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*CHARACTER MERCHANDISING IN NEW ZEALAND*

THE VALIDITY OF A DISTINCTION BETWEEN  
'REAL' AND 'FICTIONAL' CHARACTERS

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## ABSTRACT

*This paper explores a suggestion from a New Zealand High Court judge that a distinction should be drawn between fictional and non-fictional character merchandising when a Court is faced with the question of whether or not protection should be granted in any given case. The paper is based on the assumption that there is tremendous commercial advantage to be obtained by traders who utilise the names, reputations and images of both real and fictional characters to market their products to the extent that their commercial exploitation does merit some protection.*

*In assessing the validity of the suggested distinction the writer examines the theoretical bases for the protection of character merchandising and explores the workings of three 'models' currently used by different jurisdictions in their approach to the protection of character merchandising rights - one which does not require the drawing of a distinction, one which clearly draws a distinction on the basis of whether the particular character is a natural person or not, and one which is essentially undeveloped but which recognises that policy dictates that there should be a distinction drawn at some level.*

*The writer submits that an approach which requires there to be an initial distinction drawn when deciding whether or not the particular character merchandising in question should be protected, should be adopted for the purposes of New Zealand law. Any 'misappropriation test' like the one currently utilised for the purposes of a passing off action in Australia has the effect of providing protection purely on the basis that something has been misappropriated and traditionally the law has provided little protection for this. Some other social or economic justification must be provided before such protection can be afforded. A direct consequence of this approach is to endow proprietary rights in the 'owners' of fictional characters, and in some instances, real characters when they would normally not derive protection, and where no policy consideration justifies this. The writer submits that any approach where no distinction is required is, therefore, fundamentally inconsistent with the precepts of New Zealand law and with acceptable principle.*

*While the writer submits that current intellectual property legislation should be tailored to more adequately meet the demands of character merchandising, New Zealand law should continue to take a conservative approach to the extended passing off action and should, when appropriate, adopt the American approach to the protection of personality merchandising such as to recognise that a right to publicity exists independently of the tort action. Undoubtedly there are issues still to be resolved as to the 'ownership' of the rights, and to exactly where a distinction should be drawn given that a blurring of the line will occur where a real person plays a fictional character, however the writer submits that these can only really be fleshed out when the Courts are confronted with more cases on the issue, and, given the growing popularity of the practice, this should not be far off.*

The text of this paper (excluding contents page, footnotes, bibliography and annexures) comprises approximately 14,359 words.



## I INTRODUCTION

One of the current major thrusts for the sale of goods and services is the practice of character merchandising, a multi-billion dollar industry world-wide involving the "marketing of goods and services that embody or are connected to actual or fictional characters or the marketing of things whose association with any of such goods and services is likely to enhance their popularity and saleability".<sup>1</sup> The commercial pulling power of endorsement by association with the famous or the fictional is enormous and this has led to the development of extensive licensing arrangements to license the names and likenesses of both fictional and non-fictional characters.

As widespread as the practice is, traditionally the law has provided little protection against the "appropriation" of the creative efforts of another or even against the invasion of a person's right to privacy and publicity by the unauthorised invocation of his or her name. Fictional characters and a product's associated "image" are not legally protectable interests per se. However, character merchandising practices have, more recently, derived protection as special heads of protected interests under both the statutory intellectual property regimes and at common law. Essentially it has been the tort of passing off which has developed most significantly in response to the difficult issue of whether or not there should be some property right in names, reputation and images for character merchandising purposes. In some jurisdictions, passing off has been so generously adapted to protect both real and artificial character merchandising that New Zealand judges have begun to question whether "it is really necessary to force the square peg of character merchandising into the round hole of passing off."<sup>2</sup>

<sup>1</sup>N R Shapiro, "Don't Toy Around, A Look at Character Merchandising" IPJ 85,87.

<sup>2</sup>*Tot Toys Limited v Mitchell*[1993] NZLR 325, 363



Fortunately Fisher J in *Tot Toys Limited v Mitchell*<sup>3</sup> has recognised that the time has come to recognise that what should be of the utmost importance in any character merchandising case is whether the particular character merchandising in question should be protected by the law, whether traditional causes of action are sufficient and, if not, whether a generous adaptation of passing off would achieve the desired result. In doing so he has gone as far as to suggest that in answering those questions there should be a close scrutiny of competing policy reasons underlying the need for protection for the particular character merchandising in question. He suggests that one should begin immediately by drawing a distinction between the promotional use of names, reputations and images of real person and artificial character merchandising.

This paper attempts to explore Fisher J's suggestion that the law should recognise a distinction between fictional and non-fictional character merchandising and afford different types and extent of protection against unauthorised use depending upon the nature of the character. Part II explores the nature of the practice in general commercial terms. Part III provides some background material necessary for an assessment of the validity of Fisher J's suggested distinction. In doing so it examines the theoretical bases for the protection of 'characters' and provides an overview of the current legal mechanisms for protection for both fictional and non fictional character merchandising in New Zealand, Australia and the United States in order to demonstrate that in New Zealand to some extent, a distinction is already recognised. The section focuses more specifically on the development of the tort of passing off in response to the issue of the need to provide protection and it also considers issues arising from this. Part IV examines the validity of Fisher J's suggested distinction more explicitly, considering the issues for the validity of such a distinction, policy rationale in search of a justification for it and limits which should be placed on potential remedies for the purposes of New Zealand law. Part V concludes. The paper seeks primarily to raise issues rather than to attempt postulate possible solutions to them, and the writer submits that this is justified given the conceptual difficulties

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<sup>3</sup>Above n 2; (1992) 23 IPR 337.



involved with this area of law and the enormous uncertainty of the current legal position in New Zealand.

The writer does, however, submit that numerous factors suggest that a distinction should be drawn in any character merchandising case such that real and fictional characters should be treated separately when considering whether the particular character merchandising in question should be protected. The names, reputations and images of both 'fictional' and 'real' characters are extremely valuable to traders who utilise them to market goods or services and their commercial exploitation, therefore, does merit some protection. However, the writer submits that because of the fact that the images of real persons and fictional characters can develop in very different ways, and because different legal and policy issues are raised depending upon the nature of the character in question in many cases the types and extent of protection should, justifiably, differ.

## II CHARACTER MERCHANDISING IN NEW ZEALAND

### A *Character Merchandising - The Practice*

Character Merchandising is a generic term for any form of advertising which relies on some "primary medium of popularity"<sup>4</sup>, whether it be a real or fictional character, an image or a name to promote consumer goods or services.<sup>5</sup> Tremendous commercial advantage may be obtained by the use of celebrities and other well-known characters in the marketing and advertising of a product. The benefits that may arise from merchandising, licensing contracts and endorsements can potentially yield an income far greater and longer lasting than the primary fields in which public recognition of the character were achieved. For the 'real character' public or media attention via

<sup>4</sup>J Adams, 'Merchandising Intellectual Property' (1987) *Journal of Business Law* 363.

<sup>5</sup>G Hobbs, 'Passing Off and the Licensing of Merchandising Rights', (1980) *European Intellectual Property Review* 47.



advertising provides a secondary avenue of income for those who contract the use of their public profile to endorse a product.

