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### Two fierce competitors

[1] InterCity Group (NZ) Ltd (ICG) operates a long distance national passenger bus network under the brand name “InterCity”. It has approximately 60 per cent of New Zealand’s long distance bus business. It owns the registered trade mark “INTERCITY”.

[2] Nakedbus NZ Ltd (Nakedbus) is its major competitor, with approximately 35 per cent of the national business. Nakedbus was formed in June 2006 when

InterCity Group (NZ) Ltd had 95 per cent of the market. It has gained most of its market share at the expense of the percentage share of InterCity, but in a growing market. The competition between the two companies is intense.

[3] In this proceeding, ICG claims that Nakedbus has infringed ICG's trade mark INTERCITY in two ways. First, by bidding against the word "inter city" and variants thereof within Google Inc's (Google) AdWords advertising service, resulting in Nakedbus advertisements being displayed on Google in response to searches for ICG's trade mark; and secondly, by using the words "inter city" within the advertisements that would then be displayed. It also claims that its use of the words "inter city" constitute a passing off of InterCity's business, and misleading and deceptive conduct under the Fair Trading Act 1986.

[4] The InterCity brand was introduced into New Zealand in the mid-1980s, when the New Zealand Railways Corporation launched a new brand for its coach services. InterCity was the name for the long-haul passenger coach services of that corporation. In 1991, the corporation sold the InterCity enterprise to ICG which was then owned by a number of private bus companies, and ICG now owns what is left of the Corporation business including the trade mark. The trade mark report shows that the trade mark is specified for road transportation services.

[5] InterCity is a well known brand. Its Chief Executive is Malcolm Johns. In 2006, ICG complained to the Domain Name Commission about alleged "cyber-squatting" on the website [www.intercity.co.nz](http://www.intercity.co.nz). Sir Ian Barker QC upheld its complaint, commenting that:

For years prior to the filing of the complaint, [Intercity Group (NZ) Ltd] owned the INTERCITY trademark which is well-known throughout New Zealand as representing the major provider of internal public transportation by road in that country.

For reasons developed later in this judgment, I consider that comment to be accurate.

[6] Nakedbus was incorporated on 7 June 2006 and commenced trading in about September 2006. Its founder was Hamish Nuttall, who is chief executive. He holds all its shares and is a director. In Mr Nuttall's words the company operates

principally under the brand “Nakedbus.com” and offers “low cost point to point bus travel throughout New Zealand”.

[7] Mr Nuttall in his evidence explained that in 2006 Nakedbus believed that ICG had a “near monopoly” position, and that the “intercity” brand was tired and vulnerable to a vigorous competitor operating online. Nakedbus thought that it was possible to grow the market substantially by attracting consumers on the basis of bus fares that were significantly cheaper than those of InterCity, and also by attracting consumers who might otherwise drive or fly. From the outset, Nakedbus marketed and sold its tickets primarily online. Neither company owns or operates most of the buses used under its name itself. Both use other operators that own the buses and work for them under their brand.

[8] From the outset the parties engaged in what could undoubtedly be called a price war. Nakedbus introduced fares from \$1 plus booking fee, and this in due course was matched by InterCity. It would seem that each closely followed the price cuts of its opponent.

[9] The focus of ICG in its submissions was on the Google advertisement for Nakedbus containing the words “inter city” as it appeared when “inter city” and close variants were searched for by the consumer using the Google search engine. This will be the advertisement that I refer to in the course of this judgment, save where I refer to a different advertisement or site.

#### **The use of the words “inter city”**

[10] From its launch in September 2006 Nakedbus has used the words “inter city” in its pursuit of customers. It is necessary to follow the history of the disputes between the parties in relation to the use of those words, as it has some relevance to later issues.

[11] The initial website for [www.nakedbus.com](http://www.nakedbus.com) referred to “intercity” bus travel in describing Nakedbus’ services. The full paragraph read:

Get the best value long distance bus and coach services available. Intercity bus travel, experience Kiwi life, discover the magic of New Zealand by bus.

[12] It was put to Mr Nuttall in cross-examination that the words “Kiwi life” and “magic” were, like the word “Intercity”, words that were part of the names of the competitors of Nakedbus,<sup>1</sup> and were inserted so that the Nakedbus web page would respond on Google and other search engines when those key words were used by consumers. Mr Nuttall accepted this, and that he had set out to target competitors’ brands and that there was “no excuse for it”. He stated that in 2006 he was not aware of the INTERCITY trade mark.

[13] On 27 September 2006, ICG’s solicitors wrote to Nakedbus advising that its use of “intercity” on its website and other places amounted to trade mark infringement, passing off and breach of the Fair Trading Act. In response, Nakedbus removed the references to “intercity” from its advertising. Indeed it ceased to operate that website. Mr Nuttall stated that this was because Nakedbus was not in a financial position to defend a High Court case.

[14] In October 2006, ICG discovered that Nakedbus had placed a “disclaimer” on its website asserting that ICG had required Nakedbus to point out that there was no association between the two companies. In fact the correspondence does not indicate any request to this effect by ICG. ICG alleged that the disclaimer was a way of getting the word “intercity” on to Nakedbus’ website so that it would attract internet traffic searching for that word. ICG sent a letter requiring the disclaimer to be removed. This was done.

[15] Approximately 10 months later, ICG discovered that Nakedbus was using the words “intercity” on metatags<sup>2</sup> associated with its websites, and was using the words “intercity” and “inter city” as keywords<sup>3</sup> to trigger the display of Nakedbus advertisements.

[16] A letter was sent by ICG in July 2007 and resulted in Nakedbus’ lawyers on 9 August 2007 advising that Nakedbus had amended [www.nakedbus.com](http://www.nakedbus.com). It was

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<sup>1</sup> The competitors being Magic Bus and Kiwi Experience.

<sup>2</sup> Metatags are “words or phrases embedded in a website’s code, which search engines use to provide short descriptions of the information included on the site”: Ashley Packard *Digital Media Law* (2nd ed, Wiley-Blackwell, Chicester, 2013) at 214.

<sup>3</sup> “Keywords” is the term used by Google to describe the terms that users enter into the Google search engine.

changed to contain no metatags using INTERCITY. Nakedbus also advised that it did not use INTERCITY as a keyword on Google and had not done so since about 27 June 2007, and that Nakedbus did not use INTERCITY in any section of its website. It was also stated that Nakedbus rejected the allegation that it was using or had used INTERCITY as a trade mark, and that Nakedbus would not use INTERCITY as a trade mark for so long as ICG's trade mark registration remained valid. The letter noted:

In relation to point 2 above we note that although our client had INTERCITY removed as a keyword on Google at that time we are instructed that due to characteristics of Google's broad matching software (which also correlates other terms such as "bus") searches for INTERCITY after that date may have continued to return advertisements for our client's website. We are instructed that our client has taken all reasonable steps to have this cease. Any instances of searches returning results of this nature after 27 June 2007 were not attributable to our client, but rather to Google.

[17] It seems, however, that Nakedbus continued to use the words "inter city" in one way or another in its Google advertisements through 2008, which could have resulted in "intercity" searches returning Nakedbus advertisements. In February 2009, matters escalated with Nakedbus using the words "inter city" in comparative advertising. There was some solicitors' correspondence which culminated in a meeting on or about 1 June 2009 to discuss issues as to the use of "inter city". There were no lawyers present.

[18] The meeting was attended by Mr Nuttall and a Mr Pavlovich who was the director and minority shareholder of Nakedbus. Mr Johns and another ICG executive Mr Ritchie assert that Mr Pavlovich accepted that the "InterCity" brand was distinctive, and undertook to cease marketing Nakedbus operations as being "intercity" or a similar word or phrase, and undertook to market the Nakedbus operations as "city to city" instead. Mr Nuttall denies that Mr Pavlovich gave any such undertaking.

[19] Over a year later, on or about 3 November 2011, Nakedbus initiated a billboard advertising campaign promoting itself as providing "the cheapest inter city bus travel, guaranteed". This statement appeared on only one billboard, located close to the main ICG Auckland passenger depot. There was yet another lawyers'

letter sent by ICG, and after some exchanges ICG issued proceedings against Nakedbus in the Auckland High Court on 16 November 2011. However, later that month the advertisement removed words stating that Nakedbus was “the cheapest”, and the billboard was taken down altogether soon afterwards. On 8 June 2012 Nakedbus agreed not to reinstate the billboard advertisement, or to use the “InterCity” image in any other advertising or promotional material. However, it refused to give undertakings that were also sought preventing it using the words “inter city”.

[20] Mr Johns of ICG claims that around late October 2012 ICG discovered that searches for the term “inter city” on Google were generating Nakedbus advertisements which contained the words “inter city”, and which if clicked upon led to the Nakedbus website. He asserts that on 23 October 2012 Nakedbus had set out on, or significantly accelerated, a campaign to target the ICG brand. It will be necessary to set out Nakedbus’ activities at this time in more detail later in this judgment.<sup>4</sup> It was this development that led to ICG issuing these proceedings. Mr Johns states that ICG believes that Nakedbus uses the words “inter city” in its advertisements as part of a “deliberate and cynical attempt to leverage off our brand and inflict commercial harm on InterCity Group”.

### **The ICG claims**

[21] In its first amended statement of claim, ICG alleges that on 23 October 2012 Nakedbus decided to target ICG and another brand, and that this was to be done by establishing a Google AdWords campaign targeting the plaintiff’s brand “InterCity”. From 7.44 pm on 23 October 2012, Nakedbus commenced populating its “Bus NZ inter city bus travel” AdWords campaign with various individual advertisements. The purchased keywords would trigger Nakedbus advertisements containing the phrase “inter city”. It is established that Nakedbus has specified some 87 different words and phrases which will trigger its “inter city” advertisements.

[22] It is alleged that Nakedbus deliberately uses the words “inter city” in the headings and description fields of the advertisements, linked to the

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<sup>4</sup> See [142]–[149].

www.nakedbus.com website. The advertisement that will respond to the keyed in words “InterCity” on a desktop personal computer typically appears as follows:

**inter city buses from \$1 - We'll beat any inter city fare**

[www.nakedbus.com/cheap\\_bus\\_fares](http://www.nakedbus.com/cheap_bus_fares)

Free WiFi, Regular, Nationwide

Cheap Bus Tickets from \$1 - conditions apply

Free WiFi on board

[23] The first cause of action was based on breach of the undertaking allegedly given by Mr Pavlovich. There then follow the two trade mark causes of action. The first relates to Nakedbus’ purchasing of the keyword “inter city” and variations thereof via the Google AdWords service. The other trade mark claim relates to the Nakedbus advertisements that would subsequently appear in various places on the Google results page, with the primary focus in evidence and submissions being the advertisement pictured above, and the Nakedbus website that responds to a click on the advertisements.

[24] The fourth cause of action is an allegation that in its advertisements Nakedbus is passing itself off as InterCity. The final cause of action is an allegation that by the same conduct it is engaging in misleading and deceptive conduct.

[25] In addition to declaratory and injunctive relief, an account of profits, costs and interest are sought. It is agreed between the parties that should the plaintiff be successful there will be a split trial, and a further hearing in relation to the account of profits. Therefore these aspects of relief are not issues to be determined in this decision.

[26] The defendant in its statement of defence denies giving any undertaking and denies the alleged breaches of trade mark, and the passing off and Fair Trading Act allegations. It raises as an affirmative defence to the claim for injunctive relief that the plaintiff does not come to Court with clean hands, because InterCity has itself sought to promote its coach services by advertising on Google using the keywords “nakedbus” and variations thereof.

[27] On 18 February 2013 ICG sought interim orders granting it interim injunctive relief preventing Nakedbus' use of the words "inter city" and variations thereof. In a judgment of 1 March 2013 Rodney Hansen J dismissed the application.<sup>5</sup>

[28] In this judgment I will refer to the "INTERCITY" trade mark as "InterCity". When I refer to the plaintiff InterCity Group (NZ) Ltd I refer to the initials ICG to avoid confusion with references to the trade mark.

### **The first cause of action — the breach of undertaking**

[29] I was advised by ICG that this cause of action was not pursued. However, the meeting in which the undertaking was allegedly given is part of the relevant background and Mr Johns and Mr Nuttall referred to the alleged undertaking in evidence, and were cross-examined on that evidence. Mr Johns alleged that the undertaking was given by Mr Pavlovich at the meeting, promising that Nakedbus would cease marketing itself as being "inter city" and would use the words "city to city" instead. Mr Nuttall denied this. Mr Pavlovich was not called. Given the conflict, and that it is part of the background, I set out my views on whether an undertaking was given.

[30] I do not consider that any binding undertaking as asserted by Mr Johns was given on 1 June 2009 by Mr Pavlovich. I have no doubt that a conciliatory stance was taken by Nakedbus at the meeting, and I am sure that Mr Pavlovich spoke in a friendly and assuring manner. However, if an undertaking was given on such an important matter acceding to ICG's demands it could be expected that it would be recorded in writing, given that it was between commercial and competitive parties who were at arm's length. This was not done.

[31] Moreover, it could be expected that there would have been some reference to such an undertaking in the correspondence that followed the meeting. The first communication, an email from Mr Nuttall to Mr Johns, made no reference to such an undertaking and stated that Nakedbus reiterated that it was within its rights to engage in comparative advertising, and in doing so could identify ICG. It was accepted by

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<sup>5</sup> *InterCity Group (NZ) Ltd v Nakedbus NZ Ltd* [2013] NZHC 379.

Nakedbus that the comparisons had to be fair, and it was stated that Nakedbus would not use the word “intercity” in a manner that breached the trade mark. However, this email contained no reference to an undertaking to cease marketing Nakedbus operations as “inter city” and made no reference to “city to city”. It is inconsistent with Nakedbus having given an undertaking to cease marketing operations as “inter city” or a similar word or phrase, and use “city to city”.

[32] Mr Johns in his reply email of 13 July 2009 made no reference to an undertaking, or complain that the Nakedbus email did not reflect what happened at the meeting. The tone of his letter, which included statements that ICG had a history of aggressively defending its trade marks, was not consistent with some sort of agreed undertaking having been given to resolve matters. Rather, it signified an ongoing unresolved dispute.

[33] Following this there was then no reference to the undertaking until these proceedings were issued in November 2012. This is despite the fact that there was solicitors’ correspondence in the meantime and allegations of breach of trade mark by Nakedbus.

[34] Mr Pavlovich was not called by Nakedbus. This could be seen as supportive of Mr Johns’ account of events, as it is surprising that Mr Pavlovich was not subpoenaed or an explanation given as to his non-appearance, if he would have denied giving an undertaking.<sup>6</sup> But his non-appearance, while supportive of Mr Johns’ account of events, is not conclusive, and I bear in mind that the cause of action was not pursued.

[35] Mr Johns in his evidence explained in detail why the undertaking was not recorded in writing. He deposed that he was not going to insult Mr Pavlovich with a demand that he put his statements in writing, and that he felt that he could not complain about legitimate comparative advertising. This conciliatory position is not consistent with the belligerent and hostile letters sent by ICG in the two years that followed.

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<sup>6</sup> See *Penny Corp v Ithaca (Custodians) Ltd* [2004] 1 NZLR 731 (CA) at [144]–[161].

