, therefore, clear that NAWC had infringed Monarch`s trademark and the relevant relief should be granted. It is unnecessary to go into the question of passing-off as the reliefs to be granted for this tort are substantially similar to those for trademark infringements.

Counterclaim of NAWC

NAWC has counterclaimed for damages in respect of Monarch`s purported termination on 15 August 1994 of NAWC`s licence to can the beverage. NAWC has contended that Monarch had, as a result of that wrongful termination, stopped the supply of concentrates to it and had even stopped third parties from supplying cans to NAWC.

The evidence shows that Monarch did stop the supply of concentrates to NAWC in so far as the latter might require them for producing the beverage to be canned. Monarch was prepared to supply concentrates only for the production of the beverage to be bottled. As Monarch had admitted that the purported termination of NAWC`s licence to can the beverage was wrongful, Monarch was therefore not entitled to have stated that it would only supply concentrates for bottling.

However, there is no evidence that this move had resulted in NAWC being unable to produce the beverage to be canned. There is, on the contrary, evidence that NAWC had a stock of concentrates which could last some twenty months and NAWC had, in fact, continued to sell the beverage in cans up to 1996, well after the termination of the entire 1966 agreement on 23 December 1994. Accordingly, NAWC has not proven that it had, between 15 August to 23 December 1994, suffered any loss as a result of the purported termination of the canning licence and Monarch`s stated refusal to supply concentrates for the production of the beverages to be canned. This is a case where there was a breach by Monarch without any loss having been suffered by NAWC and thus no relief need be granted.

Judgment

In the result, NAWC`s appeal is dismissed with costs. The security for costs shall be paid out to the respondent`s solicitors to account of the latter`s costs.

There is one other matter we would like to touch on in closing. One of the reliefs granted by the court below is in the following terms:-

> *An injunction restraining the defendants whether acting by its directors, officers, servants, agents or otherwise howsoever from producing, selling*

and/or offering for sale and/or distributing the soft drink concentrate and/or carbonated soft drink under the name and trade mark `KICKAPOO JOY JUICE` and/or `KICKAPOO` and/or using any name or designation of the mark `KICKAPOO JOY JUICE` ***or any syllable or part thereof****;`*

This injunction granted is too wide. The allegation against NAWC is that it used the trademark without the licence of Monarch. Clause 8 of the 1966 agreement is no longer in operation after the agreement was terminated on 23 December 1994. There is, therefore, no basis for the injunction to encompass the italicised portion which we now order be deleted.

Outcome:

Order accordingly.