Thus, with each unauthorised use of the image or personality in product endorsement, the value to the creator of the fictional character and to the celebrity is reduced both by virtue of lost royalties and further, by the ability to profit.<sup>6</sup>

There are three categories of trader to which those who use the term 'character merchandising' mean to refer. First, there is the manufacturer and promoter who produces goods and services with which, as part of that business, he or she associates images of a character or characters, real or fictional, which make the goods more attractive to potential purchasers. Secondly, there is the trader engaged in marketing his or her personality. Thirdly there is the image marketer, the trader who is engaged solely with the commercial exploitation of an image, or more often several. The image marketer is usually, although not exclusively, the owner of copyright in drawings or other intellectual property rights of a character<sup>7</sup> or one who trades in the name which he or she is seeking to market.<sup>8</sup> As Elmslie and Lewis have recognised, often these three roles, or two of them are merged.<sup>9</sup>

Besides there being three categories of trader, there are four broad types of 'character' that the character merchandiser may utilise to promote the particular goods or services. First, there is the 'real' or 'natural' character such that the merchandising may be referred to as 'personality merchandising'. This involves the real character in its 'natural' state. It should be acknowledged that there is potential difficulty in deducing to what extent the real person's image is natural and not created when considering this type of character. This gives rise to a potential second category of

<sup>6</sup>'The more exploited, the less sought after the image or celebrity will be'.

<sup>7</sup>For example. Ninja Turtle cartoon characters as in *Mirage Studios and Others v Counter-Feat Clothing Co. Ltd and Another* [1991] FSR 145.

<sup>8</sup>*Lyngstad & Others v Anabas Products Ltd and Another* [1977] FSR 62.

<sup>9</sup>M Elmslie and M Lewis, 'Passing Off and Image Marketing in the UK' [1992] 8 EIPR 270.



character - the real person whose 'natural image' is, to some extent, 'created' without the particular person losing their identity. Thirdly, there is the fictional character played by a real person. Many celebrities create public recognition not only in their "natural appearance" but more particularly in their portrayal of particular fictional characters. An example of this is the use of Paul Hogan's image as 'Mick Dundee' in the Crocodile Dundee films to advertise shoes. (Obviously there is very substantial publicity value in these character roles which can be just as valuable as a celebrity's natural likeness.) Fourthly, there are fictional cartoon-type characters and caricatures, toys and screen characters. For the purposes of this paper the term 'fictional character' is used to refer to both cartoon-type characters and artificial characters played by real people. Similarly, it should be recognised that references to 'real characters' are, in some instances, deemed to include the real person in their 'natural' capacity and the real person playing a fictional character.

Whichever type of character merchandising the advertiser chooses to adopt, the vital element of the practice is the use of the **reputation** of the 'character'. It is the association of a product with a well known 'character' that influences consumers' perceptions. The character's image is usually evoked in the promotion by some form of direct or indirect reference to the character's name, appearance, sound or description such that the manner in which an association may be created between a product and that reputation is potentially unlimited.<sup>10</sup>

For example, where a celebrity is used there may or may not be a connection between the personality and the products they are promoting. Product endorsement ranges from actual support of the product to a mere association or connection with the product ("subliminal effect"). Support of the product may be by virtue of a professional or occupational link<sup>11</sup> The motive behind such advertising is the express or implied professional knowledge and expertise portrayed to the public. The

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<sup>10</sup>For example, in *Tot Toys*, above n 2, the image is that of a toy identified by name and appearance as a "Buzzy Bee".



endorser does not actually need to state it is the best product as the association might imply this. Either way the connection of a product with a well known 'character' can boost revenue and give the product being promoted an advantage over and above the competition.

Examples of the practice include Jonah Lomu's endorsement of Reebok sports goods, John Cleese as Basil Fawlty, the merchandising of playful children's toys (for example Teenage Mutant Ninja Turtles and Muppet dolls), rock bands merchandising T-shirts and the selling of products by way of commemoration. Actors and actresses, singers and sports celebrities, and caricatures are often seen on television and in magazines promoting various products. While the practice takes several different forms and works in a multitude of ways, the common denominator is the fact that the 'reputation' of the character is used as the lever to encourage consumers to buy.<sup>12</sup>

### III THE VALIDITY OF A DISTINCTION BETWEEN 'REAL' AND 'FICTIONAL' CHARACTERS

#### A *Theoretical Basis for the Protection of Character Merchandising*

As has been alluded to, character merchandising exploits the fact that modern buying habits are highly responsive to image related advertising and therefore the rights to use a personality or character are extremely valuable. From a legal perspective, therefore, the key to successful character merchandising is the possession of a property right in the intangible value sought to be protected. The essential issue in the character merchandising area is whether the "owner" of a character is entitled to the

<sup>11</sup>For example, a racing car driver and motor oil or a hairdresser and shampoo.

<sup>12</sup>B F Katekar, 'Coping with Character Merchandising - Passing Off Unsurpassed' (1996) AIPJ 178, 179.



exclusive use of *any association* with that character whatsoever, or if rights are to be bestowed on the "owner", whether they should be limited in some way.<sup>13</sup>

While the reputation may be said to "belong" to the "owner" of the character, this does not provide an adequate reason to block any unauthorised use of the character's image by another per se. Traditionally, the law has been reluctant to protect against any appropriation of one's creative efforts on the basis that not all appropriations are harmful. The decision to prevent the unauthorised use of a character, therefore, goes to the very foundations of intellectual property law as before protection can rightly be afforded, it is necessary to establish some economic or social justification for such protection.

#### *1. Interest of the "owner" of the character*

This paper explores the issue in the context of examining whether different policy considerations apply which justify the drawing of a distinction between fictional and non-fictional character merchandising.

Some of the general principles governing the endowment of proprietary rights in respect of a character deserve to be canvassed. In assessing the validity of a distinction between real and fictional characters it is important to recognise that these general principles must be delicately balanced in any given case in order to determine the extent of protection deserved given that judges are reluctant to grant protection against the mere appropriation of one's creative efforts, the policy reasons for which become apparent in the analysis which follows.

Libling<sup>14</sup> has mooted that the following formula should be used to determine whether property exists in the name or image associated with a character: "any expenditure of mental or physical effort, as a result of which there is created an entity, whether tangible or intangible, vests in the person who brought the entity into being, a

<sup>13</sup>Above n 12, 181.

<sup>14</sup>'The Concept of Property : Property in Intangibles' (1978) 94 LQR 103.



proprietary right to the commercial exploitation of that entity, which right is separate and independent from the ownership of that entity". In the absence of any general proprietary right in knowledge or information or any general action for unfair competition in New Zealand, however, the question of whether the "owner" of a character is able to prevent use by another of that character will depend upon whether that use infringes the owner's rights under a recognised area of intellectual property law. Thus, as stated above, before a "character", of whatever nature, is afforded protection by the law, an economic or social justification for protection must be established.

### *1 Interests of the "owner" of the character*

The argument that affording protection against **any** unauthorised use of a character provides lucrative returns for its creator is circular in that a creator makes no money unless protection is afforded.