[36] I am left quite unable to reconcile the claimed undertaking with the correspondence and the actions of the parties. While I accept that Mr Johns did receive some reassurance from Mr Pavlovich about Nakedbus intending to be fair, I cannot accept that there was a promise amounting to an undertaking for the reasons I have given. Although later in this decision I do not accept some of Mr Nuttall's assertions, on this issue his account of what happened is more likely to be correct than that of Mr Johns. While I do not find that Mr Johns set out to mislead deliberately, it seems likely to me that he has, as the conflict has escalated, elevated Mr Pavlovich's conciliatory expressions to too high a level. I do not accept that Mr Pavlovich provided any undertaking.

**The second cause of action — the use by Nakedbus of keywords in Google's AdWord service**

[37] It is alleged that the Google AdWords campaign created by Nakedbus on 23 October 2012 containing the 87 "inter city" keyword variants was "use in the course of trade" of ICG's trade mark by the defendant in relation to road transportation services within the meaning of s 89(1) of the Trade Marks Act 2002 (the Act). ICG submits that those keywords are identical to the plaintiff's trade mark, giving rise to liability under s 89(1)(a) of the Act. In the alternative, it is alleged that the "inter city" keywords are similar to ICG's trade mark, and their use is likely to deceive or confuse within the meaning of s 89(1)(c). Also as a further claim it is alleged that the "inter city" keywords are identical or similar to ICG's trade mark, which is well known in New Zealand, and that Nakedbus has taken unfair advantage of or used that trade mark in a way detrimental to its distinctive character and repute within the meaning of s 89(1)(d).

[38] It is pleaded that the "inter city" keywords are being used in such a manner as to render their use as likely to be taken as use of the trade mark within the meaning of s 89(2) of the Act. A declaration is sought that the registered trade mark has been infringed by Nakedbus, and an order is sought restraining Nakedbus from any further use of the words "inter city" (in various forms) as keywords that are purchased from Google. An order is sought requiring Nakedbus to erase or obliterate the "inter city" keywords from its Google AdWords campaigns.

[39] As can be seen, the second cause of action turns entirely on Nakedbus' use of Google AdWords. The affirmative defence of clean hands turns on ICG's use of keywords for its Google advertisements. In contrast to this focus on the purchase of keywords from Google, the third cause of action turns primarily on Nakedbus' use of the words "inter city" in its advertisements on Google, its website, and other formats. How Google was used by ICG, Nakedbus and their consumers lies at the heart of both claims.

[40] I have received detailed evidence from an internet marketing consultant called by ICG, Gaber Sareczky, on how Google operates. That part of his evidence has not been challenged. The parties agree also that Arnold J correctly summarised the way in which Google works in his judgment in the English High Court decision of *Interflora Inc v Marks and Spencer plc*.<sup>7</sup>

#### *How Google operates*

[41] Google's principal source of revenue is advertising.<sup>8</sup> Its global revenue from advertising has risen from \$66.9 million in 2001 to \$43.7 billion in 2012.<sup>9</sup> The principal way in which Google provides such advertising is by means of a service known as AdWords. The service is subject to constant refinement, but has certain constant features.

[42] When a user of the Google search engine types a keyword into a computer, the search engine carries out a search and presents a display page with three main elements:

- The first is the Google search box which displays the search term that the user has typed.
- The second is the links to the websites assessed to be relevant to the search term by the search engine's algorithm (a sophisticated

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<sup>7</sup> *Interflora Inc v Marks and Spencer plc* [2013] EWHC 1291 (Ch) at [90]–[99].

<sup>8</sup> One author has suggested 95 per cent of Google's revenue results from keyword advertising: Packard *Digital Media Law*, above n 2, at 215.

<sup>9</sup> *Interflora*, above n 7, at [88].

mathematical formula), accompanied in each case by some text derived from the website in which the search term appears. These links are known as the “organic” or “natural” results. The search terms are sorted in order of relevance. The ranking is carried out by the Google algorithm on an objective basis.

- The third comprises advertisements. These advertisements contain links to websites. The advertisements are displayed because the operators of the websites shown have paid for them to appear in response to the search term (or “keyword”) in question. They are in a different colour to the organic results. The organic results can be blue, and the advertisements purple.

[43] An example of the first and third elements is shown later in this judgment.<sup>10</sup> The organic results and advertisements may appear at any place below the search box. The search engine results page is sometimes referred to as a “SERP”. I will refer to it in this judgment as the display page.

[44] The advertisement is triggered and appears within the user’s web browser when the user enters one or more particular words into the search engine. These words, known as keywords, are selected by an advertiser in return for the payment of a fee. The advertiser pays a certain amount to Google each time a user clicks on the hyperlink in its advertisement and is as a consequence directed to the advertiser’s website. This process is described as a “click” or “click through”. The payments by the advertiser are calculated on the number of clicks, subject to a maximum daily limit specified by the advertiser. If the daily limit is exceeded the advertisement will not be displayed.

[45] Any number of persons can purchase a keyword. When there is more than one purchaser there is an automated auction process whereby, subject to the influence of a quality score process devised by Google,<sup>11</sup> the advertiser who bids the

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<sup>10</sup> See [132].

<sup>11</sup> The combination of a website’s “quality score” and the bid amount is known as an advertisement’s “Ad Rank”.

highest amount has its advertisement displayed in the most prominent position. This means that popular keywords are more expensive than unpopular keywords.

[46] Mr Sareczky deposed that no one knows for certain how the Google search engine distinguishes between the results that it provides in response to different keywords entered by users. However, it is clear that it does not differentiate between words with or without capital letters. Google may on occasions attach significance to a space between words or to a hyphen, and on others treat the words as being the same. The experts do not appear to be able to predict exactly the way in which Google will respond to a word on any given day. The existence of a gap or a hyphen may lead to a difference in the way in which advertisements or organic results are ordered. Nevertheless, for all practical purposes in this case the Google search engine will for organic search purposes regard a search for “InterCity” as the same as searches for “intercity”, “Inter City” or “inter city”. A search for “inter city” by the user will search for all four variants of the search term. Similarly Google will read “InterCity Coachlines” in the same way as “inter city coach lines” and so on.

[47] It is a significant feature of Google’s proprietary algorithm that it can personalise individual searches. Thus, a search will generate a different display page for different internet users depending on user location, the type of browser used (for instance Internet Explorer or Safari) and information Google holds about the user’s search behaviour. The privacy policy of Google states that Google collects significant amounts of information from users, and uses this to try to ensure that its search results will be relevant to that particular user.

[48] The advertisements themselves are short and to a prescribed form. They comprise one headline consisting of 25 characters and two additional text lines consisting of 35 characters each. The headline functions as a hyperlink which if clicked on will redirect the user to the advertiser’s website.

[49] The advertisements display on various places on the display page. Sometimes they display directly underneath the search box. At other times they display off to one side or further down the page, or on subsequent pages.

[50] There are various ways in which a keyword may trigger an advertisement. An “exact match” is where the purchase of the keyword means that the search term entered by the user is the same as the keywords selected by the advertiser. A “broad match” on the other hand enables the purchased keyword to be matched to variants of the keyword such as plurals, or the word or phrase with gaps between syllables or words. There is also a “negative match” facility, which enables advertisers to prevent advertisements from appearing when the search query includes a particular word or phrase.

[51] Thus, an advertiser who wishes to advertise against searches for the words “inter city” and who utilises the broad match function will thereby ensure that variants of “inter city” such as “intercity” or “inter cities” will produce its advertisement. Equally that advertiser has the ability to stop this happening by placing a negative match on the words “intercity” so that when a consumer types in those words they will not produce the advertiser’s advertisement.

[52] More than one advertiser can bid on a keyword. When more than one advertisement responds to a keyword search, Google has to rank the advertisements on the display page. Google does not disclose exactly how it ranks advertisements in this situation. However, it does disclose that it uses a feature called a “quality score”. This is an assessment of how relevant the advertisement is to the keyword that is being searched. Even if a competitor has paid more for an advertisement, it may be in a lower position to another advertisement where the bid has been lower, depending on the quality score.

*Nakedbus’ use of the words “inter city” on Google*

[53] It was Mr Sareczky’s unchallenged evidence that Nakedbus generates very little organic traffic to its website from Google searches for “intercity” or “inter city”. Google’s algorithm does not regard those search terms as relevant to www.nakedbus.com. In contrast for a consumer using Google, the search terms “intercity” and “inter city” both are highly relevant to ICG buses. Mr Sareczky reported that when he searched for “intercity” on Google references to InterCity

buses, not Nakedbus, dominated at least the first 20 pages of organic rankings for these search terms. The results were similar for “inter city”.

[54] Mr Sareczky’s evidence was that Google’s algorithm treats “inter city” and “intercity” as the same. Because Nakedbus is bidding on the words “inter city” as a broad match, Google will generate advertisements in response to any close variants such as “intercity” and misspellings of “intercity” such as “intercity”.

[55] Mr Sareczky searched for “inter city” on 17 December 2012 and the advertisement set out in [22] appeared. He also gave an example of a different layout but with similar words, obtained on a smartphone. The Nakedbus “inter city” advertisements always ranked behind those of ICG. This is because Google’s algorithm perceives ICG’s advertisements as more relevant than those of Nakedbus.

[56] Mr Sareczky deposed that Nakedbus’ campaign targeting the words “inter city” and variations and combinations included some 87 different keyword combinations. These were either broad matches for “inter city” and associated phrases such as “inter city bus” and some 39 different misspellings of “inter city”.

[57] It is not clear from the evidence when exactly Nakedbus started purchasing keywords which would result in Nakedbus advertisements appearing when the words “inter city” or variants thereon were keyed in by a user. However, Mr Sareczky comments that from November 2012 there was a campaign commenced using Google that generated significant sales. This is referred to in more detail later in this judgment.<sup>12</sup> The “inter city bus” advertisements on Google that month generated sales of \$19,388.44 against a cost of only \$4,150.28. The inclusion of the word “inter city” in those advertisements significantly improved the results from those prior to the change.

[58] Mr Sareczky deposed that he could see what search terms were triggering the advertisements and generating sales. The keywords “intercity” and “intercity bus” were responding to searches and generating significant impressions and click-throughs and sales for Nakedbus.

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<sup>12</sup> See [142]–[149].

[59] There was a change in December 2012 when Google interceded for a time, and prevented Nakedbus from targeting the trade mark term “intercity”. This had a dramatic and immediate effect on sales through the advertisements using the “inter city” keywords. Following Google’s intervention this drop in sales continued through to May 2013. However in April 2013, Google relaxed its policy in New Zealand regarding the use of registered trade marks which allowed Nakedbus to start acquiring “intercity” search traffic again. This resulted in an immediate lift in revenue for Nakedbus. For the May to June 2013 two month period, the campaign generally generated sales of \$17,949.22 at a cost of \$4,455.53. The matched search query “intercity” produced revenue of \$11,734.73 as against “inter city” which produced only \$391.58.

[60] On the basis of this analysis Mr Sarczky, whose evidence I accept, deposed that Nakedbus has, in his opinion, run an AdWords campaign successfully targeting for its advertisement the search terms that would otherwise reference ICG’s InterCity site and organic ICG results. By purchasing the words “inter city” Nakedbus has also purchased any close variants including the words “intercity” and “inter-city”. A consumer searching for the brand name of a company, in this case “Intercity”, is presented with an advertisement from a competitor of the searched for brand “InterCity”. That competitor is Nakedbus.

*The use of keywords by Nakedbus and s 89(2) — the different positions of the parties*

[61] Section 89(1) and (2) of the Act which relate to infringements provide:

**89 Infringement where identical or similar sign used in course of trade**

- (1) A person infringes a registered trade mark if the person does not have the right to use the registered trade mark and uses in the course of trade a sign—
  - (a) identical with the registered trade mark in relation to any goods or services in respect of which the trade mark is registered; or
  - (b) identical with the registered trade mark in relation to any goods or services that are similar to any goods or services in respect of which the trade mark is registered, if that use would be likely to deceive or confuse; or

- (c) similar to the registered trade mark in relation to any goods or services that are identical with or similar to any goods or services in respect of which the trade mark is [registered,] if that use would be likely to deceive or confuse; or
  - (d) identical with or similar to the registered trade mark in relation to any goods or services that are not similar to the goods or services in respect of which the trade mark is registered where the trade mark is well known in New Zealand and the use of the sign takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the mark.
- (2) Subsection (1) applies only if the sign is used in such a manner as to render the use of the sign as likely to be taken as being use as a trade mark.

[62] The section refers to “use” in two ways. First, “use in the course of trade” in s 89(1), and second “used” and “likely to be taken as used” in s 89(2). ICG claims that Nakedbus is “using” the “inter city” keywords in such a manner as to render their use as likely to be taken as being use as a trade mark within the meaning of s 89(2), and that the keyword “inter city” used by Nakedbus is identical with the registered trade mark “InterCity”, contrary to s 89(1)(a). In the alternative, it is claimed that Nakedbus is also liable for infringement under s 89(1)(c) due to “inter city” being similar to “InterCity” and used in relation to bus services, and that its use would be likely to deceive or confuse. There is also a claim under s 89(1)(d).

[63] Mr McBride argued that, consistent with European authorities such as *Google France SARL v Louis Vuitton Malletier SA*,<sup>13</sup> when a consumer purchases a keyword that is identical with another’s trade mark it is using that trade mark in the course of trade. He also submitted that the advertisements that result will create the impression that there is a material link between the advertised goods or services in question and the owner of the trade mark. The implication is that the advertisement originates from the trade mark owner, and the consumer is likely therefore in terms of s 89(2) to take it that “inter city” has been used as a trade mark when the keyword has been purchased.

[64] Mr Harris submitted that the claim fails at this first step, as s 89(2) is simply not apt to cover the act of selecting keywords for an AdWords campaign. He submitted that the alleged use of selecting the keywords is an act that is invisible to

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<sup>13</sup> Case C-236/08 *Google France SARL v Louis Vuitton Malletier SA* [2010] ECR I-2417 at [51].

everyone except Google and the advertiser. If the “use” cannot be seen by a third party, it cannot be “taken as” anything, let alone “taken as being used as a trade mark”. He submitted that the Court should be cautious before relying on any of the European Court of Justice cases as the test in Europe is fundamentally different, and is whether the selection of trade marked keywords causes “detriment” to any of the functions of the mark.

[65] Mr Harris suggested that it was convenient to consider the application of s 89(2) first before turning to infringement under s 89(1). I agree. Section 89(2) is both a gateway that must be passed by a claimant and its determination, if affirmative, sets a platform for the examination of infringement issues.

[66] I record that I do consider that there was “use” by Nakedbus in the sense of the words in s 89(1) as “use in the course of trade”. This type of use does not involve a third party notional consumer test of the type required in s 89(2). I have no doubt that Nakedbus was, when it purchased keywords, using the mark in the course of trade, in the sense of using it as part of its commercial activity to advance its trade.<sup>14</sup> The real issue is whether “use” in the second sense found in s 89(2) took place.

*Keywords and s 89(2)*

[67] It is stated in s 5 of the Act that “trade mark”:

- (a) means any sign capable of—
  - (i) being represented graphically; and
  - (ii) distinguishing the goods or services of 1 person from those of another person[.]