It is submitted, however, that persons who have built up a reputation, with their own character or perhaps through a fictitious character, film or event, have a material interest in protecting the integrity of that reputation. Fundamentally, if a person has built up a business and has "goodwill" associated with that business, then his or her continued ability to conduct that business will depend on others being prevented from usurping that goodwill. Such behaviour by other traders is essentially anti-competitive. Character Merchandising has, arguably, added an additional dimension to that goodwill and to the interest of the person maintaining the integrity of it for if the character is seen as endorsing too many products then its credibility is diminished as these impressions may raise doubts about the skill, expertise and reputation of that



character in its chosen field. In this way false endorsements seriously prejudice the goodwill of the "owner" of the character which he or she has originally built up.<sup>15</sup>

Additional considerations apply to the 'real' character. One strong argument, particularly in favour of the protection of personality rights, is the right of a natural person to prevent the unauthorised publication of his or her image. As is outlined below, in the United States, if the character is a natural person then specific considerations apply. Each person has an inherent "right of publicity", and is entitled to control the commercial use of his or her identity, where such right is not countervailed by free speech or free press. Such a right is infringed when a defendant, without permission, uses some aspect of the identity or persona of the plaintiff in such a way that the plaintiff is identifiable from the defendant's use. The cause of action is established if the plaintiff can show that the defendant's use is likely to cause damage to the commercial value of that person.<sup>16</sup> The social basis of the "right to publicity" lies in the inherent right of privacy of each individual. Correspondingly, a celebrity has natural rights associated with the commercial exploitation of his or her image. No such right exists in New Zealand or Australia<sup>17</sup> although it does in Canada.<sup>18</sup> Fisher J in *TotToys* has suggested that there may well be a case for developing a cause of action along the lines of the American 'right to publicity', in New Zealand, and in doing so expressly recognises that this could have no bearing on rights with respect to fictional images.<sup>19</sup>

(Issues in relation to privacy and proprietary rights in personality are never at issue in cases involving fictional characters of the cartoon or caricature type. However in

<sup>15</sup>S Ricketson, 'Character Merchandising in Australia: Its Benefits and Burdens' (1990) 1 IPJ 206.

<sup>16</sup>McCarthy, *McCarthy on Trademarks and Unfair Competition* (3rd ed) Ch 28.

<sup>17</sup>*Tom Cruise and Nicole Kidman v South Down Press Pty Ltd*, Unreported, Fed Court of Australia, Gray J 23 March 1993.

<sup>18</sup>A right of publicity for the purposes of character merchandising has been called for in Australia; Howell, 'Personality Rights: A Canadian Perspective', paper presented at the Ninth Commonwealth Law Conference.

<sup>19</sup>Above n, 363.



cases where a human character merges with the created fictional character the courts cannot view 'real' characters and 'fictional' characters separately.

It is submitted that the fact that different policy considerations relating to the interests of the 'owner' of the character come in to play when the character in question is a 'real person' or a real person merged with a fictional character as opposed to when the character is artificially created, this goes some way towards supporting the idea that there must be a distinction drawn between the type of character in question in any given case before a decision is made as to whether or not the particular character merchandising should be protected.

## 2 'Competition' and 'innovation'

There is more to consider than simply the owner of the reputation. For example, courts are hesitant to confer rights on the owner of a character such as to create a monopoly for that competition is in the best interests of society is an entrenched common law presumption<sup>20</sup> Competitors must be allowed to compete. Sometimes products are introduced in a market which are slavish imitations of other established products and although the products may be clearly represented to be from a different source, they have the appeal because of the association in the minds of consumers with the original; "authentic" product. In general, where copyright, design or trademark rights are not infringed, this behaviour is acceptable provided there is no misrepresentation or deception of the public.

Another consideration is the maxim that while competition is important to economic growth, so is innovation and numerous intellectual property laws are the result of a desire to encourage innovation. The argument is that, if the law will protect an innovation by granting a monopoly in respect of it, and therefore making it valuable, people will be encouraged to innovate. However, in character merchandising



situations the cogency of this factor, it is submitted, varies according to the circumstances. For example, despite the considerable value of character merchandising rights, it is problematic to argue that people such as Madonna or Michael Jackson would be discouraged from entering the music industry because they were unable to merchandise the rights associated with their image. However it would be fair to say that since merchandising has grown professional sport has become a more lucrative business for the participants and this encouragement has prompted more people to move into professional sports to the general enjoyment of the public.

Thus, granting a 'monopoly' to the creator of a character on the basis of Libling's assertion that any entity generated by the expenditure of skill, effort and expertise by a person should be afforded proprietary rights must be balanced against the economic and social needs of "free competition." When considering whether a character merchandiser's rights are unlawfully prejudiced, it is necessary to balance several factors. One is the interests of the owner of the character in maintaining the integrity, and value of the reputation and for the real character this involves maintaining their inherent right to privacy. Against this must be considered the rights of consumers not to be subjected to misrepresentations, and the crucial premise that traders must be given freedom to compete with established traders. Underlying these factors are the assumptions of 'competition', the desire to encourage innovation, moral rights and freedom of expression. These policy considerations will be revisited below when the validity of a distinction between real and fictional characters is more fully explored.

### ***B The Current Legal Context of Character Merchandising - Three Models***

In order to gain a full appreciation of the significance and, to some extent, validity of Fisher J's suggestion for a distinction between the promotional use of real persons

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<sup>20</sup>Wyman, 'Competition and the Law' [1902] A C 731



and fictional characters it is necessary to examine the current legal context for the protection of character merchandising rights. This goes some way towards demonstrating that endowing proprietary rights in characters without recognising a distinction between the different 'types' of characters ultimately leads to a serious undermining of many of the current statutory and common law intellectual property regimes and to the creation of an imbalance between the competing policy considerations outlined above.

As a means of assessing the validity of such a distinction three models are explored and their explanatory power assessed. First the mechanisms available to the character merchandiser in New Zealand are examined. Because the area has not been thoroughly litigated the paper then considers the extent of protection in other jurisdictions; first in Australia and secondly in the United States. This enables the writer to postulate reasons for why a distinction between the types of character in issue is both valid and necessary for the protection of character merchandising rights in New Zealand.

### 1 *'The New Zealand Model'*

Currently New Zealand law operates in a variety of ways to enable those holding rights in fictional characters, and to some extent, personalities to protect their merchandising value. To a certain extent a crude distinction, at one level, between real and fictional characters is already recognised as an examination of the extent of protection in New Zealand reveals. The intellectual property protection available to character merchandisers is, however, piecemeal and uncertain because to date there is minimal authority on the issue of protection. It is a case of the aggrieved celebrity or "owner" or creator of a fictional character endeavouring to fit his or her case within one or more of a series of quite unrelated causes of action.



Aside from the tort of passing off, the most important laws in New Zealand are the Copyright Act 1994, the Trade Marks Act 1956 and the consumer protection provisions of the Fair Trading Act 1986. The licensing of personal reputation is something of a grey area in the law for questions arise as to whether licensing contracts are for the provision of the personality's services or for the licensing of an intellectual property right. The commercial reality is that reputation is a tradable commodity, but legally no property right exists in reputation per se.

(a) Copyright

Although both real and fictional characters give rise to merchandising activity, far superior legal protection is given to those from fiction because copyright law, by reason of its very nature and philosophical underpinnings, is able to protect and reward the creative endeavour that goes into the creation of such a character. This is particularly in respect of drawings, photographs and other depictions of characters that fall within the definitions of "literary" and "artistic" works in the Copyright Act 1994. For example, Agatha Christie's detective Miss Marple's name and features are enshrined in a "literary work", Disney cartoons will be "artistic works" and puppets or models from *The Muppet Show* will be works of "artistic craftsmanship". All of these types of works gain copyright protection for a finite period of at least 50 years.<sup>21</sup> Such protection clearly has the effect of protecting both the works itself and its author's exploitation of that work, and future authors who come up with future similar characters may be in breach of the original author's copyright. However, copyright will not protect the reputation or goodwill created by a character.

As copyright protects the form of an idea and not the idea itself a plaintiff must show there has been a substantial reproduction of the original work by the copyist.<sup>22</sup>

<sup>21</sup>Copyright Act 1994.

<sup>22</sup>In *King Features Syndicate Inc v Kleeman Limited* [1941] A C 417 the owner of copyright in Popeye cartoons obtained an injunction to restrain the importation and sale of Popeye dolls and brooches which were three dimensional copyright drawings. It was held that the brooches and dolls were



In relation to fictional characters other than cartoon characters, copyright exists in the works in which the character appears and not in the character itself as the character cannot be classified as a "literary" or "dramatic" work. A character removed from a story, therefore, becomes difficult to define and falls into the grey area between the protected concrete expression of an idea and the unprotected idea itself.<sup>23</sup> Further, as copyright protection only prevents actual copying there is a problem where the character emerges from the context of a whole literary work (which may give rise to certain ideas and associations with the character). Copyright will not protect against the adoption of a theme, idea or image that, in the context of a television advertisement, for example, will be no less effective in generating an association between a character and a product.

Copyright law provides little protection for real characters given that judges have generally been reluctant to recognise copyright in names on the basis that they are too insubstantial to qualify as literary works.<sup>24</sup> Further, no matter how famous or well

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infringements even though the plaintiff could not say which one precisely. The inferences of copying were made from the similarity between the dolls and brooches and a particular sketch.

<sup>23</sup>Two tests for determining if there is copyright in a "character" in the United States are ; (1) the two-stage development test that Learned Hand espoused in *Nichols v Universal Pictures* 282 US 902 (1931) being (a) the character must be well developed or highly delineated and (b) the alleged infringer must copy the development or delineation not merely some broader more abstract outline; and (2) the "story being told" test in *Warner Bros Pictures v Columbia Broadcasting* 216 F 2d 945 (9th Cir 1954), 348 US 971 (1955) - a character will receive no copyright protection unless it constitutes a "story being told" and not merely "a chess piece in the game of telling the story".

<sup>24</sup>On the basis that they are too insubstantial to qualify as literary works (for example, "Kojak" or "The Wombles" where no copyright was found to exist despite their fame) *Taverner Rutledge v Trexapalm* [1977] RPL 275 and *Wombles v Wombles Skip* [1974] 99. The case of *Exxon Corporation v Exxon Insurance Consultants International Limited* [1981] 1 WLR 624 suggests that an invented name itself does not attract protection as a literary work. However, in his judgement, Graham J points out that his decision depends on the highly artificial nature of the word "Exxon" ; he concedes that a title can be registered for copyright if it has qualities or characteristics in itself. Thinking up a name appropriate for a character might well be seen to come within this. Graham J goes on, with reference to Lewis Carroll's "Jabberwocky", to say that the combination of the name with the literary work in which it appears and the images which it evokes is enough to justify the grant of copyright protection. This approach was then adopted by the Court of Appeal. So, the writer submits that the use of the name of a fictional character, even on its own right, appears to be capable of being protected by copyright.



recognised, a real character has no copyright in his or her face.<sup>25</sup> With real characters, copyright only subsists in the form the character takes. Thus, there would be no infringement of copyright in a photograph to take another similar photograph of a celebrity, for example, and emblazon it on a T-shirt even though copyright does subsist in the photograph.

One major problem with the application of copyright law in the character merchandising area is the fact that although where a character has a distinctive appearance copyright will generally provide protection (irrespective of whether the unauthorised reproduction of the work is by way of false endorsement) copyright infringement may be avoided by alterations which may not be significant enough to deprive the image of an association with the original character in the minds of consumers. Although copyright infringement arises where a "substantial part" of the work is copied, what amounts to a clear association with a character does not align precisely with what amounts to copyright infringement. As Katekar has argued, this "gap" is attributable to the different motivations behind copyright protection and the protection of character merchandising rights.

#### (b) Trade Mark Law

Trade Mark Law was not designed for the protection of character merchandising rights. Indeed, it was designed for quite the opposite reason being to restrict monopolies which would cause undesirable detriment to others.<sup>26</sup> However, if the character has a mark, name or some *distinctive* sign, it may qualify for registration as a trade mark. It is the distinctive features of a character which will normally be capable of trade mark registration. The question arises as to the extent to which the

<sup>25</sup>*Merchandising Corporation of America v Harpbond Ltd* [1983] FSR 32.

<sup>26</sup>For example, the same name. Protection distinguishes the proprietor from those of other traders and by representing the goodwill of the proprietor it serves as an indication of the quality of the proprietor's goods and services.



owner of a mark may license it to manufacturers and other businesses to use it in relation to their products.

Thus, the originator of a character may achieve monopoly rights in the name or logo (or both) and other images of the character in a particular class of goods by making an application for registration in the appropriate class for either his own use or use by a registered user. This will not be a problem unless the character has become so well known as to have passed into the language.<sup>27</sup>

There are several problems with the application of Trade Mark law in the character merchandising field.

First, not all characters are registrable as marks and the methods by which an association with a character may be generated are much broader than the protection afforded by the Trade Marks Act. For example, if the reputation of a character emerges overnight, the "owner" will simply not have the time to apply for registration of any marks, nor obtain any users who may be able to utilise the marks for merchandising purposes. Since the owner of a mark must have a bona fide intention to use the mark, if the owner cannot find a user, it is not possible to maintain registration and the owner is left to seek protection against unauthorised use outside the scope of the Act.<sup>28</sup> This gives rise to a problem for the celebrity who does not wish to trade for now, but wishes to protect herself or himself and his or her future rights from exploitation. Since such a person is not currently trading, trade mark law will not protect him or her.

<sup>27</sup>For example, in *Tarzan Trade Mark* [1970] RPC 450, it was held that "Tarzan" had passed into the language and could no longer be regarded as an invented word, and that the word was directly descriptive of the goods because a film dealing with the exploits of Tarzan would naturally be described as a "Tarzan" film.

<sup>28</sup>A H Brown, 'Character Merchandising' (1985) *Intellectual Property Law in New Zealand and Australia* : Legal Research Foundation Seminar, 140. Brown discusses these difficulties for the character merchandiser at 140-145.