There is no doubt that “InterCity” is a sign represented graphically in terms of distinguishing the goods or services of one person from those of another. On its face, it fits within the definition.

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<sup>14</sup> See the remarks of Wylie J in *Coca-Cola Company v Frucor Soft Drinks Ltd* [2013] NZHC 3282 at [116].

[68] The classic statement of the function of trade marks is that of Bowen LJ in *Re Powell's Trade Mark*.<sup>15</sup>

The function of a trade-mark is to give an indication to the purchaser or possible purchaser as to the manufacture or quality of the goods – to give an indication to his eye of the trade source from which the goods come, or the trade hands through which they pass on their way to the market. It tells the person who is about to buy, or considering whether he shall buy, that what is presented to him is either what he has known before under the similar name, as coming from a source with which he is acquainted, or that it is what he has heard of before as coming from that similar source.

[69] The statement has been referred to with approval in a number of New Zealand cases.<sup>16</sup> In *Mainland Products Ltd v Bonlac Foods (NZ) Ltd*<sup>17</sup> the Court of Appeal described the remarks of Gummow J in *Johnson v Johnson Australia Pty Ltd v Sterling Pharmaceuticals Pty Ltd*<sup>18</sup> as instructive. Gummow J stated:

[I]t remains the case that the primary function of a trade mark registered in Pt A or B of the register is that of distinguishing the commercial origin of goods or services sold under the mark. The registered mark serves to indicate, if not the actual origin of the goods or services, nor their quality as such, the origin of that quality in a particular business, whether known or unknown by name.

[70] These authorities show that the essential function of a trade mark is to guarantee to the consumer the identity of the origin of the trade marked goods or services by enabling that consumer to distinguish the goods or services from others which have a different origin. With this in mind, I turn to whether, in relation to the keyword “intercity” and variations, there has been a “use” in terms of s 89(2) by Nakedbus.

[71] I accept Mr Harris’ submission that it is important not to confuse dicta relating to the issue of confusion and deception, in deciding the question of what constitutes “use as a trade mark”. It is stated in relation to the Australian position in *Shanahan’s Australian Law of Trade Marks and Passing Off*.<sup>19</sup>

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<sup>15</sup> *Re Powell's Trade-Mark* [1893] 2 Ch 388 (CA) at 403–404.

<sup>16</sup> See *Kiwi Polish Co v Kempthorne, Prosser & Co* [1925] NZLR 26 (CA) at 65, and *Villa Maria Wines Ltd v Montana Wines Ltd* [1984] 2 NZLR 422 (CA) at 427.

<sup>17</sup> *Mainland Products Ltd v Bonlac Foods (NZ) Ltd* [1998] 3 NZLR 341 (CA).

<sup>18</sup> *Johnson & Johnson Australia Pty Ltd v Sterling Pharmaceuticals Pty Ltd* (1991) 101 ALR 700 (FCA) at 723.

<sup>19</sup> M Davison and I Horak *Shanahan's Australian Law of Trade Marks and Passing Off* (5th ed, Melbourne, LawBook Co, 2012) [*Shanahan's*] at 85,560.

... the question of whether a sign is used as a trade mark is governed by the definition of ‘trade mark’ in s 17: is the sign being used to distinguish goods and services dealt with or provided by the defendant in the course of trade from those of others, or is it serving some other purpose, such as comparative advertising or a description of the user’s goods or services. ... There is a common misconception that an infringer uses a sign as a trade mark if the use indicates or is likely to indicate a connection between the infringer’s goods and the owner of the registered mark. However, factors relevant to whether there is a misrepresentation or likelihood of deception have no role to play in deciding the question of what constitutes ‘use as a trade mark’.

[72] “Use of sign” and “use of trade mark” are defined in ss 6 and 7 of the Act. There is no complexity about the concept of “use” as it appears in s 89(2). It carries the usual meaning of employing something to achieve something.<sup>20</sup> There are considerable bodies of authority both in Europe and Australia on the meaning of use as a trade mark. However, the concept of “use” in both jurisdictions turns on the wording of the relevant sections, and those sections contain different words and different concepts to those in the New Zealand legislation. Article 5 of Directive 89/104, which applies to the European member states, refers to “using in the course of trade”. Section 120(1) of the Australian Trade Marks Act 1995 (Cth) refers to “... uses as a trade mark”. Neither has the phrase “likely to be taken as being used as a trade mark”. In Australia in determining whether a sign is used as a trade mark there is an objective test applied, which is by reference to what a member of the public could be expected to understand by its use.<sup>21</sup> While this has similarities to the New Zealand test, it would be dangerous to apply the tests set out in the Australian cases to New Zealand, given the different statutory frameworks.

[73] In New Zealand the leading case on the approach to “use” is *Mainland Products Ltd v Bonlac Foods (NZ) Ltd*.<sup>22</sup> Unsurprisingly there has until these proceedings been no New Zealand case which has examined the use of a keyword by

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<sup>20</sup> Tony Deverson and Graeme Kennedy (eds) *The New Zealand Oxford Dictionary* (Oxford University Press, Melbourne, 2005) at 1243.

<sup>21</sup> *Shell Company of Australia Ltd v Esso Standard Oil (Aust) Ltd* (1963) 109 CLR 407 at 425; *Sportsbreak Travel Pty Ltd v P & O Holidays Ltd* (2000) 50 IPR 51 at [14] per Burchett J; *Mantra Group Pty Ltd v Taillyy Pty Ltd (No 2)* [2010] FCA 291 at [50].

<sup>22</sup> *Mainland Products Ltd v Bonlac Foods (NZ) Ltd*, above n 17.

an advertiser.<sup>23</sup> However, there have been European decisions which have grappled with this issue.

[74] Mr McBride referred to *Google France SARL v Louis Vuitton Malletier SA* in which there were references to the European Court of Justice concerning the display on the internet of advertising links on the basis of keywords corresponding to trade marks.<sup>24</sup> The Grand Chamber observed:<sup>25</sup>

With regard, firstly, to the advertiser purchasing the referencing service and choosing as a keyword a sign identical with another's trade mark, it must be held that that advertiser is using that sign within the meaning of that case-law.

[75] In that regard, suffice it to note that the use, by a third party, of a sign identical with, or similar to, the proprietor's trade mark implies, at the very least, that that third party uses the sign in its own commercial communication. It was held that the relevant legislation had to be interpreted as meaning that the proprietor of a trade mark is entitled to prohibit an advertiser from advertising on the basis of a keyword identical with that trade mark which an advertiser has selected in connection with the internet, referencing goods or services identical with those for which the mark is registered without the consent of the proprietor.<sup>26</sup>

[76] Given the difference in the relevant legislation and case law this decision cannot be regarded as authoritative in New Zealand. The approach in New Zealand turns on the concept of a notional third party taking the use as use as a trade mark. As Gault J stated in *Mainland Products Ltd v Bonlac Foods (NZ) Ltd*:<sup>27</sup>

The essential question then is whether this use of the word "Vintage" by Bonlac is likely to be taken as use as a trade mark. Taken by whom? Plainly it is persons to whom the product is presented in the course of trade. That will include persons engaged in the relevant trade such as wholesalers and retailers as well as retail customers. To establish infringement it is now necessary to show that the use complained of will likely be taken by everyone encountering it in the course of trade as infringing use. Just as when determining whether the resemblance of marks is such as to be likely

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<sup>23</sup> I note that there has been some academic commentary on the subject, including that of potentially "invisible uses": P Sumpter *Intellectual Property Law: Principles in Practice* (2nd ed, CCH New Zealand Ltd, Auckland, 2013) at 174–175.

<sup>24</sup> *Google France*, above n 13.

<sup>25</sup> At [51] and [56].

<sup>26</sup> At [99].

<sup>27</sup> *Mainland Products*, above n 17, at 345.

to deceive or cause confusion, it is sufficient to constitute infringement if it conveys or is likely to convey to a substantial number of prospective purchasers the significance deemed to infringe – in this case trade mark significance.

[77] Although *Mainland Products Ltd v Bonlac Foods (NZ) Ltd* related to the Trade Marks Act 1953, and there were some differences in the wording of that section, there was no material difference in the use of the phrase “likely to be taken” and Gault J’s remarks in that case apply.

[78] The likelihood of the manner of use of the mark being taken as indicating a trade connection will depend on all the circumstances of the use.<sup>28</sup> The normal meaning of the words will be a primary consideration, as will the way it is used in relation to the particular services.<sup>29</sup>

[79] Liability only extends so far as to include uses of trade marks that consumers are confronted by in the market. The consumer who determines whether the use is “likely to be taken” as use as a trade mark is the same consumer who is used to measure whether the sign is “identical” to the trade mark for the purposes of s 89(1)(a), or whether the use of the sign is “likely to deceive and confuse”.

[80] Obviously there cannot be only a small and insignificant group of consumers. Nor, however, does it have to be every consumer. I note that in the decision of *Arsenal Football Club plc v Reed*<sup>30</sup> the concept of “some consumers” was referred to and in *Anheuser-Busch Inc v Budejovicky Budvar, národní podnik*<sup>31</sup> there was reference to “... at least a significant section of that public”. It is sufficient to constitute infringement if it conveys or is likely to convey trade mark significance to a substantial number of prospective purchasers.<sup>32</sup> The phrase used by Arnold J in *Interflora Inc v Marks and Spencer plc* was “a significant number of consumers to whom the advertising is addressed”.<sup>33</sup> This statement was made in the context of mistaken belief but is helpful as an identifying phrase.

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<sup>28</sup> *Mainland Products*, above n 17, at 345.

<sup>29</sup> At 345–346.

<sup>30</sup> Case C-206/01 *Arsenal Football Club plc v Reed* [2002] ECR I-10273 at [57].

<sup>31</sup> Case C-254/02 *Anheuser-Busch Inc v Budejovicky Budvar, národní podnik NP* [2004] ECR I-10989 at [83].

<sup>32</sup> *Mainland Products*, above n 17, at 345.

<sup>33</sup> *Interflora*, above n 7, at [83].

[81] As to the type of consumer, I am assisted by the reference in a different context in the European cases involving Google to the “average consumer” concept. In *Google France v Louis Vuitton Malletier SA* the Court held in relation to the origin function of a trade mark in the context of internet users of Google that:<sup>34</sup>

The function of indicating the origin of the mark is adversely affected if the ad does not enable *normally informed and reasonably attentive internet users*, or enables them only with difficulty, to ascertain whether the goods or services referred to by the ad originate from the proprietor of the trade mark or an undertaking economically connected to it or, on the contrary, originate from a third party (see, to that effect, the *Céline* case (para 27 and the case law cited)).

(emphasis added.)

The concept of the normally informed and reasonably attentive internet user was also applied by Arnold J in the High Court.<sup>35</sup>

[82] I consider that if a significant number of normally informed and reasonably attentive internet users are likely to take the use of the sign as being used as a trade mark, that will be sufficient for the purposes of s 89(2).

[83] In relation to “likely to be taken as used” it was observed by Gault J in *Mainland Products Ltd v Bonlac Foods (NZ) Ltd* that when a Court is assessing how a trade mark would appear to those encountering it in trade:<sup>36</sup>

It is a matter of impression taking careful account of the considerations already reviewed and the circumstances in which the product is sold. The extent to which it is contended that purchasers will have been conditioned by trade practices are to be taken into account cumulatively.

[84] In that case, the trade mark VINTAGE had been registered in respect of cheese, and the respondent had introduced a cheese into the New Zealand market which bore the word “vintage” on its packaging, although in conjunction with the respondent’s registered trade mark. In the High Court, “vintage” had been found to be a bona fide description of the taste and/or flavour of the cheese. The Court of Appeal held that “vintage” would have been thought of by a consumer in all the circumstances as used as a trade mark. The use in question was the placing of the

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<sup>34</sup> *Google France*, above n 13, at [83]–[85].

<sup>35</sup> *Interflora*, above n 7, at [231].

<sup>36</sup> *Mainland Products*, above n 17, at 351.

word “vintage” on the package that would be seen by the consumer as use as a trade mark.

[85] The position in relation to the use by Nakedbus of the keywords is entirely different to a use on packaging or other communications to the public. The use of the keyword was by Nakedbus when it purchased that keyword prior to the placement of its advertisement, and then by Google when, through its search engine, it provided for the Nakedbus advertisement to appear when a consumer keyed “intercity” into a computer. In such a situation, the use of the keyword by Nakedbus and indeed Google was not seen by the consumer at all. As Mr Harris observed, these actions were invisible to everyone except Google and the advertiser. If the “use” could not be seen by the consumer it could not be “taken as” anything, let alone “taken as being used as a trade mark”.

[86] This does not mean that the trade mark owner is without remedy. For reasons that I will set out in my consideration of the third cause of action, if an identical or similar trade mark is used by the advertiser in its advertisement, that may give rise to a successful infringement claim. But it has not been shown in evidence that a consumer would know or understand the use of keywords, and I am not prepared to assume an awareness of how they are used. Insofar as the use of the keyword was an act that was not seen or known or understood by the consumer, there was no use of the sign “likely to be taken as being used as a trade mark”.

[87] I accept that this interpretation could mean that in New Zealand the plaintiff in the *Interflora* litigation, where there was no appearance of the trade mark at issue in the competitor’s advertisement, might be left without a remedy because the complained of actions in purchasing the keyword trade mark were all invisible to the consumer (although there might be remedies in passing off and breach of the Fair Trading Act). The difference lies in the broader scope of protection afforded by the European legislation to trade marks, which considers actionable acts that cause detriment to the mark’s function. I am bound to apply s 89(2) and the requirement which requires an assumption of use by a trade mark by the notional third party. For this reason the second cause of action fails.

[88] For reasons that I will set out in relation to the third cause of action, if the s 89(2) threshold had been crossed, I would have held there to be an infringement in the use of the keywords because Nakedbus has used the “InterCity” trade mark by using an identical or similar sign, likely to deceive or confuse.

### **Clean hands**

[89] It is not necessary to consider the doctrine of clean hands in relation to this cause of action as it has not been made out. Nevertheless I refer to it briefly. ICG had for a period purchased the keyword “Nakedbus” so that its advertisements would respond.

[90] The defence of clean hands is available where a defendant can demonstrate that a plaintiff seeking to obtain equitable relief in relation to a particular transaction has also acted improperly in relation to that transaction.<sup>37</sup> The impropriety must have a nexus with<sup>38</sup> or an immediate and necessary relation to, the relief sought.<sup>39</sup> For example, a plaintiff relying on promissory estoppel to found a claim in contract was denied relief where that plaintiff had also misrepresented its financial situation in breach of contract.<sup>40</sup> Plaintiffs may demonstrate that they have “washed their hands” of any uncleanness, by showing for example that the inequitable conduct was accidental, or ceased well before the suit was brought.<sup>41</sup>

[91] If Intercity had succeeded on the key words cause of action, and had for a period done the same thing itself, this would indeed have been a blatant infringement by ICG. There was no basis for ICG to think it could rightly use the Nakedbus word, as that word had no relevance to the ICG operation, and was not being used for comparative purposes.