There is also a problem with the traditional, although now more relaxed requirement that a trade mark is to identify the commercial or trade origin of the goods or services to which it is applied. Words, names, logos and other devices are used to market goods and services as trade marks in the traditional sense but they may also be used to indicate broader kinds of association with a person, character, institution or event. More often it is the appeal of the mark itself rather than the underlying commodity which is important in character merchandising.<sup>29</sup>

Further, protection of a registered trade mark is denied once the proprietor "traffics" in the mark by licensing it for fields of activity over which the proprietor has no control.<sup>30</sup> This has implications for celebrities who are happy to exploit their fame but who usually do not wish to divert their attention to sales and marketing issues to the detriment of their musical or sporting talents, for example. The simplest route around this problem in most areas of intellectual property law is by the creation of a licensing agreement whereby on payment of royalties an entrepreneur can be licensed to carry out the actual merchandising operation. However in the trade mark law area this solution hits the problem of "trafficking".

Therefore the intangible values which support the character merchandising industry may qualify for protection under the statutory intellectual property regime in New Zealand and an overview of the protection afforded by both the Copyright Act 1994 and the Trade Marks Act does reveal that the nature and scope of these statutes gives rise to a natural distinction between 'real' and 'fictional' characters. However while the traditional statutory forms of protection will provide considerable assistance in the protection of character merchandising rights they are confined to narrow and

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<sup>29</sup>A Terry, 'Proprietary Rights in Character Merchandising' (1990) Australian Business Law Review 229,249.

<sup>30</sup>*Hollie Hobbie Trade Mark* [1984] RPC 329.



rigidly circumscribed interests and the reach of these laws is insufficient to protect the character merchandiser in every case.<sup>31</sup>

(c) *Development of Passing Off in Response to Character Merchandising*

In the absence of being afforded protection under one of the above intellectual property laws, the character merchandiser must look to the common law tort of passing off.

The Fair Trading Act 1986 does include substantial provision for the protection of consumers and in New Zealand, a claim in passing off is likely to coincide with an action under this Act.<sup>32</sup> No explicit distinction between the types of character utilised

<sup>31</sup> In particular circumstances, a character merchandiser may rely on other forms of legal protection, such as contract or defamation, particularly where a real character is used to market the goods or services. For example, in *Tolley v Fry* [1930] 1 KB 467, an amateur golfer was able to restrain the use of his image in advertisements for Fry's chocolates on the basis that his reputation as an amateur would be damaged by the advertisements. The House of Lords held that the advertisement carried an innuendo which was capable of being defamatory - namely that the plaintiff as an amateur golfer had consented to the use of his name and likeness in an advertisement in exchange for a fee and that this would lower him in the estimation of the public. Their Lordships expressly rejected, however, the idea of tortious liability for appropriation of personality in the United Kingdom and confirmed that the unauthorised use had to be linked with a cause of action in defamation. The writer suggests that the reason why the tort of passing off has been so extensively used in this field is because no independent action lies for appropriation in English law. Thus, for the purposes of New Zealand law defamation presents a possible but highly uncertain cause of action. Breach of Implied Term in Contract and Breach of Confidence represent other limited but possible causes of action. In the case of *Pollard v Photographic Company* a commercial photographer, who for a fee, had taken a studio photograph of a lady to supply her with prints, was restrained from selling or exhibiting copies got up as a Christmas card both on the ground that there was an implied contract not to use the negative for such purposes and also on the ground that such sale or exhibition was a breach of faith or breach of confidence.

<sup>32</sup> The relationship of the tort of passing off and the Fair Trading Act 1986 was extensively discussed by Fisher J in *Tot Toys*, Above n 2, 367-369. Most important is section 9, which proscribes misleading and deceptive conduct in trade (or conduct which is likely to have that effect). There is a remedy for the plaintiff if it can show that its trade reputation would be damaged by false association with the defendant, inferior services, or dilution of the goodwill in an otherwise distinctive name.<sup>32</sup> The existence of goodwill and damage to that goodwill need not be proved. Van Melle has recently argued that with its emphasis on misleading or deceptive conduct, section 9 is not as suitable for character merchandising cases as misrepresentation is not the issue and the defendant usually has nothing to gain from representing a business association given that the defendant's intentions are generally only to "harness the beneficial associations intrinsic in the image itself, as distinct from associations with the real people and the property which may happen to stand behind the image."<sup>32</sup> In character merchandising cases the hurdle for the plaintiff is somewhat lower under section 9 in making out deceptive copying compared to passing off. However, to gain any remedy the plaintiff



by the particular trader is necessary for the purposes of this Act since as long as the conduct of that trader is misleading or deceptive liability attaches. As the Act is designed to prohibit misleading trade practises and has nothing to do with enshrining private property rights this cause of action will not be considered any further for the purposes of this paper.<sup>33</sup>

The term "passing off" was first coined when the cause of action was limited to competitors "passing off" their own goods as if they were the goods of a competitor. Today the tort has been expanded to the extent that the question of whether the business of a trader has some "connection" with another trader includes the possibility that the other trader has endorsed, approved or sponsored the product - not merely that the product concerned has been made by that other trader. Correspondingly, passing off has broadened to protect goodwill "not in its classic form of a trader representing his goods as the goods of somebody else, but in an extended form"<sup>34</sup> and in doing so it has expanded protection against unfair trading in line with legislative developments.<sup>35</sup> Murumba has explained the extension of the action as being for the protection of "promotional goodwill", (the ability to recommend or promote other goods or services or merchandising rights) associated with a character in that "the defendant does not necessarily seek to disguise the source of his goods or services. He simply makes a representation which links him with the plaintiff or his goods. The public, while recognising that the goods or services in

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usually needs to demonstrate that the deception would have a significant impact upon the consumer. This is unlike passing off where once the elements of the tort are satisfied the plaintiff cannot be denied damages. All remedies under the statute are discretionary and it is a question of whether there is sufficiently serious impact upon customers not a question of damage to the plaintiff's goodwill.<sup>32</sup> Although enacted to protect consumers, the provision is primarily used by traders to prevent deceptive conduct of other traders which is detrimental to their interests.

<sup>33</sup>S M Crennan QC, 'The Commercial Exploitation of Personality', (1995) *Intellectual Property Forum* 25, 46.

<sup>34</sup>*Warnink v Townend & Sons* [1979] AC 731, 739 per Lord Diplock. Lord Diplock and Lord Fraser in the *Advocaat* case established the necessary elements for the modern cause of action as being goodwill and reputation, a misrepresentation and damage arising from the misrepresentation.

<sup>35</sup>The Fair Trading Act.1986. JG Fleming, *The Law of Torts* (8ed, The Law Book Co, 1992).



question come from the defendant, is nevertheless deceived to believing that the plaintiff is somehow associated with it."<sup>36</sup>

Thus, in character merchandising cases, passing off operates not to ensure consumers can correctly identify goods in the marketplace but instead furnishes a proprietary right in a product's image to ensure that marketing investments will not be misappropriated by competitors. Such cases are actionable if they involve a misrepresentation of some connection with the owner of the right in question, such as the misrepresentation of sponsorship or endorsement by the plaintiff, or even that the unauthorised use has in fact been authorised.<sup>37</sup> The idea is that if a defendant is permitted to market its product with impunity, the credibility of the plaintiff's character merchandising rights will be imperilled.