[92] However the infringement on the basis of what is good for the goose is good for the gander, is not now continued. I would have been prepared to regard it as

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<sup>37</sup> Andrew Butler and ors *Equity and Trusts in New Zealand* (2nd ed, Thomson Reuters, Wellington, 2009) at 1064.

<sup>38</sup> *Eldamos Investments Ltd v Force Location Ltd* (1995) 17 NZTC 12,196 (HC) at 12,203.

<sup>39</sup> *Weight v Murphy* [1931] NZLR 1170 (SC) at 1183.

<sup>40</sup> *Official Assignee in Bankruptcy v Tooheys Ltd* (1993) 29 NSWLR 641 (SC).

<sup>41</sup> R Meagher, D Heydon and M Leeming *Meagher, Gummow & Lehane's Equity Doctrines & Remedies* (4th ed, Butterworths LexisNexis, Australia, 2002) at [3–130].

being of a reactionary nature rather than as part of a long term strategy to obtain an unfair advantage. I would not have declined to exercise any equitable remedy because of this feature, and the discontinuance of the wrong.

[93] It is not necessary to consider clean hands in relation to the causes of action relating to the advertisements themselves, as it has not been suggested that ICG placed advertisements containing misleading references to Nakedbus that might lead a consumer to think it was dealing with Nakedbus when it was dealing with ICG. The words “Nakedbus” and variations thereon do not appear in ICG advertisements. As noted above, any allegedly unclean hands must have a nexus with the same type of behaviour, and there is no sufficient nexus to those advertisements.

**The third cause of action — the use by Nakedbus of the words “inter city” in their advertisements and website**

[94] Under the third cause of action, it is alleged that Nakedbus is using the words “inter city” in the advertisements that would appear on Google, on its website and in other ways within the meaning of s 89(1) of the Act. It is claimed that the 87 “inter city” variants are identical to the plaintiff’s trade mark or, in the alternative, the words are similar to the plaintiff’s trade mark and their use will be likely to deceive or confuse within the meaning of s 89(1) of the Act. The primary focus of the plaintiff’s claim is the online advertising and the use of the words “inter city” in various forms in the Google advertisement.

[95] As a further claim under this cause of action, it is alleged that the words “inter city” are identical or similar to the plaintiff’s trade mark and take advantage of or are detrimental to the distinctive character and repute of the trade mark within the meaning of s 89(1)(d) of the Act. It is claimed that the words are likely to be taken as being used as a trade mark under s 89(2) of the Act. The same relief is sought.

[96] Mr Harris submitted that the rights of a trade mark owner do not extend to preventing others from using the sign in a way that does not affect its trade mark functions. The Courts are loathe to expand the exclusive rights granted to trade mark

owners to “something akin to literary copyright”.<sup>42</sup> He argued that none of the advertisements that were the subject of complaint in the third cause of action used any sign as a trade mark. The words were used descriptively and for their actual meaning.

[97] Mr McBride on the other hand, while accepting that a purely descriptive use of the trade mark would not engage s 89(2), submitted that consumers faced with the advertisements in question would be likely to see the references to “inter city” as a brand name, denoting the origin of the advertisements, because that is what they are looking for in the online context when they see the words.

[98] It is necessary to assess these competing submissions. In doing so it must be recognised that in New Zealand the essential function of a trade mark is as a badge of origin.<sup>43</sup> It is necessary to consider the evidence of use of the words “inter city” in this context. When consumers in New Zealand search for bus services using the words “inter city”, what are they looking for?

[99] I record at this point that there can be no doubt that Nakedbus when it created its advertisements “used” the words “inter city” in the course of trade, in the sense that the words were used for commercial purposes.

*The words “intercity” and “inter city”*

[100] The word “intercity” is recognised as a word in all of the leading dictionaries. Its use is discussed in the evidence of Dr Bronwyn Innes, a linguistics expert called by ICG, and Dr Diane Beardsley, a lexicography and linguistics expert called by Nakedbus. They both agreed that the single word “intercity” has a similar meaning. The New Zealand Oxford Dictionary defines its meaning as follows:<sup>44</sup>

*Adj.* Existing or travelling between cities.

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<sup>42</sup> *Johnson & Johnson*, above n 18, at 723.

<sup>43</sup> See [68].

<sup>44</sup> *The New Zealand Oxford Dictionary*, above n 20, at 563.

[101] This meaning was not contested by the experts; nor did they disagree that the morpheme “inter” had the meaning of “between”, “in between”, “amid” or “amongst”. The words “inter city” or “inter-city” are all variants of the same word.

[102] It is also not in issue that the word “intercity” has acquired in New Zealand a character that is distinctive of a particular product or service, namely ICG’s bus service. There are numerous examples of ordinary words like “intercity” acquiring such a character, such as the words “Bank of New Zealand” or “The Warehouse”. These brands have been formed from words that are used in everyday language and have a meaning. Nevertheless, they are given trade mark protection and their owners have a statutory entitlement to their exclusive trade mark. If a rival company wishes to challenge the validity of the trade mark it may do so by virtue of processes set out in the Act.<sup>45</sup> There has been no such challenge in relation to the trade mark “InterCity”. Thus, for the purposes of this proceeding “intercity” as a word can be seen as having two roles in New Zealand: one as an adjective which has a meaning, and one as a name of a well known, long distance bus company.

*The s 89(2) threshold – the use of the word “intercity” in New Zealand*

[103] Mr Harris argued that the use of the words “inter city” in the Nakedbus advertisements were not use of a sign likely to be taken as being used as a trade mark. They were used in a descriptive way. He emphasised that trade marks are badges of origin, and that the words were not used as a badge of origin by Nakedbus to suggest it was selling ICG tickets.

[104] I note Lockhard J’s comment in *Pepsico Australia Pty Ltd v Kettle Chip Co Pty Ltd*<sup>46</sup> that it is easier to find infringement of a registered trade mark where it consists of a coined phrase, than where it is a generally descriptive word which has acquired a secondary meaning, so as to become distinctive of the plaintiff’s goods as a badge of origin. There is always the possibility that the word may be used in the former sense. Where a word has acquired such a secondary meaning it remains the

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<sup>45</sup> Trade Marks Act 2002, s 66(1)(a).

<sup>46</sup> *Pepsico Australia Pty Ltd v Kettle Chip Co Pty Ltd* (1996) 33 IPR 161 (FCAFC) at 162.

case that it can still be used in a descriptive sense. As has been observed, a risk of confusion must be accepted.<sup>47</sup>

[105] I accept that care must be taken to ensure that the important advertising medium offered by Google is not unduly constrained. I bear in mind the statement of the Court of Appeal in England in *Specsavers International Healthcare Ltd v Asda Stores Ltd*:<sup>48</sup>

In my judgment these cases ... establish that a proprietor of a trade mark with a reputation is not necessarily entitled to prohibit the use by a competitor of his mark in relation to goods for which it is registered even though the mark has been adopted with the intention and for the purpose of taking advantage of its distinctive character and repute, the competitor will derive a real advantage from his use of the mark, and the competitor will not pay any compensation in respect of that use. Consideration must be given to whether the use is without due cause. Specifically, the use of a trade mark as a keyword in order to advertise goods which are an alternative to but not mere imitations of the goods of the proprietor and in a way which does not cause dilution or tarnishment and which does not adversely affect the functions of the trade mark must be regarded as fair competition and cannot be prohibited.

[106] ICG put forward a significant body of evidence to support the general proposition that the word “intercity” is a well known trade mark in New Zealand, and does indicate to a purchaser or possible purchaser of bus services the trade source from which the service comes. ICG submitted that when the mark is used in the absence of clear words indicating the contrary, it will be seen as a trade mark indicating origin.

[107] The service provided by InterCity is not just a service “between cities” within the meaning of the word. It is a true national network and operates between small towns and tourist destinations as well as between cities. The same is the case for Nakedbus, although it appears to focus more on the main routes. In my view it is not accurate to describe either service as an inter city service, in the sense of only between cities. They are both national services, servicing various different destinations including cities.

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<sup>47</sup> *Dominion Rent A Car v Budget Rent A Car* [1987] 2 NZLR 395 (CA) at 408.

<sup>48</sup> *Specsavers International Healthcare Ltd v Asda Stores Ltd* [2012] EWCA Civ 24 at [141].

[108] ICG called David Fougere, a market researcher, to give survey evidence to determine "... the extent of the relevant public's use of the terms 'intercity' or 'inter city' as descriptive search terms, when using the internet to search for information about long-distance bus travel in New Zealand". The survey was an online survey undertaken by members of the New Zealand public. A total of 786 persons were surveyed in a period between 24–26 July and 2–4 August 2013.

[109] The survey first asked participants six questions: three preliminary "demographic" questions (asking the participant's gender, age and geographic location), and three "screening" questions (to determine whether the participant would have information of value to provide concerning their use of the internet to search for bus services). Participants would then proceed to the six "core" questions, aimed at surveying the New Zealand population's use of internet search terms and phrases when using Google to search for information about bus travel.

[110] The six core questions read:

Question 7. If you wanted to take a bus from Auckland to Hamilton next weekend, and you decided to Google a word or phrase describing this bus service, to see what range of companies might offer that service, what word or phrase would you Google?

Question 8. If you wanted to take a bus from Queenstown to Franz Joseph (the town near the glacier on the West Coast), and you decided to Google a word or phrase describing this bus service, to see what range of companies might offer that service, what word or phrase would you Google?

Question 9. If you wanted to take a bus from Auckland to Hamilton next weekend and you wanted to Google the name of a bus company that you already knew provided this sort of service, to check its timetable and prices, what word or phrase would you Google?

Question 10. And if you wanted to take a bus from Queenstown to Franz Joseph next weekend and you wanted to Google the name of a bus company that you already knew provided this sort of service, to check its timetable and prices, what word or phrase would you Google?

Question 11. What word or phrase would you Google if you wanted to find the InterCity website, to check InterCity's bus routes, timetable and prices?

Question 12. What word or phrase would you Google if you wanted to find the Nakedbus.com website, to check its bus routes, timetable and prices?

[111] As can be seen, the seventh and eighth questions were aimed at determining what terms New Zealanders would use to find bus travel between destinations. Question seven concerned large cities, and question eight less familiar tourist destinations. Questions nine and ten sought to elicit what companies participants would Google when seeking that “sort of service”, and questions eleven and twelve what terms would be used when searching for the InterCity and Nakedbus.com websites respectively.

[112] The data that resulted was as follows:

<b>Word or phrase would Google</b>	<b>Q7</b>	<b>Q8</b>	<b>Q9</b>	<b>Q10</b>	<b>Q11</b>	<b>Q12</b>
Intercity and all related variants - without origin/destination	28	8	53	37	286	-
Above WITH origin/destination	5	1	26	20	3	-
Nakedbus and all related variants - without origin/destination	20	3	52	27	-	280
Above WITH origin/destination	1	-	18	14	-	2
Both of the above - without origin/destination	4	1	6	4	-	-
Above WITH origin/destination	-	-	-	1	-	-
Other bus company/brand - without origin/destination	7	5	11	13	3	-
Above WITH origin/destination	-	1	8	7	-	-
Non-specific brand - without origin/destination	-	2	32	43	-	1
Above WITH origin/destination	-	-	14	20	-	-
Origin/destination	204	245	58	74	2	1
Route or region	3	11	1	8	-	-
Other answers	26	12	15	14	5	11
Don't know or not answered	2	11	6	18	1	5
<b>Total</b>	<b>300</b>	<b>300</b>	<b>300</b>	<b>300</b>	<b>300</b>	<b>300</b>

[113] Mr Fougere determined that the survey showed that:

the general public of New Zealand who travel by bus between cities, towns or other destinations, do not use the term “intercity” or “inter city” as a descriptive search term when they are searching for information about bus services and routes, or if they do so, it is to such a small extent as to be virtually negligible.

[114] In response to questions seven and eight, the overwhelming majority (204 of 300 for question seven, and 245 of 300 for question eight) searched for the origin and destination of their hypothetical bus trip. In answering question seven, 37 participants searched for “InterCity” and close variants, and 25 for “Nakedbus” and close variants. Mr Fougere examined the difference between these two figures, and

considered that there was no statistical significance in the difference in numbers. Mr Fougere considered this to be an important finding, demonstrating that although a small proportion of participants used the phrase and variants of “InterCity” in response to question seven, that use is attributable to the tendency of a small proportion of people to use brand names, rather than descriptive terms, in their responses.

[115] Of the 37 responses to question seven that used “InterCity” and variants, 33 of those uses were searches for “InterCity”, “intercity” or “InterCity”, and four for “inter city”. Mr Fougere considered that this result supported his conclusion that use of the phrase was by participants searching for the brand, instead of using it as a descriptive term. In the five instances where participants had used “intercity” as well as the origin and destination of their trip, it was not clear whether the phrase was used descriptively or as the brand name in any of them.

[116] Once asked by question nine to Google the name of a specific bus company along the same Auckland to Hamilton route, 85 people (or 28 per cent) responded with InterCity, and 76 (or 25 per cent) with Nakedbus. In applying the appropriate statistical test, Mr Fougere considered it highly statistically significant that a much higher proportion of participants entered “InterCity” (85 to 37) when asked to provide brand names rather than a purely descriptive term.

[117] In examining the use of “inter city” (as found in the Nakedbus advertisements) in conjunction with origin and destination, Mr Fougere noted that such a use featured only once out of a potential 1200 responses (300 participants in response to questions seven through ten). If participants had commonly used such a phrase, it could have been argued “inter city” was used descriptively. However they did not.

[118] He considered that when people use “inter city” or its variants in a search form they overwhelmingly more often use the one-word form (as in “InterCity” or “intercity” or “InterCity”), rather than the two word form of “inter city” as used on the Nakedbus website. People in the survey who used the origin and/or destination of their trip were making general searches about bus travel. He concluded that the

survey showed that when the relevant public used the terms “intercity” or “inter city” as part of a searchable phrase when using Google to search for information about bus travel, they used that term as a brand name and not as a descriptive search term meaning travel between cities or other long-distance travel.

[119] Mr Fougere also concluded that the use of “intercity” and its variants across the survey was only slightly higher than use of “Nakedbus” and variants. If “intercity” was used in New Zealand not only to designate ICG’s trade mark but also as a genuinely descriptive term, it could have been expected for the cumulative use to be much higher than that of “Nakedbus”. Rather, the data demonstrated that the use of each brand was statistically equivalent, supporting the view that use of “intercity” in New Zealand conditions was of the brand and not a descriptive use.

[120] The methodology adopted by Mr Fougere was criticised in one respect by a marketing research expert called by Nakedbus, Dr Philip Gendal. He deposed that in his opinion two of Mr Fougere’s critical questions, questions seven and eight, were leading. He did not appear to contest Mr Fougere’s conclusion that the survey showed that the general public of New Zealand who seek long distance travel by bus, do not use “intercity” or “inter city” as a descriptive search term. However, he stated that questions seven and eight of the survey, quoted above, where there was reference to a “range of companies”, may have led some respondents to propose a response in the form of a bus company name when they would not have otherwise done so.

[121] I do not see these questions as leading. It is not being suggested to the respondent that the question should be answered with a company name. To the contrary, the question is directed at discerning what word or phrase would be used to obtain the range of company or business names. The respondents were being asked about a “word or phrase describing [a] bus service” and it does not follow as a matter of logic that the respondent should put in the name of a company. Unsurprisingly, over two-thirds of the respondents answered by putting forward the words of their origin or destination as the words they would use.

[122] I consider Mr Fougere's survey to have been in accordance with good practice, and I treat the results that he has obtained as reliable.

[123] Mr Fougere's survey confirms the evidence of Mr Johns and Mr Rode that the brand name "intercity" is well known in New Zealand. Consumers when they search using that word, wish to locate that brand. Indeed, Mr Nuttall effectively conceded this in cross-examination in the following exchange:

- Q. I am asking you that you agree with my proposition that you cannot disagree with Mr Fougere's findings?
- A. I understand what you're saying. I think absolutely a significant number of people are searching for the brand name or the trademark or the company, not the trademark, the company. Some people are searching for a generic term.

[124] Although the words are slightly ambiguous I had no doubt on hearing Mr Nuttall's response that this was a concession that Mr Fougere's findings were right. Bus users do not see the words "inter city" as useful when they are seeking to find out about bus travel. This supports the view that a significant number of consumers when they key in the words "inter city" are not using the word descriptively. They are seeking to locate "InterCity" coachlines, the bus company.

[125] This was the conclusion of Mr Rode, the general manager for marketing and online sales of ICG, referring to Google reports on the use of "inter city". They show that over the past 12 months the word "intercity" has been a more popular search term in New Zealand than in any other country in the world. The country in which the word was next most popular had only 27 per cent of the volume of searches that there were in New Zealand. I accept Mr Rode's evidence that compared to New Zealand, the word "intercity" has virtually no significance as a search term in the United Kingdom, the United States or Australia. It is used on occasions as a generic description for long-distance or "between cities" travel. In no other country of the world is the word "intercity" associated with a major bus company. It follows that the phrase's unique popularity in New Zealand derives from the similarly unique fact that among all of the English-speaking countries in the world, in New Zealand it is a well known word designating origin. It is the name of a bus company. It is a trade mark.

[126] In my assessment it is obvious that a person wishing to travel between certain cities is unlikely to key in the word “intercity” or the words “inter city” because the very general nature of such words means that their entry is unlikely to reveal useful results. A person who wishes to find out what bus services are available between cities is more likely to key in the word “bus” and the names of the cities in question. This will give a specific and helpful result.

[127] I also accept the evidence of Mr Rode that in relation to the website [www.intercity.co.nz](http://www.intercity.co.nz) for the four weeks ended 29 September 2012:

- (a) The word “intercity” provided 31.15 per cent of its search traffic, with almost none of the searches for “intercity” being “paid”.
- (b) The words “inter city” only accounted for 0.76 per cent of the search traffic.
- (c) Generic words, such as “bus”, had almost no relevance, providing only 0.68 per cent of its search traffic.
- (d) “naked bus” accounted for 3.50 per cent of search traffic, with 51.85 per cent of those searches being paid.

For the weeks ended 7 September 2013:

- (e) The word “intercity” provided 26.32 per cent of its search traffic, with 56.04 per cent of searches for “intercity” being “paid”.
- (f) The words “inter city” only accounted for 0.98 per cent of the search traffic.
- (g) Generic words, such as “bus”, again had almost no relevance, providing only 0.3 per cent of its search traffic.
- (h) “naked bus” accounted for 0.42 per cent of the traffic, with 23.55 per cent of those searches being paid.

[128] He also deposed that in terms of [www.nakedbus.com](http://www.nakedbus.com) for the four weeks ended 29 September 2012:

- (a) The word “intercity” had almost no relevance, providing only 0.73 per cent of its search traffic.
- (b) The words “inter city” had no significance at all.
- (c) Generic words such as “bus” had almost no relevance, with “bus” providing only 0.37 per cent of its search traffic.
- (d) Searches for the words “naked bus” accounted for 21.47 per cent of search traffic to its website.

For the four weeks ended 7 September 2013:

- (e) Searches for the words “naked bus” accounted for 23.68 per cent of all traffic to its website.
- (f) The word “intercity” provided 2.04 per cent of its search traffic, with 57.73 per cent of that traffic being “paid”.
- (g) The words “inter city” had no significance at all.
- (h) Generic words, such as “bus”, had almost no relevance, providing only 0.54 per cent of its search traffic.

[129] He further deposed that in terms of searches for “intercity” for the four weeks ended 29 September 2012, 83.98 per cent of all internet searches for “intercity” in New Zealand went to the [www.intercity.co.nz](http://www.intercity.co.nz) website, and only 1.06 per cent went to [www.nakedbus.com](http://www.nakedbus.com); and for the four weeks ended 7 September 2013, 87.41 per cent of all internet searches for “intercity” in New Zealand went to the [www.intercity.co.nz](http://www.intercity.co.nz) website (or its new website for mobile devices, [m.intercity.co.nz](http://m.intercity.co.nz)), and 5.15 per cent went to [www.nakedbus.com](http://www.nakedbus.com).

[130] These patterns lead me to the conclusion that by September 2013 most New Zealand internet users, when they searched for “intercity” and variants, were not searching for companies or businesses that fitted that phrase, but instead were looking for the ICG brand.

*The appearance of “inter city” in the advertisements*

[131] Against this background it is necessary to assess whether the words “inter city” are used as a trade mark in terms of s 89(2) in the Nakedbus advertisements where the words appear. I recognise that the results Google will return for any search term are constantly changing, and the evidence shows that different results were obtained on different days.

[132] The evidence was that the display page that responds to a search for “intercity” generally shows the following search box and below (although in varying places below) the following Nakedbus advertisement:



[133] On occasions, the advertisement appears under the search box or close to it. On others it is further down the chain. On occasions there are variations to the advertisement. For example, one advertisement that appeared on 10 December 2012 read “inter city buses from \$1 – nakedbus.com”. But the evidence shows that the advertisement shown above is that most commonly shown on Google in response to the entry “intercity” or a similar entry.

[134] The following points can be made about the use of the words “inter city” in the advertisement, bearing in mind that consumers will have come to see the advertisement often expecting to see entries that are connected with the target they have keyed in of “Intercity”:

- (a) The words “inter city” appear in bold. This is because as dictated by Google those are the words to which the advertisement has responded, in this case “intercity bus”, and which therefore appear in bold. However, this would not necessarily be apparent to some consumers as the reason for the bold letters. The words “inter city” are the most prominent words. They will catch the eye. On the face of it, there is particular emphasis on the words “inter city” which a consumer could take as part of the advertisement, and would reinforce the impression that the words are not being used in a descriptive sense, but rather as a name. The use of lower case is unlikely to be seen as significant, given the frequent abandonment of capitals in modern business names.
- (b) Although it is not shown in the extract above, the advertisement appears among the organic results responding to “intercity bus”, which often refer to ICG’s “InterCity”. This would lead to it being seen as an insertion of the same type, placed there by the owner of “InterCity”.
- (c) The first phrase “inter city buses from \$1” could well be read as indicating that ICG is the origin of the bus service advertised. It could be read as meaning that ICG’s buses are available from \$1. However, it is ambiguous. The words “inter city” could have in the alternative an adjectival meaning. It could mean that bus fares between cities are offered for \$1.
- (d) The next statement in the advertisement “we’ll beat any inter city fare” is again ambiguous and may or may not indicate origin. On the one hand some readers might in the context of the surrounding words

interpret the words as having the meaning of between cities, and that there is a promise to beat any other fare that is offered between cities. On the other hand, a reader may well see the statement as relating to the bus company ICG and to therefore mean that the advertising entity would beat any of ICG's fares. This would follow from the widespread recognition in New Zealand of "InterCity" as a company name. It would also follow from taking that latter meaning, that the advertiser must be a different company from ICG. The first meaning could be consistent with ICG having placed the advertisement, the second not.

- (e) The words referring to "www.nakedbus.com/cheap\_bus\_fares" are much less prominent than the previous words relating to "inter city". So are the references to free wifi, regular, nationwide and the other two descriptive sentences.
- (f) There are no express words stating that this is not an ICG advertisement or words to that effect, or any clear statement indicating that this is a comparative advertisement. There is nothing to indicate that the Nakedbus website is not associated with ICG.

*Section 89(2) and deliberate "use"*

[135] The assessment of the nature and purpose of the use of a sign is objective, that is by reference to what persons to whom the product was presented in the course of trade, here consumers, would have taken the use to be. However, it is relevant to note that there is actual evidence of a deliberate use by Nakedbus of "inter city" as a trade mark. Where it is proven that an advertiser has set out to deliberately use words as a trade mark it can be expected that the advertiser's perception that the use will be taken as a trade mark use will be accurate.

[136] My conclusion that Nakedbus set out to use "inter city" as a trade mark is based on the documents disclosed by Nakedbus, and the evidence of its Chief Executive, Mr Nuttall. In relation to the reliability of Mr Nuttall's evidence, I record

that in Mr Nuttall's affidavit in opposition to the interim injunction application of January 2013 he asserted that if an injunction was granted Nakedbus would lose estimated income in the region of \$37,000 a month. In fact at the time he was referring to, the revenue at risk was under \$5,000 a month. In his evidence under cross-examination he accepted that he made a mistake. It was a very significant mistake which he could not explain in a satisfactory manner. Rodney Hansen J in his interim injunction decision<sup>49</sup> relied on that figure of \$37,000 a month, although it was not determinative in his decision. It is a matter of concern that such a gross error was made in an affidavit on such an important issue, and indicates at the very least a careless attitude to factual assertions.

[137] I reject entirely Mr Nuttall's evidence that "we only want to use 'inter city' (or 'inter-city' or 'intercity') because it best describes to our consumers here and overseas what we do". Mr Nuttall was cross-examined on his assertion that "inter city" accurately described the nature of Nakedbus' business. As noted above, Nakedbus buses do not just travel between cities. They travel as well to small towns and tourist destinations. Mr Nuttall stopped referring to "intercity" when challenged by ICG in 2006, but proceeded to use the keywords "inter city". I consider he did so because he knew that as a consequence of the broad match function consumers searching for InterCity would get the Nakedbus advertisement on their screen display.

[138] I also reject his assertion that he has not attempted to associate Nakedbus or Nakedbus.com with "intercity" or the "intercity coachlines" brand. As the initial website set up by Nakedbus in September 2006 showed, at the very outset Nakedbus used the words "intercity" together with the names of other competitors on its website so that a reference to Nakedbus would respond on Google and other search engines when those keywords were used by consumers.<sup>50</sup> The approach of using competitors' names to divert traffic from competitors to Nakedbus continued.

[139] It is true, as Mr Nuttall says, that on occasions he did remove references to "inter city" but this was only because of pressure from ICG. It seems to me that he

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<sup>49</sup> *InterCity*, above n 7.

<sup>50</sup> See [10] and [11] above.

followed a policy in the initial years, as indeed he frankly conceded, of avoiding litigation because the company could not afford it, but only making whatever concessions he felt absolutely obliged to make to avoid such litigation. He pushed the use of “inter city” in his advertisements and website as hard as he could to attract ICG consumers who might go to his advertisements when they keyed in “inter city”. Moreover it is my assessment that if he could arrange Nakedbus advertisements so that Nakedbus could get more business by consumers booking with Nakedbus thinking that they were booking with ICG that he would do so.

[140] If Mr Nuttall genuinely did not wish to induce confusion by his use of the words inter city (a position he maintained throughout his evidence) he could have easily avoided any risk of it by placing a negative match in relation to his advertisement and the word “inter city”. Also, he could have used words different from “inter city” like “city to city”. He never did this, thereby courting the inevitability that his paid advertisements, containing the words “inter city”, would appear in response to a search for ICG’s trade mark.

[141] If there had been no ICG and goodwill in the name of “intercity” I have no doubt that the words “inter city” would not have been purchased by Nakedbus as a keyword with all variations, and Nakedbus would not have featured “inter city” in its advertisements and website. Nakedbus did so only because of the very considerable goodwill that attached to that name in New Zealand.

[142] This approach of Mr Nuttall and Nakedbus can be seen from internal emails relating to an AdWords campaign that proceeded in October and November 2012. Mr Nuttall acknowledged in his original affidavit in the interim injunction proceeding that in October 2012 he became aware that the “inter city” keywords were performing well and that Nakedbus decided to increase its spending on the campaign. He acknowledged that Nakedbus increased its spending on the “campaign” to achieve a higher and more prominent ranking when users included those terms in their search, and they repeated the “inter city” keywords in the advertising copy and on their landing page. He maintained that this was “to reassure users that our website was relevant to their search for long-distance or inter-city travel”.

[143] Having heard Mr Nuttall cross-examined on the topic, I reject his explanation. I consider that he campaigned using the words “inter city” and variations because he wished to attract ICG consumers who had put that word into Google, searching for ICG. Mr Nuttall’s assertions that he had used the word “campaign” by mistake and he meant “account” were not convincing.

[144] It was put to Mr Nuttall in cross-examination that a handwritten note of 23 October 2012 prepared by a staff member of Nakedbus, Ms Chen, which referred to “lawyer” and the initials “IC” (which Mr Nuttall said was a descriptive use of “inter city”), “Kiwi ex” (Kiwi Experience) and the further reference “keyword target”, indicated that a specific decision was made on that day to get legal advice about a campaign. The campaign was planned to target two of Nakedbus’ major competitors. Mr Nuttall denied this. However, I believe he did target consumers who keyed in “Intercity” and I interpret the email in this way.

[145] In particular, I reject Mr Nuttall’s claim that the initials “IC” in the email were a reference to the generic word “intercity”. This is demonstrated by the fact that the next day the same Ms Chen sent an email to Mr Nuttall, again referring to “IC” and “Kiwi EX”. I have no doubt at all that “IC” was the company ICG, Nakedbus’ main competitor. Mr Nuttall’s suggestion that the word was being used generically makes no sense at all in the context of the words used.

[146] The full extract in Ms Chen’s email of 24 October read under the heading “AdWords”:

Wants to do IC and Kiwi EX direct advertising.

[147] In fact the confidential keyword performance data that was provided showed that the keyword “intercity” was generating the most clicks and impressions in October 2012. I consider that the very considerable jump in Nakedbus traffic in October 2012 was the result of the campaign to spend money on “inter city” as a keyword and as a consequence pick up consumers who keyed in the words “intercity”. Indeed, Mr Nuttall effectively conceded this under questioning in cross-examination. The reason that Nakedbus got so many visits was because their advertisement was responding to the keyword “intercity”.

[148] In an email of 14 November 2012 Mr Nuttall wrote to a staff member stating that trade marks could not be used in an advertisement or as a keyword unless they were doing comparative advertising. He said:

InterCity is a trade mark so we cannot use that but we can use ‘inter city’ (always lowercase) when it is used to describe travelling between cities.

I see this statement as an ingenuous justification for a use that was nevertheless intended to exploit the wide recognition of the trade mark “InterCity”.

[149] Then on 26 November 2012 he emailed another staff member stating that he had noticed that the advertisements had “Inter City” capitalised. He asked that they should not be capitalised. He sent a similar email on 30 November 2012. This was not in my view a genuine attempt to avoid confusion, but an attempt by Mr Nuttall to avoid obvious infringement.