In order to fully appreciate the significance of the conservative New Zealand approach to passing off when applied in the character merchandising area it is first necessary to review the manner in which the tort has developed in Australia. For the purposes of this paper this approach will be referred to as 'the Australian Model'.

## 2 'The Australian Model' - The Origins of Fisher J's Suggestion for a Distinction in New Zealand

Broadly speaking, a generous version of passing off has been recognised in Australia to the extent that it is moving towards a misappropriation doctrine creating an absolute proprietary right in reputation. This 'generous version' does not explicitly require the drawing of a distinction between the use of a real and a fictional character such that both real and fictional characters have benefitted from the extra protection the extended form of the tort offers. This is the second of three 'models' considered

<sup>36</sup>Murumba, *Commercial Exploitation of Personality* (Law Book Company, Sydney, 1986), 65.

<sup>37</sup>A Van Melle, 'Passing Off and Character Merchandising' (1996) NZLJ 306.



by the writer in examining the validity of Fisher J's suggestion for a distinction in New Zealand.

The application of the "extended" action of passing off is illustrated by the decision of the New South Wales Court of Appeal in *Henderson v Radio Corp*<sup>38</sup>. The case reveals that Australian law recognises that there should be recognition that "celebrity" may need to be protectable as property capable of commercial exploitation. A record of ballroom dance music was enjoined at the behest of a team of exhibition dancers who were portrayed on the cover. The Court held that customers of the record would probably believe that the plaintiffs, because of their occupational link to dance music recommended the record. The vice of the defendant, identified by the Court, was that the reputation of the plaintiff was being used by the defendant to sell its records, without the plaintiffs' consent. The result of this action was held to give the defendant the benefit of the plaintiffs' recommendation and to deprive the plaintiffs of the fee or remuneration they would have earned if they had been asked for their authority to do what was done.<sup>39</sup>

The cases since *Henderson* can conveniently be treated in two streams based on the nature of the character involved: in one, those involving the endorsement or licence of some well-known person; and in the other, those involving the promotion of a product by some association with some fictitious character. These two streams, arguably, converge in the *Crocodile Dundee* cases and as a direct result two lines of authority as to the precise ambit of this "extended" passing off action have emerged from more recent decisions of the Federal Court.

For the purposes of a passing off action it is easier to establish the necessary misrepresentation and damage elements where the defendant has made a direct call upon the plaintiff's patronage by the appropriation of his or her personal name or

<sup>38</sup>[1960] S R (NSW) 576.

<sup>39</sup>Above n 38, 603..



likeness.<sup>40</sup> However, where a fictional image is involved it is usually immaterial where the image came from. Prior to the *Crocodile Dundee Cases* discussed below, it was not enough merely that the defendant's use was unauthorised; the plaintiff still had to establish *misrepresentation*. For example in *Newton-John v Scholl-Plough (Aust) Ltd*<sup>41</sup> the entertainer Olivia Newton-John unsuccessfully claimed passing off by the use of her "look-alike" under the description "Olivia? No. Maybelline". Burchett J concluded that "the casual reader would get the impression that indeed the advertiser had made the use of Olivia Newton-John's reputation to the extent of gaining attention, but not to the extent of making any suggestion of association".<sup>42</sup>

However, the application of passing off to the copying of the name or likeness of a fictional character does involve some difficulty because traditionally "appropriation" is not actionable per se. A further step is required, namely a misrepresentation of some form of authorisation or licence from the plaintiff and arguably it may be doubted whether that inference should be open to a court merely on the basis of public awareness of the practice of character licensing. This is a criticism which may be levelled at the decision of Helsham CJ in Eq. in *Children's Television Workshop*

<sup>40</sup>C Pannam, 'Unauthorised Use of Names or Photographs in Advertisements' (1966) 40 ALJ 4.

<sup>41</sup>(1986) 11 FCR 233.

<sup>42</sup>Further in *10th Cantanae Pty Ltd v Shoshana Pty Ltd* (1987) 10 IPR 289 the Australian television personality "Sue Smith" unsuccessfully claimed damages for an advertisement that carried the announcement "Sue Smith just took total control of her video recorder" and depicted a picture of a woman who, like the plaintiff, was brunette but who had otherwise only a general resemblance to the plaintiff. It was held by the Full Federal Court that the necessary misrepresentation had not been established as the name Sue Smith, being not uncommon, did not point unequivocally to the plaintiff and the woman in the advertisement was clearly not the plaintiff. Even the unauthorised use of a photograph of the plaintiff was held to not necessarily convey a misrepresentation. In *Honey v Australian Airlines Ltd* (1989) 14 IPR 264 the long jumper and Olympic medallist Gary Honey was unable to establish passing off by an airline which had used a photograph of him jumping as the basis of one of a series of posters promoting Australian sporting activity. The poster had identified the plaintiff and carried the airline's logo, but Northrop J was not satisfied that persons seeing the poster would see any connection between the plaintiff and the airline or regard the poster as any more than "artwork supporting participation and excellence in sport". The writer submits that this must surely lie at the limits of what can be done without authorisation. Where the name or likeness of a person is used not in the provision of information about that person but in the promotion of goods and services, there may well be a compelling suggestion that the product in question has been favoured in some way by that person and that approval has thus been sought.



*Inc v Woolworths New South Wales Ltd*<sup>43</sup>. This case concerned the unauthorised merchandising of doll representations of the "Muppet" characters. The plaintiffs' television series "Sesame Street" and "Muppets" were extremely well known and the "Muppet" characters had already been licensed for a wide variety of products sold within the jurisdiction. Helsham CJ was satisfied that members of the public were aware of the process of character merchandising and would believe that the defendant's toys "were being sold under licence from or by means of some sort of arrangement with the producer."<sup>44</sup>

These two streams have, arguably, converged with the "*Crocodile Dundee*" cases from which two lines of authority as to the precise ambit of the "extended" passing off action have directly emerged. In the first line of authority, the *Henderson* case was picked up by Pincus J in *Hogan v Koala Dundee*<sup>45</sup>. In both the *Henderson* and *Koala Dundee* cases the plaintiff capitalised upon a real person's reputation (either directly or through a fictional character closely associated with the real person) in order to promote products. The Courts reasoned that if such actions implied that the personality endorsed or authorised the defendant's product, then this was sufficient to constitute a 'misrepresentation' for the purposes of passing off.

In *Koala Dundee* the defendants promoted their "Dundee Country" shops in association with representations of a koala dressed to suggest the leading character in the plaintiffs' movie "*Crocodile Dundee*", "in the hope of having their customers make a mental connection with Paul Hogan or the film or both - or to put it more simply, of cashing in on *Crocodile Dundee*".<sup>46</sup> It was shown that customers did make that "mental connection", but that few considered that the defendants had any "commercial arrangement" with the plaintiff. His Honour asserted that "the essence of the wrong done... is not in truth a misrepresentation that there is a licensing or

<sup>43</sup>[1981] RPC 187.

<sup>44</sup>Above n 43, 190.

<sup>45</sup>(1988) 20 FCR 314.

<sup>46</sup>Above n 45.



sponsorship agreement between the applicant and the respondent...it is...wrongful appropriation of a reputation or, more widely, wrongful association of goods with an image properly belonging to the applicant."<sup>47</sup> Thus, in observing that the buying public had no reason to be concerned as to whether the defendant's had been licensed, Pincus J suggested that there was "a degree of artificiality in deciding image-filching cases...on the basis that the vice attacked is misleading the public about licensing arrangements."<sup>48</sup> He concluded that the essential basis of the protection that the common law had allowed to character merchandising "rights" had not been the misrepresentation of licensing but the intentional misappropriation of the plaintiff's property and he went on to hold for the plaintiffs in passing off.

On the basis of this line of authority therefore, any "mere association" with the name and reputation of the character will be sufficient to infringe the "owner's" right of property and because of the fact that no 'misrepresentation' in the traditional sense is required this indicates that *deception* of the consuming public need not be considered either.

Subsequent decisions of the Federal Court have not expressly approved the approach taken in *Koala Dundee*<sup>49</sup> despite the fact that this approach is currently reported as being the 'Australian' approach to passing off. Gummow J in *ConAgra Inc v McCain Foods (Aust)*<sup>50</sup> reiterated the necessity for the elements of reputation, misrepresentation and damage to be proven in any passing off action.

<sup>47</sup>Above n 35, 325. Pincus J was not alone in suggesting that the action for passing off had developed into an action for misappropriation of goodwill or unfair trading without the need to show a misrepresentation. *Hexagon PTY Ltd v Australian Broadcasting Commission* (1975) 7 ALR 233 and *Willard King Organisation PTY Ltd v United Telecasters Sydney Ltd* [1981] 2 NSWLR 547. Ricketson, 'Reaping Without Sowing: Unfair Competition and Intellectual Property Rights in Anglo-Australian Law' (1984) 7 UNSWLJ 1.

<sup>48</sup>Above n 2, 45.

<sup>49</sup>In *Moorgate Tobacco Co. Ltd v Philip Morris Ltd* (1984) 156 CLR 414 the High Court, (albeit in a different context) rejected any general action for unfair competition in Australia

<sup>50</sup>(1992) 33 FCR 302.



In *Hogan v Pacific Dunlop*<sup>51</sup> the same judge heard the matter at first instance and rejected the notion of misappropriation. His Honour held that misappropriation of reputation without the necessary kind of misrepresentation will not suffice for passing off. The defendant's television advertising for its "Grosby" shoes was in the form of a parody of the well known "knife scene" in the movie, featuring shoes instead of a knife and with the actors resembling those in the film, though the central character was dressed in the matter of "Crocodile Dundee". His Honour found that the image of the character Mick Dundee in the film "Crocodile Dundee" was used without authorisation by the respondents as a "hook" to "grab" the attention of viewers. However, his Honour found that to maintain a passing off action he had to be satisfied that there was a reasonable likelihood that a substantial number of persons would have formed the impression that Paul Hogan and the makers of the film had some commercial association with the producers of the advertisement ("the reasonable likelihood of confusion" test). In finding this to be the case Gummow J effectively extended passing off to cover a misrepresentation that a fictitious character had endorsed or approved a product in circumstances where the fictitious character is so closely linked with the actor playing the part that the public is likely to be misled into thinking that the actor had endorsed or approved the product. Thus, on the basis of Gummow J's approach, arguably, where such a link does not exist passing off cannot be relied upon since as fictional characters do not 'exist', the public is unlikely to be misled into thinking that they endorse or approve any product.<sup>52</sup>

His reasoning was approved when the case went on appeal to the Full Federal Court such that the defendant was held to have misrepresented that the shoes had Paul Hogan's endorsement. The same approach was subsequently taken by Tamberlin J in the *Duff Beer Case*.<sup>53</sup>

<sup>51</sup>(1988) 12 IPR 225..

<sup>52</sup>S G Corones, 'Basking in Reflected Glory: Recent Character Merchandising Cases' (1990) Australian Business Law Review 5, 13.

<sup>53</sup> An unusual aspect of this case is that it concerns not a fictional "character" as such, but a "make-believe" product, namely the fictional Duff Beer which is coupled with a character, a background institution (Duff Brewery) and also with the associated advertising signs, posters and images of the



The essence of the Australian doctrine with its evolving emphasis on 'misappropriation' is the extension of the tort to provide effective protection in both personality **and** fictional character merchandising cases without the need to draw a distinction between the two. This will remain the position so long as all that is required is the 'wrongful appropriation of a reputation, or more widely, wrongful association of goods properly belonging to the applicant'.<sup>54</sup> The implications and acceptability of this model are discussed in Part IV.

(a) *The 'New Zealand approach' to passing off and character merchandising - the 'Australian Model' critiqued*

The New Zealand approach to the application of passing off in the character merchandising area is currently uncertain because there have been few cases brought before the Courts and those which have have been at the interlocutory level such that the issues have never been fully explored. There have been no cases brought by a 'real' character or the owner of a fictional character played by a real person. An examination of the cases which have been brought does reveal, however, that a conservative approach to the requirements of passing off is likely to be taken in the future in contrast to other Australasian judgments which, to some extent acknowledge the confines but in effect extend the tort into a form of action that could more accurately be labelled as "unfair trading".<sup>55</sup>

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beer which play an important role in "The Simpson" series. These features formed part of the fictional "environment" in which the stories are played out. It plays a background role as part of the fictional world which the characters inhabit. Further, Lion sought to avoid liability by including a disclaimer on the beer can that their product was in no way authorised by *The Simpsons*. It is interesting that in his first judgment in the *Duff Beer Case*, Tamberlin J ignored the distinction between cases concerning endorsement by real personalities and true character merchandising cases in order to extend the principle to purely fictional characters. In his second judgment he then attempted to draw upon these distinctions to justify the inefficacy of a disclaimer.

<sup>54</sup>*Koala Dundee* per Pincus J, Above n 45 .

<sup>55</sup>P Sumpter, 'New Zealand Intellectual Property Law : Observations and Recent Developments' (1993) 4 AIPJ 93, 101-102.



In *Tot Toys Ltd v Mitchell* the plaintiff failed in a substantive hearing to establish that it had sufficient goodwill in the overall shape, colour and appearance of a children's pull along wooden toy bee. The plaintiff alleged that the defendant had copied the get-up, particularly capricious (non-functional) features of the product, to such an extent that customers would be likely to assume that the defendant's product was that of the plaintiff. In this respect, the case was really of "classical" passing off. Fisher J held that no such confusion was likely and accordingly dismissed the plaintiff's action. In the case, the alleged infringement of the plaintiff's character merchandising rights was a subsidiary argument and was not argued in detail before Fisher J. Arguably this is not surprising. The argument appears to have been that the plaintiff's product had developed such a following as to have generated a "character", and the plaintiff had applied its likeness to other products. The launch of the defendant's product had prejudiced the plaintiff's opportunity to licence others to use the Buzzy Bee image for promotional purposes.

In dealing with the argument concerning 'character merchandising rights', the Judge was somewhat critical of recent Australian cases where "a generous version of passing off appears to have been recognised".<sup>56</sup> In his view while it is desirable to have consistency in commercial matters between two CER countries, New Zealand should hesitate before following the character merchandising approach favoured in Australia.