[150] When Google stopped or limited the Nakedbus advertisement responding to “inter city” and variations including “InterCity”, Nakedbus wrote immediately questioning this and asking why it had been stopped. On 21 December 2012 Mr Nuttall wrote to Google, the subject being “urgent question about our campaign”. He observed that when he typed “intercity” into Google the Nakedbus advertisement did not appear, whereas it had done so before 6 December. He pointed out to them that Nakedbus was not using “intercity” as a keyword. But I find that he was driven by the knowledge that the Nakedbus advertisement would, nevertheless, respond to “InterCity”.

[151] I am satisfied that Mr Nuttall wrote that letter because the whole purpose of the campaign was to have the Nakedbus advertisement respond to ICG consumers or those who wished to go on ICG buses typing in the word “InterCity” or one word variations that phrase.

[152] In conclusion, I do not accept Mr Nuttall’s claim that the Google advertisement was effectively a comparative advertisement. The first reference to “inter city” is not in a comparative sense at all. The second reference could be construed as a comparative statement, but it might well be ignored by the consumer

who as soon as the words “inter city” have been seen, would then click on the advertisement.

[153] Nakedbus did not need to use the words “inter city” in its advertisements. It would have been more accurate to offer New Zealand-wide buses. If the “intercity” concept was sincerely the goal, the words “city to city” could have been used. Mr Nuttall, despite all the pressure from ICG and evidence of confusion referred to later, chose not to continue to pursue the words “inter city”. In my view he deliberately wished to use “inter city” in his advertisements because he had reached the commercial decision that the searches of the Nakedbus website he would get from consumers looking for ICG would lead to custom. The words “inter city” were used as hooks to attract those looking for the ICG bus service to Nakedbus.

[154] This evidence shows therefore Nakedbus using “inter city” as a trade mark, in that it knew that as a consequence its advertisements would respond to the word “intercity” used as a company name, or variations thereon.

*Section 89(2) — “likely to be taken as used”*

[155] In relation to what is a trade mark, and the competing submissions as to how Nakedbus used “inter city”, Mr McBride argued that in addition to the function of trade marks as badges of origin, they now must be seen as having an advertising function and thereby creating a unique product identity. He referred to the expanding functionality of the modern trade mark having received judicial endorsement, relying on decisions of the Grand Chamber of the European Court of Justice.<sup>51</sup>

[156] However, the English Courts have not embraced this development. Jacob LJ observed in *L’Oreal SA v Bellure NV*:<sup>52</sup>

I am bound to say that I have real difficulty with these functions when divorced from the origin function. There is nothing in the legislation about them. Conceptually they are vague and ill-defined. Take for instance the advertising and investment functions. Trade mark owners of famous marks

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<sup>51</sup> *Google France*, above n 13, at [91]–[93]; Case C-323/09 *Interflora Inc v Marks and Spencer plc* [2011] ECR I-8625 at [60]–[65].

<sup>52</sup> *L’Oreal SA v Bellure NV* [2010] RPC 23 (CA) at [30].

will have spent a lot of money creating them and need to continue to spend to maintain them. But all advertisements for rival products will impinge on the owner's efforts and affect the advertising and investment function of the brand in question. No one would say such jostling for fame and image in the market should be stopped.

[157] I respectfully agree. Trade marks continue to function as badges of origin. The perceptions of quality turn on the perceptions of origin as Bowen LJ observed.<sup>53</sup> The indication that the trade mark provides of the origin from which the goods have come carries with it the indications of function and quality. The badge of origin is the key. New Zealand's trade mark legislation does not centre on preventing any economic harm to a mark, but instead is intended to prevent confusion of marks with others.

[158] Bearing this in mind, it is now necessary to assess whether the words "inter city" are used in such a manner as to render their use as likely to be taken as being used as a trade mark. Who is the notional consumer who "takes" the sign as being used as a trade mark in terms of s 89(2)? As I have observed, in my view he or she is a reasonably well informed and reasonably observant internet user.<sup>54</sup> Such a person cannot be expected when scanning a results page on the screen, to read advertisements with absolute accuracy or care. The consumer is doing a scan to find a site where tickets can be purchased. On the other hand, the reasonable user is not careless in his or her observations, and can be expected to exercise a consumer's customary skepticism of advertisements.

[159] As has been stated, it is important to bear in mind the context in which the consumer has come to this site. The evidence shows that consumers will have come to the site looking for ICG's trade mark. That is the word they will have keyed in. The consumer sees that in response, Google has produced amongst other organic "InterCity" results placed by ICG, the advertisement with its references to "inter city" and the Nakedbus website. Given that the evidence demonstrates that New Zealand internet users intend their use of "intercity" to refer to ICG's brand, the assumption can easily be made by the consumer that the Nakedbus website is connected to InterCity, without reading in detail the other words or thinking about

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<sup>53</sup> See [60] above.

<sup>54</sup> See [83] above.

what they mean. The click is made and there is no further opportunity for reflection on what has been seen. The consumer then has the Nakedbus website on his or her screen and the invitation to purchase Nakedbus tickets.

[160] Many consumers will, despite being reasonably well informed and reasonably observant in their quick scan and click, fail to observe the indications that Nakedbus is a separate entity from the owner of the trade mark “intercity”. I have already set out the features of the advertisement that will lead to this.<sup>55</sup> They may assume that the owner of the trade mark has arranged for this website to appear in this advertisement. They may assume that the word “intercity” or a close variation thereof has been used by the person entitled to use it to produce this response on the screen. This conclusion is supported by the actual evidence of this mistake being made, referred to later.<sup>56</sup> There is in my view a real possibility that users will assume when they see the Nakedbus advertisement in response to entering “intercity” that the website shown has a connection with the owner of the trade mark “InterCity”.

[161] Therefore, in my view a reasonably well informed and reasonably observant internet user might well, in quickly scanning this advertisement, think that it was an InterCity advertisement. The eyes would fix on the bold words and go to the website on which the click must be made. I accept that this would involve the consumer having resolved the first ambiguities by adopting a non-descriptive meaning of “inter city”, or just not reading past the bold references. It also involves the consumer accepting that an entity known as “Nakedbus” has a connection to InterCity. However, the consumer might well consider that the advertisement indicates that Nakedbus is in some way associated with InterCity. Why else would the words “inter city” be stated twice, highlighted, and respond to the user’s search for “intercity”? I can take judicial notice of the fact that the concept of companies with different names being associated, such as Qantas and Jetstar, Telecom and Skinny, and ANZ Bank and National Bank, is well understood by consumers in New Zealand.

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<sup>55</sup> See [134] above.

<sup>56</sup> See [195]–[198].

[162] In *Interflora Inc v Marks and Spencer plc* the Grand Chamber of the European Court of Justice had to consider a number of questions arising from a dispute between Interflora and Marks and Spencer.<sup>57</sup> Interflora operated a well known flower delivery network in the United Kingdom and Marks and Spencer was a well known retailer. Both operated internet websites that took orders for the delivery of flowers. Marks and Spencer paid Google to display advertisements for its flower delivery service on a search engine results page when an internet user used Google's search engine to search for "interflora" and similar terms. Marks and Spencer did not use the word "interflora" or a word like it in the advertisement.

[163] Arnold J of the English Chancery Division, who had referred the questions to the Grand Chamber of the European Court of Justice then had to determine the case on the facts and his decision was reported as *Interflora Inc v Marks and Spencer plc*.<sup>58</sup> He held that the origin function of Interflora's trade mark was adversely affected by keyword advertising triggered by the trade mark if the advertisement did not enable reasonably well informed and reasonably observant internet users, or enabled them only with difficulty, to ascertain whether the advertised goods or services originated from the trade mark proprietor.<sup>59</sup> He held that it was possible that a significant proportion of consumers believed that there was a connection between the Marks and Spencer advertisement and Interflora.

[164] There was a different feature in that case to the present. Interflora was known to use a network of independent florists. To a consumer who had gone through the steps to google Interflora, Marks and Spencer could have been thought to be one of those in the network. That is not a feature of this case. I record that I am not satisfied here that it was widely recognised by consumers that InterCity used a network of independent bus companies to drive buses under the InterCity label, or for that matter that this was recognised by consumers about Nakedbus.

[165] In *Google France v Louis Vuitton Malletier SA* the European Court of Justice held in the context of internet users of Google that:<sup>60</sup>

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<sup>57</sup> *Interflora*, above n 51.

<sup>58</sup> *Interflora*, above n 7.

<sup>59</sup> *Interflora*, above n 7, at [267](i).

<sup>60</sup> *Google France*, above n 13, at [83] and [85].

The question whether that function of the trade mark is adversely affected when internet users are shown, on the basis of a keyword identical with a mark, a third party's ad, such as that of a competitor of the proprietor of that mark, *depends in particular on the manner in which that ad is presented.*

...

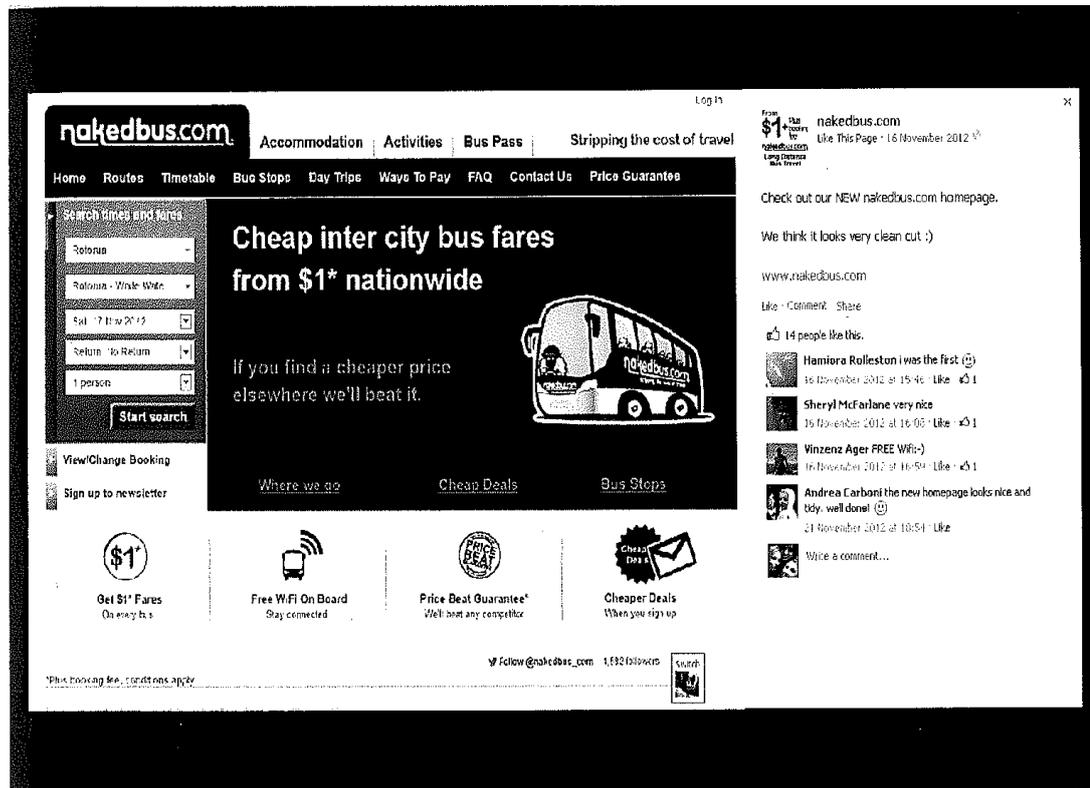
In such a situation, which is, moreover, characterised by the fact that the ad in question appears immediately after entry of the trade mark as a search term by the internet user concerned and is displayed at a point when the trade mark is, in its capacity as a search term, also displayed on the screen, the internet user may err as to the origin of the goods or services in question. *In those circumstances, the use by the third party of the sign identical with the mark as a keyword triggering the display of that ad is liable to create the impression that there is a material link in the course of trade between the goods or services in question and the proprietor of the trade mark* (see, by way of analogy, the *Arsenal Football Club* case (para 56) and *Anheuser-Busch Inc v Budjovicky Budvar, národní podnik* Case C-245/02 [2007] IP & T 348, [2004] ECR I-10989 (para 60)).

(emphasis added)

[166] Although as I have observed, the European law is different, this factual observation as to how Google advertisements appear to the user is of assistance. If the trade mark searched for by the consumer appears in the advertisement the internet user may err as to the origin of the goods, and believe that there is a material business link between the goods advertised and the proprietor of the trade mark. For the reasons given, I consider that a significant number of consumers when viewing the Nakedbus Google advertisement would see the bold words “inter city” twice and take it to mean that “inter city” is being used as a trade mark. The use of the words “inter city” in relation to the \$1 fares, while it has a natural meaning of “between city fares of \$1” could, to the consumer looking for and expecting to see an “InterCity” bus advertisement, signify that InterCity is the company offering \$1 fares. Its use is in my view ambiguous, but many would see “inter city” as being used as a badge of origin in that it is a reference to the InterCity bus service. The second “inter city” clause quickly scanned would, to some, signify the same thing.

[167] The relevant point of time in which to assess the use of the trade mark is when the consumer sees the advertisement on the screen, having searched for “intercity”, before a click. I find that at that point of time some consumers would think that “inter city” is being used as a trade mark indicating the origin of the service.

[168] The consumer might also retain the view that the ICG service was the subject of the advertisement on opening the Nakedbus website. The website appears as follows:



[169] It contains on it the words “cheap inter city bus fares”. While the word Nakedbus is also stated, the consumer may well continue with the illusion that Nakedbus is in some way connected to ICG. Nakedbus is offering cheap ICG bus tickets. A significant number of consumers who have reached the site having keyed in “Intercity” looking for ICG,<sup>61</sup> will proceed to make the order thinking that the order is with ICG.

[170] I accept that if the trade mark was not being used as a trade mark but rather served some other purpose such as comparative advertising, or unambiguously as a description of the users’ goods or services, that this would not be used as a trade mark.<sup>62</sup> In my view, this is not how a significant number of consumers would have seen the words to have been used.

<sup>61</sup> See [160]–[161] above.  
<sup>62</sup> *Shanahan’s*, above n 19, at 85,560.

[171] I therefore find:

- (a) In relation to the third cause of action relating to the Google advertisements, the sign is likely to be taken as used as a trade mark.
- (b) This is also the case in relation to the Nakedbus website featuring the words “inter city” when it is arrived at by the consumer originally keying in the words “intercity”. The background, where some consumers are looking for ICG and expect to be on its website, is important to this finding.

*The word “identical” in s 89(1)(a)*

[172] I have found that the words have been used as a trade mark under s 89(2). If those words are identical to the trade mark there will have been an infringement if Nakedbus has used in the course of trade a sign that is identical with the registered trade mark “INTERCITY” under s 89(1)(a).

[173] Absolute protection is granted to a sign that is identical with a registered trade mark.<sup>63</sup> The sign said to be identical is the words “inter city” as they appear in the Nakedbus Google advertisement and elsewhere. In contrast, a qualified protection by the Act turning on whether the mark is likely to deceive or confuse is available for a sign that is only similar to the registered trade mark.

[174] The leading authority on identicalness in Europe is *LTJ Diffusion SA v Sadas Vertbaudet SA* where it was stated that “identity ... must be interpreted strictly” and “the very definition of identity implies that the two elements compared should be the same in all respects”.<sup>64</sup> The Court then went on to say:<sup>65</sup>

However, the perception of identity between the sign and the trade mark must be assessed globally with respect to an average consumer who is deemed to be reasonably well informed, reasonably observant and circumspect. The sign produces an overall impression on such a consumer. That consumer only rarely has the chance to make a direct comparison

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<sup>63</sup> Trade Marks Act 2002, s 89(1)(a).

<sup>64</sup> Case C-291/00 *LTJ Diffusion SA v Sadas Vertbaudet SA* [2003] ECR I-2799 at [50].

<sup>65</sup> At [52]–[54].

between signs and trade marks and must place his trust in the imperfect picture of them that he has kept in his mind ...

Since the perception of identity between the sign and the trade mark is not the result of a direct comparison of all the characteristics of the elements compared, insignificant differences between the sign and the trade mark may go unnoticed by an average consumer.

In those circumstances, the answer to the question referred must be that Article 5(1)(a) of the directive must be interpreted as meaning that a sign is identical with the trade mark where it reproduces, without any modification or addition, all the elements constituting the trade mark or where, viewed as a whole, it contains differences so insignificant that they may go unnoticed by an average consumer.

[175] It has been commented that there is a tension between the propositions that there should be a strict interpretation, but allowance for the imperfect picture of the average consumer.<sup>66</sup>

[176] The dictionary definition of identical refers to agreeing “in every detail” and being “one and the same”, but also “very similar in appearance”.<sup>67</sup> In my view the decision must be based on an assessment of the picture presented to the average consumer as a matter of overall impression. This approach is I believe consistent with the European Court of Justice and English authorities.<sup>68</sup> In assessing overall impression it should not be assumed that the consumer has both marks side by side and is making an assessment of them. The significance of impression and the imperfections of memory of the average careful consumer must be born in mind. The degree of aural similarity is also relevant.<sup>69</sup> What must be assessed is the visual, aural or conceptual identity of the marks in question, based on the overall impression created by them, bearing in mind their distinctive and dominant components.

[177] The notional normally informed and reasonably attentive consumer can be used for the purposes of the assessment. In carrying out that assessment no special knowledge of the consumer is to be assumed, and so I will not assume any particular background that has led to the consideration by the consumer.

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<sup>66</sup> *Reed Executive Plc v Reed Business Information Ltd* [2004] EWCA 159; and *Lloyd Schuhfabrik Meyer & Co GmbH v Klijsen Handel BV* [2000] FSR 77.

<sup>67</sup> *The New Zealand Oxford Dictionary*, above n 46, at 540.

<sup>68</sup> See *Reed Executive*, above n 66; *Lloyd Schuhfabrik Meyer*, above n 66; and *International Business Machines Corporation v Web-Sphere Ltd* [2004] EWHC 529 (Ch) at 810.

<sup>69</sup> *Web-Sphere*, above n 68, at 810 and 815.

[178] Given that the New Zealand legislature has not used the words “substantially identical”, which is to be found in the Australian legislation, I do not believe that the concept of “identity” meaning “one and the same” can be unduly softened. A proprietor of a mark can still have protection when a sign is not identical if there is similarity and a likelihood of confusion. I bear in mind that there are serious consequences that follow the application of s 392(1)(a), namely the immediate consequence of infringement, rather than a merit based assessment turning on confusion and deception, under s 392(1)(c). The absolute liability that follows a finding of “identical” indicates that the term requires a complete identity with a registered trade mark,<sup>70</sup> and not something that is almost or nearly identical.

[179] In *International Business Machines Corporation v Web-Sphere Ltd*<sup>71</sup> the defendant had inserted a hyphen into the trade mark WEBSHERE and claimed that this rendered the use non-identical. It was held that Web-Sphere was identical to the registered trade mark WEBSHERE. Based on an aural and visual assessment, Lewison J held that the addition of a hyphen was insignificant and would not be noticed by an average consumer. Also, in *International Business Machines Corporation’s Application* THINKPAD and THINK PAD were held to be identical.<sup>72</sup>

[180] In Australia, the legislation only requires the sign to be “substantially identical” to the trade mark, for the presumption of infringement to apply. Under that different regime in *Facton Ltd v Toast Sales Pty Ltd* the words “G Star” and “Gstar” were held to be “substantially identical” to the registered trade mark “G-star”.<sup>73</sup> It is significant that the New Zealand legislature has chosen not to use the adjective “substantially”. “Identical” is not to be watered down to mean “substantially identical”.

[181] In *Leafscreen NZ Ltd v Leafbusters Group Ltd*<sup>74</sup> Heath J held that it was not seriously arguable that the word “LEAFSCREENER” was identical to the words “LEAFSCREEN”.

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<sup>70</sup> *Leafscreen NZ Ltd v Leafbusters Group Ltd* (2004) 10 TCLR 967 (HC) at [23].

<sup>71</sup> *Web-Sphere*, above n 68.

<sup>72</sup> *International Business Machines Corporation’s Application* [1998] ETMR 642.

<sup>73</sup> *Facton Ltd v Toast Sales Pty Ltd* [2012] FCA 612.

<sup>74</sup> *Leafscreen*, above n 70.

*Are the words identical with the registered trade mark “INTERCITY”?*

[182] If the use of capitals is put to one side (trade marks apply to upper and lower case),<sup>75</sup> the only difference between the mark and the sign is the gap in the sign “inter city”. There is no aural difference.

[183] On a side by side visual assessment a careful consumer would notice the presence of the gap in “inter city”. However, it is my assessment that a notional consumer who will be relying on overall impression would not notice the difference, taking into account the imperfections of memory. The gap is insignificant, just as the hyphen in “Web-Sphere” was held to be an insignificant difference. The difference is much less than the difference between “LEAFSCREENER” and “LEAFSCREEN” where there were two letters added and there was an aural difference and a slight difference in meaning.

[184] I conclude that the mark “Intercity” and “inter city” are identical. The use relates to road transportation services, in respect of which the trade mark is registered. It follows from this and the previous findings that Nakedbus has breached s 89(1)(a) of the Act.

*Are the words similar to the registered trade mark “INTERCITY”?*

[185] I turn to the question of infringement under s 89(1)(c). I consider this issue afresh, in case I am wrong in my conclusion on identity.

[186] For there to be an infringement of s 89(1)(c), once the s 89(2) threshold is crossed, there must be the use of a sign that is similar to the registered trade mark in relation to identical or similar services in respect of which the mark is registered. The use must be likely to deceive or confuse.

[187] The words “intercity” and “inter city” are in my view, if not identical, similar in the ordinary meaning of having a close resemblance.<sup>76</sup> Indeed, I consider that if not identical they could be fairly described as “substantially identical”. As stated the

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<sup>75</sup> *Laws of New Zealand Intellectual Property: Trade Marks* at [122].

<sup>76</sup> See *New Zealand Oxford Dictionary*, above n 46, at 1051.

same letters are used, the descriptive meaning of the words is the same, and the words sound the same.

[188] Further, the services offered by ICG and Nakedbus are if not identical, without doubt very similar. They both offer the consumer a national passenger bus service.

[189] Therefore, if the marks are not identical I have no hesitation in finding “intercity” and “inter city” and the relevant services to be “similar” in terms of s 89(1)(c).

*Likely to deceive or confuse*

[190] In *Anheuser Busch Inc v Budweiser Budvar National Corp*, Gault J observed that it was for the Court to determine the likelihood of deception or confusion, guided by the evidence of trade circumstances. He noted:<sup>77</sup>

It is necessary to consider how the trade marks will be regarded and how they will be pronounced and heard by those to whom they will be presented in the course of trade. The impression or idea conveyed by the marks is important in assessing how they will be recalled.

[191] In considering the circumstances in which the mark was used, the market in which the goods may be purchased and sold, and the character of those involved in the market, are relevant.<sup>78</sup> In relation to commercial dealings where deception and confusion must be considered, the states of mind of the prospective or potential purchasers of the services are relevant, here in particular the background that has led the consumers to the advertisement or website.<sup>79</sup> The test of likelihood of deception or confusion does not require that all persons in the market are likely to be deceived or confused. But it is not enough that just one or two might be confused. It must be a “substantial number of persons”.<sup>80</sup>

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<sup>77</sup> *Anheuser Busch Inc v Budweiser Budvar National Corp* [2003] 1 NZLR 472 (CA) at [75].

<sup>78</sup> *Pioneer Hi-Bred Corn Co v Hy-Line Chicks Pty Ltd* [1978] 2 NZLR 50 (CA) at 61; and *New Zealand Breweries Ltd v Heineken's Bier Browerij Maatschappij NV* [1964] 1 NZLR 115 (CA) at 138]–[139].

<sup>79</sup> *Pioneer*, above n 78, at 61–62.

<sup>80</sup> *Pioneer*, above n 78, at 62; and *Re Smith Hayden & Co Ltd* (1945) 63 RPC 97 (CA) at 101.

[192] Given that the assessment turns on the impression conveyed, the confusion in question must be that arising when the advertisements are considered. In this case it is to be assessed at the time when the advertisements are read. In assessing deception or confusion both counsel used the phrase, already referred to in this decision in relation to “use”, of the “reasonably well-informed and reasonably attentive internet user”, a phrase used in the European Court of Justice *Interflora* decision.<sup>81</sup> I adopt that approach, which is consistent with the New Zealand authorities already mentioned.

[193] Mr Harris in his submissions did not dispute the general proposition that a significant proportion of internet users searching the term “intercity” are looking for the plaintiff. I agree with him that the issue is not what the user is intending to find, but what they understand when they look at the display page and see the advertisement.

[194] There is no survey evidence on this point. However, survey evidence on the issue of confusion can often be unsatisfactory. I note that in *Mainland Products* the survey was described as “unhelpful” and was not relied on,<sup>82</sup> and in *Anheuser-Busch Inc v Budweiser Budvar National Corp* the survey was rejected as being of little assistance in assessing likely confusion.<sup>83</sup>

[195] ICG called three employees who work at its call centre or at its Hobson Street office. Their evidence about getting calls from confused consumers was very general and I found it of no use in determining the particular issues in this case. However, there was some relevant evidence as to confusion. On discovery the following email between D Ware and A Chen, two Nakedbus employees was disclosed. It was dated 2 December 2012 at 8.27 am. It read as follows:

So I've had a couple of calls lately about customers meaning to book with IC but click on the IC website link and end up on the NB website and don't realise until after they've booked.

I had a call about a lady doing this today and IC said we have nothing to do with each other but that it can happen that our websites somehow link up.

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<sup>81</sup> See above at [81].

<sup>82</sup> *Mainland Products*, above n 17, at 350.

<sup>83</sup> *Anheuser-Busch*, above n 77, at [69].

I said it's not possible as we're not related and all that, but she seemed so sure it happened. I ended up refunding her as she went on.

Is there any way you can look into something like this because we do get a few calls about this and so does IC and it's very strange. I told her I'd pass it to IT so I can get an affirmative answer for next time.

[196] The following observations can be made about this email.

- (a) It concerns at least two consumers.
- (b) These consumers have been operating online.
- (c) They have gone online intending to book with ICG.
- (d) They click on a link and end up on the Nakedbus website, rather than as intended the ICG website.
- (e) They do not realise that are not on an ICG site, and proceed to book. After they have booked they realise their mistake.
- (f) There appear to have been other calls in addition to the most recent ones.
- (g) Ms Ware appears to have information indicating that ICG also gets such calls.
- (h) The Nakedbus employees approached the confusion with refreshing honesty. However, there is no indication of any specific response from their management, or any particular attempt made to avoid confusion, save for the general precautions Mr Nuttall referred to in evidence.

[197] There was no objection to the admissibility of this email. Nakedbus called neither Ms Ware nor Ms Chen to explain or give details. I accept Mr McBride's submission that the email is referring to Nakedbus' "inter city" advertisements on Google responding to searches for "intercity". It is notable that the calls were made

to Nakedbus on an 0900 number which requires a payment. There is some force in Mr McBride's submission that these complaints were just the "tip of the iceberg", as it can be expected that not every consumer would complain in this way if confused.

[198] I regard this email as evidence of confusion, engendered by the Nakedbus advertisement, which has appeared when "InterCity" has been keyed in to Google. It is also evidence of confusion when the same consumers then view the Nakedbus website and its reference to "inter city".

[199] Material indicating actual confusion is not conclusive. In the end the Judge must apply an objective test in assessing whether the consumer, in this case the reasonably well-informed and reasonably attentive internet user, would be deceived or confused.

[200] Even without this email I consider it proven on the balance of probabilities that a significant number of reasonably well-informed and reasonably attentive internet users, on looking at the Nakedbus advertisement, would assume it was an InterCity advertisement and click on the Nakedbus website intending to book with ICG. I have already set out the evidence and my reasons for the making of this assumption earlier in this judgment,<sup>84</sup> when I considered s 89(2). I found based on the knowledge of "intercity" as a badge of origin by New Zealand consumers, and the fact that they may enter "intercity" expecting to access the ICG website, that a significant number of consumers would think that the references to inter city in the advertisement were placed there by the owner of the trade mark.

[201] I note in *Hasbro Inc v 123 Nahrungsmittel GmbH* there was no actual evidence of confusion of an advertisement containing the words "play dough".<sup>85</sup> Nevertheless those words were held to infringe the trade mark "PLAY-DOH". Floyd J noted the phonetic and visual similarity between the sign and the trade mark.<sup>86</sup> Despite the fact that the words had a meaning independent of the trade mark, he was satisfied that a significant class of consumers would assume the same origin.

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<sup>84</sup> See [83].

<sup>85</sup> *Hasbro Inc v 123 Nahrungsmittel GmbH* [2011] EWHC 199 (Ch).

<sup>86</sup> At [203]–[211].

[202] I also accept Mr McBride’s submission that even if the consumer was conscious that the website was a Nakedbus website and not that of InterCity, they could nevertheless well be clicking on to purchase a bus ticket because they believed that the website had an association with ICG or was selling discounted ICG tickets. There is no direct evidence of this, but I infer it from the facts that I have set out.

[203] Thus, I consider that confusion will arise when the consumer accesses the website itself. Some consumers when they take the various steps to access the InterCity website and purchase tickets, will enter the search word “InterCity,” then encounter the Nakedbus website featuring as it does the words “inter city”. They may as a consequence perceive the website that appears and the references to “inter city” as referring to InterCity Coachlines. They could assume that Nakedbus is offering a discounted rate for those ICG tickets, either as an associated company of ICG or as a separate company that has a right to sell ICG’s tickets.

[204] I accept that internet users are used to exploration by trial and error, and will readily skip from site to site.<sup>87</sup> However, given the background that will have led them to the site, the gratuitous use of “inter city” (and not “city to city” or some other non-confusing phrase) will in my view lead many into error. The evidence of actual confusion reinforces this.

[205] My finding in relation to clicking on the advertisement relates to what is sometimes called “initial interest confusion”.<sup>88</sup> Initial interest confusion can itself show an adverse effect on the origin function of the trade mark.<sup>89</sup> I also find that a significant number of consumers would remain confused when they clicked through to the website and then purchased a ticket.

[206] I conclude the use of “inter city” by Nakedbus in its advertisement and website is likely to deceive or confuse a substantial number of persons. On the face of it, there have been infringements under s 89(1)(c).

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<sup>87</sup> *Toyota Motor Sales USA Inc v Tabari* (2010) 610 F 3d 1171 (CA) at 1178–1179.

<sup>88</sup> *Interflora*, above n 7, at [306]; *Datacard Corporation v Eagle Technologies Ltd* [2011] EWHC 244 at [276]; and *Australian Competition and Consumer Commission v Trading Post Australia Pty Ltd* (2011) 197 FCR 498 at [277].

<sup>89</sup> *Interflora*, above n 7, at [306].

## *Honest use*

[207] Section 95 of the Act provides:

### **95 No infringement for honest practices**

A person does not infringe a registered trade mark if, in accordance with honest practices in industrial or commercial matters, the person uses—

- (a) the person's name or the name of the person's place of business; or
- (b) the name of the person's predecessor in business or the name of the person's predecessor's place of business; or
- (c) a sign to indicate—
  - (i) the kind, quality, quantity, intended purpose, value, geographical origin, or other characteristic of goods or services; or
  - (ii) the time of production of goods or of the rendering of services; or
- (d) the trade mark where reasonably necessary to indicate the intended purpose of the goods (in particular as accessories or spare parts) or services.

[208] Section 95 can be compared to s 94, which states that there is no infringement if the trade mark is used for comparative advertising in accordance with honest practices in industrial and commercial matters providing the use is fair, as set out in the section.

[209] In *Cable & Wireless plc v British Telecommunications plc*<sup>90</sup> Jacob J set out a number of factors relevant to honest use. The issue is whether a reasonable reader would be likely to say upon the full facts that the advertisement is not honest.

[210] The defence must be tailored to the commercial context in which the use takes place. I have already found that the use of the “inter city” sign in the context of a Nakedbus advertisement is unlikely to be seen as indicating the kind, quality, quantity, intended purpose, value, geographical origin or other characteristics of the bus service; rather, it will indicate to a significant number of internet users the trade mark “INTERCITY”. Accepting the commercial context in which this occurs, this is

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<sup>90</sup> *Cable & Wireless plc v British Telecommunications plc* [1998] FSR 383 (Ch) at 390, cited with approval in *Mitre 10 (New Zealand) Ltd v Benchmark Building Supplies Ltd* [2004] 1 NZLR 26 (CA) at [56].

on its face, not an honest use. I bear in mind that the general public are used to the ways of advertisers and expect hyperbole. However, I have found that they are being misled by the advertisement.

[211] Turning to subjective matters, the internal email I have referred to shows that Nakedbus was aware that there was confusion. If Nakedbus was using the words “inter city” honestly it would not have complained when Google did not allow the Nakedbus advertisement to respond to the keyword “intercity”; it could have taken steps to avoid confusion when it became aware of confusion; it could have placed a negative match on “intercity”. Ultimately, it could have removed the words “inter city” from its advertising material (which I find were not inserted for their descriptive meaning but as hooks to attract ICG customers) or used the non-confusing phrase “city to city”. It did not do these things. I have found it did not do so because Mr Nuttall intended that those who searched for ICG would see the Nakedbus advertisement and click on the Nakedbus website rather than click on the ICG website. This would lead to more business for Nakedbus. In my view he was prepared to stand by when consumers proceeded to buy Nakedbus tickets, even if confused. I do not consider the defence applies.

#### *Conclusion on the third cause of action*

[212] It follows that I find that ICG has proved the third cause of action and is entitled to relief. It is not necessary to consider the further reliance on s 89(2)(d). This was not expanded on by Mr McBride in submissions, and does not apply given my finding that the Nakedbus’ bus services are similar to the ICG services.

#### **The fourth cause of action – passing off**

[213] The real issues in this case have been traversed in the trade mark causes of action. Given the allegations of confusion already traversed, the outcome of this cause of action, and the Fair Trading Act cause of action follow the earlier findings. There was little said about these causes of action at the trial.

[214] The key requirements of a finding of passing off were summarised by Lord Oliver in *Reckitt and Coleman Products Ltd v Borden Inc*:<sup>91</sup>

- (a) a goodwill or reputation attaching to the plaintiff's services in the mind of the purchasing public by association with the identifying get up;
- (b) a misrepresentation by the defendant to the public (whether or not intentional) leading or likely to lead the public to believe that the services offered by the defendant are the plaintiff's services; and
- (c) that the plaintiff is likely to suffer damage by reason of the erroneous belief engendered by the defendant's misrepresentation that the source of the defendant's goods or services is the same as those offered by the plaintiff.

[215] In my view these criteria are satisfied. ICG has goodwill and reputation in the brand "INTERCITY". A significant number of internet users would consider the advertisement and website, given the background that had led them there, as indicating that the Nakedbus website was an ICG website, or a website associated with the ICG trade mark.

[216] It can be readily inferred as a consequence that the ICG brand is suffering damage and that consumers that would have otherwise purchased tickets from ICG are now buying them from Nakedbus. The increased income Nakedbus has earned from its "inter city" advertising campaign from October onwards is evidence of this.

[217] There is also the evidence set out of actual confusion which I have referred to.<sup>92</sup>

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<sup>91</sup> *Reckitt and Coleman Products Ltd v Borden Inc* (1990) 17 IPR 1 (HL), adopted in *Anheuser-Busch Inc v Budweiser Budvar National Corporation* [2001] 3 NZLR 666 (HC) at [94].

<sup>92</sup> See [195]–[197] above.

[218] My finding of passing off relates to the use of “inter city” in the advertisements on Google and other sites referred to in the third cause of action. I find that Nakedbus has passed its bus services off as those of ICB.

**The fifth cause of action — breach of the Fair Trading Act**

[219] Mr McBride submitted that Nakedbus’ use of the words “inter city” in its advertising is likely to mislead internet users by suggesting, contrary to the real position, that:<sup>93</sup>

- (a) There is an association or affiliation between the ICG and Nakedbus coach networks;
- (b) Cheap tickets for ICG coaches can be purchased on the Nakedbus website; and/or
- (c) Information regarding the ICG coach network can be found at Nakedbus’ website.

[220] For the reasons already set out, I have found that a significant number of consumers would be misled by the Nakedbus advertisement and website, using as they do the words “Inter city”.<sup>94</sup> The advertisement was misleading in that given the context in which the internet user had come to it, the internet user was expecting an ICG advertisement or website. In my view, a significant number of such consumers would have thought they were accessing an InterCity website when they clicked on the Nakedbus website, or the website of an entity associated with ICG or selling ICG bus fares.

[221] In *Google Inc v Australian Competition and Consumer Commission* the High Court of Australia held:<sup>95</sup>

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<sup>93</sup> These representations mirror those found to have been proved in the *ACCC v Trading Post Australia* case, discussed below.

<sup>94</sup> See [192]–[208].

<sup>95</sup> *Google Inc v Australian Competition and Consumer Commission* [2013] HCA 1 at [118] and [119].

The act of displaying an advertisement to people who otherwise would not see or hear it *is clearly “conduct”* capable of misleading or deceiving those who see or hear it. Displaying the advertisement to those people may lead them into error. Whether it is likely to mislead or deceive depends upon how the ordinary or reasonable member of the class of persons to whom the publication was directed would understand what was published.

When a print or electronic media corporation publishes a paid advertisement, the reader or viewer of the advertisement will very often recognise readily that what is seen or heard was devised and paid for by the advertiser. *The reader or viewer will usually be given no reason not to take the advertisement at its face value. If the advertisement is misleading or deceptive, the reader or viewer will likely be misled or deceived.* The conduct of publishing the advertisement has made it available to the reader or viewer. If no more is shown, there seems much to be said for the view that publishing the advertisement is conduct of the kind prohibited by s 52. When ss 52 and 85(3) are read together, it is evident that the Act assumed that the conduct of publishing an advertisement made and paid for by a third party may contravene s 52.

(emphasis added)

[222] I am satisfied that through Google Nakedbus is placing advertisements that are misleading and deceptive to a significant number of internet users. The conduct is buying the keyword “intercity” so that the Nakedbus advertisement responds to it featuring the words “inter city”, and displaying an advertisement and website when a significant number of consumers will be misled into thinking they are dealing with the bus company “InterCity”. I am satisfied that the displays will lead normally informed and reasonably attentive internet users into error. They will think when they click that they are accessing ICG buses, whereas they will be accessing those of its competitor.

[223] In *Australian Competition and Consumer Commission v Trading Post Australia Pty Ltd*, the ACCC instituted proceedings against both Google and Trading Post for breaches of the Australian equivalent to s 9 of the Fair Trading Act.<sup>96</sup> The proceedings against Trading Post settled before trial, and the subsequent decisions of the Federal Court and High Court only concerned the liability of Google. In order to determine Google’s liability, however, Nicholas J had to consider whether Trading Post’s conduct, which has similarities to that of Nakedbus in this proceeding, amounted to misleading and deceptive conduct.

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<sup>96</sup> *Australian Competition and Consumer Commission v Trading Post Australia Pty Ltd* [2011] FCA 1086, (2011) 197 FCR 498.

[224] Trading Post had bid against searches for “Kloster Ford” and “Charlestown Toyota”, two car dealerships.<sup>97</sup> The Kloster Ford advertisement appeared as follows:

**Kloster Ford**

**www.tradingpost.com.au New/Used Fords – Search 90,000 + auto ads online.  
Great finds daily!**

[225] The Charlestown Toyota advertisement was the same, but with a reference to Charlestown Toyota rather than Kloster Ford, “Toyota cars” rather than “Fords”, and “see” instead of “search”. Nicholas J held that both advertisements conveyed representations by Trading Post that it was associated and affiliated with the car dealerships, as well as that information regarding the dealerships and sales of their cars could be found at the Trading Post website.<sup>98</sup> In the case of Kloster Ford, those representations could be proven to be false and were accordingly misleading and deceptive.<sup>99</sup>

[226] Mr Harris relied on a decision of the Federal Court in *Lift Shop Pty Ltd v Easy Living Homes Elevators Pty Ltd*,<sup>100</sup> where Buchanan J held that the use of the words “lift shop” was clearly in the sense of a usual generic meaning of those words, and not likely to cause confusion by being regarded as identifying a competitor called “lift shop”. Buchanan J found that the advertiser, Easy Living’s, objective was to differentiate itself from Lift Shop, not to suggest a trade connection. That decision can be contrasted with the present situation where I find that there was a deliberate decision not to differentiate clearly between InterCity and Nakedbus in the relevant material. Moreover, it is not clear that in that case there was any deliberate purchasing of keywords and targeting of a competitor, as there was by Nakedbus.

[227] The misleading and deceptive conduct was to word and publish the Google advertisement and the Nakedbus website, so as to suggest to internet users an association or affiliation between the Nakedbus network and InterCity network. This was misleading and deceptive conduct, and this cause of action is made out.

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<sup>97</sup> At [85]–[93].

<sup>98</sup> At [129]–[136] and [149] and [150].

<sup>99</sup> At [129]–[136].

<sup>100</sup> *Lift Shop Pty Ltd v Easy Living Homes Elevators Pty Ltd* [2013] FCA 900.

## Summary

[228] The first cause of action was not pursued.

[229] Nakedbus did not infringe ICG's trade mark "INTERCITY" when it purchased the key words "inter city" and variations thereof via Google AdWords. That second cause of action fails because the requirement of "likely to be taken as used as a trade mark" in s 89(2) has not been proven. Nakedbus' purchase of the keywords while involving use of the trade mark "INTERCITY," would not be likely to be taken as use as a trade mark by consumers. Those consumers would have no or little knowledge of how the Nakedbus advertisement came to appear in response to their attempt to access the ICG website. They were not shown to be aware of the purchase by Nakedbus of the keywords.

[230] Nakedbus did infringe ICG's trade mark "INTERCITY" when, in response to consumers using the key words "Intercity" or variations thereon, it arranged for its advertisements to be shown on Google featuring the words "inter city" (the third cause of action). Those advertisements infringed in that in relation to infringement under s 89(1)(a):

- (a) The words "inter city" were used by Nakedbus as a trade mark in the Nakedbus Google advertisements and the corresponding website.
- (b) It was proven that the word "Intercity" had a significant meaning in New Zealand as referring to ICG's business, and that a significant number of consumers who had keyed in the words "Intercity" or variations thereon intending to access the Intercity bus business, would think that the references to "inter city" in the Nakedbus advertisement were being used by the owner of the ICG business as a trade mark.
- (c) This use extended to the Nakedbus website featuring the words "inter city" that appeared when the advertisement was clicked.

- (d) The words “inter city” in the advertisement and website when accessed through the advertisement were identical to the trade mark “INTERCITY” for the purposes of s 89(1). The use of lowercase was irrelevant and the gap between the words was not significant as a matter of overall impression. There was therefore an infringement of the trade mark “Intercity” under s 89(1)(a) by Nakedbus.

[231] If not identical, there was also a similarity between “Intercity” and “inter city” in terms of s 89(1)(c). They have a close resemblance. There was also, under s 89(1)(c), a use that was likely to deceive or confuse. There was significant public awareness of the “Intercity” brand. A significant number of reasonable consumers would think that as a consequence of the Nakedbus “inter city” advertisement that appeared in response to them using the words “Intercity”, in which the words “inter city” were prominently displayed, that they were dealing with the owner of the “Intercity” brand. There was also evidence of actual confusion by consumers as a result of consumers mistakenly booking with Nakedbus intending to book with ICG, causing lost sales to ICG.

[232] The use of the sign “inter city” by Nakedbus was therefore likely to deceive and confuse. There was an infringement of trade mark in terms of s 89(1)(c).

[233] ICG had also established that there had been passing off by Nakedbus in its “inter city” advertisements or website, for similar reasons, and that the advertisement and other sites complained of were misleading and deceptive in terms of the Fair Trading Act (the fourth and fifth causes of action). A reasonable number of consumers would have thought that the Nakedbus advertisement and other sites were ICG sites.

## **Result**

[234] ICG has proven that Nakedbus has infringed its trade mark under s 89(1)(a) and (c) of the Trade Marks Act 2002, carried out the tort of passing off, and engaged in misleading and deceptive conduct, in terms of the third, fourth and fifth causes of action. It has failed on the second cause of action, and rightly has not pursued the first.

[235] This is an interim judgment. ICG is entitled to declaratory and injunctive relief under the third, fourth and fifth causes of action, and to a further hearing to determine the account of profits claim. I am not sure that the relief sought in the statement of claim adequately reflects my findings. ICG is to file submissions within seven days and Nakedbus in a further seven days on the wording of the appropriate declaratory and injunctive relief to be granted in terms of this judgment, if it cannot be agreed.

[236] The proceeding is adjourned for a further hearing on the account of profits claim.

[237] Costs are reserved. ICG is to file submissions in 21 days, and Nakedbus in a further 14 days, if no agreement can be reached. Each is to be no longer than six pages.

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**Asher J**