In doing so he immediately identified the problems with satisfying the ingredients of passing off, particularly misrepresentation and damage and particularly in cases of "artificial" character merchandising. Thus, he acknowledged, albeit impliedly, that a natural distinction falls between the types of character in question in any given case and that the nature of the character will largely determine the likelihood of success in satisfying the required elements.

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<sup>56</sup>Above n 2, 361.



As outlined above, to satisfy the 'extended' action in passing off, a plaintiff must be able to prove that the defendant has misrepresented the plaintiff's involvement in that there is a supposed sponsorship or licensing agreement between the parties which has some connection with the plaintiff's reputation (for example, as a guarantee of quality). Once it is shown that there has been a misappropriation of the plaintiff's promotional goodwill, the court will look for the necessary misrepresentation.

While there may be genuine deception in some cases, particularly where a real image is used, in many other instances, especially where use is made of an artificial character of the cartoon or caricature type, the real object and effect of the use of the artificial images in character merchandising "will be non deceptive [for in] that situation, reliance upon passing off to protect character merchandising rights becomes possible only if the Court is willing to entertain a legal fiction."<sup>57</sup>

As Fisher J commented, in cases of "artificial" (fictional) character merchandising the presence of any misrepresentation leading to deception would be fortuitous "because the point may be to project an association with a beneficial image per se ; not a commercial connection with the persons responsible for creating or licensing it...There is nothing inherently deceptive in showing one's product and juxtaposing it with a popular man-made image, any more than there would be in juxtaposing it with an image drawn from nature." In his view, the root of the problem lies in the object of most "artificial" character merchandising for "where a fictional or man made image is involved, it is usually immaterial where the image came from and who created it. All that matters is that it is already established in the public eye and that it has favourable connotations. At least with images of that kind, there is no incentive to deceive the public about anything. The defendant is not making any 'representation' beyond

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<sup>57</sup> Above n 2, 361



reminding the public that such an image exists and saying (truthfully) that the defendant's product is appearing with it in the same advertisement."<sup>58</sup>

It is interesting per se that the judge drew a contrast with character merchandising of real persons and suggested that there may well be a case for developing the law in line with American causes of action such as appropriation of personality and the right to publicity. But the dictum of Pincus J in *Koala Dundee*, that the inventor of a sufficiently famous fictional character having certain visual or other traits could thereby prevent others using the character to sell their goods (independently of copyright or trade mark law) was considered to be "rather wide".<sup>59</sup> In this regard the judge drew support from the "reservations" of two Australian commentators, Terry and Howell.<sup>60</sup>

More specifically related to the issue of whether or not the law should recognise a distinction between the types of character in question in any given case, and where Fisher J's discussion of character merchandising may be of value, is as a reminder of the need to examine carefully the evidence of actual or likely deception and not be distracted by the assumption that something of value has been misappropriated. This

<sup>58</sup> Above n 2, 361.

<sup>59</sup> Above n. 2. On the aspect of damage it was said that in *Koala Dundee* and in other similar decisions the damage relied upon was the possible loss of opportunity to license the merchandising right. But that, the judge decided, was necessarily a circular argument: the right to exact a fee came about only if a plaintiff had an enforceable right, she could sue in passing off only if she could show a loss and this loss was the loss of a right to a fee. As Sumpter has commented, "whether this judicial attempt to pull back the expansionary moves in "artificial" character merchandising protection demonstrated in recent Australian cases will succeed is another question." It is arguable that the form of damage comprising loss of opportunity to license image (be it artificial or personal) is merely a recognition of another modern version of commercial injury. Further the concept of damage in passing off cases is relatively flexible. In the only other reported New Zealand decision dealing at least partly with character merchandising arguments, *Gloss v TVNZ* (1989) 3 TCLR 83,88 the Court, in an interim injunction application, accepted a submission that there might be a "dilution of the goodwill by the inference that the defendant is either associated with or approved or licensed" by the plaintiff. McGechan J in *New Zealand Olympic and Commonwealth Games Association Inc v Television New Zealand Limited and Saatchi and Saatchi* (1996) 35 IPR 55, 11 noted that loss of sponsorship opportunities "difficult to measure in advance" was relevant in weighing the balance of convenience in an interim injunction application.



is arguably the central aggravating feature of the Australian approach which is, essentially an invocation of the American doctrine of misappropriation, the rationale underpinning the tort being the Bible epithet of preventing those who would otherwise reap where they have not sown.

It is submitted that Fisher J's approach is the most justified approach such that in the character merchandising context, on the basis of the principles of "reaping without sowing" and "unfair competition", there can be no justification for the endowment of proprietary rights, (which would essentially be 'anticipatory') in artificial characters or in real characters where no protection exists under existing intellectual property statutes, including copyright and trademark legislation, or where the traditional elements of passing off are not made out. To do so would egregiously hamper the competitive process. Outside copyright and trade mark protection the form of the "Bee" should not be protected because there are no policy reasons justifying the endowment of proprietary rights in these circumstances. The doors of competition must be kept open and the market available. The implications of Fisher J's remarks are considered in more detail below.

### 3 'The American Model'

In determining the validity of a distinction between the types of character in any character merchandising case some assistance may be drawn from the approach taken in the United States of America. In America, different approaches to the protection of images of characters are taken depending upon whether the character is a person or not. The writer submits that the American approach to the protection of character merchandising rights should be the model followed in New Zealand.

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<sup>60</sup> Above n 2, Terry & Howell, "The Unauthorised Use of Celebrity Photographs in Advertising" (1991) 65 ALJ 587, 590 and "Character Merchandising : The Marketing Potential Attaching to a Name, Image Persona or Copyright Work" (1991) 6 [Can] IPJ 197, 207.



Where the character is not a person, the question of whether the rights of the "owner" of that character are infringed by a publication of that character's image is whether there is a relevant "likelihood of confusion" in the minds of the public as to whether there is a licensing, approval or sponsorship arrangement between the "owner" of the character and the product concerned.

American Courts appear to accept that a creator of a character has the exclusive right to commercial exploitation of the reputation associated with that character because the public would expect that to be the case.<sup>61</sup> Whilst the wrong identified is that the reputation of the character is wrongfully appropriated, the test of whether that appropriation is wrongful is whether the defendant is "imposing upon the plaintiff a risk that the defendant's goods would be associated by the public with the plaintiff."<sup>62</sup> The question appears to be whether there is a probable confusion as to sponsorship, affiliation or connection with a character concerned<sup>63</sup>

It has been suggested that, in American law, a simple "misappropriation of merchandising property" is sufficient, without the element of confusion.<sup>64</sup> McCarthy, however asserts that this misappropriation theory has been rejected.<sup>65</sup> For example, Sears, Roebuck and Co were not prevented from using its name "BAGZILLA" and a comic creature in relation to its "monstrously strong garbage bags". The mere pun on the name "GODZILLA" was not likely to cause confusion in the minds of the public as to any sponsorship arrangements.<sup>66</sup>

<sup>61</sup> This was partly the result of a survey conducted in 1983 when 250 persons were interviewed and asked whether they agreed with the statement that "no product can bear the name of an entertainer, cartoon character or some other famous person unless permission is given for its use of the owner, name or character": 91 per cent agreed with the statement. Harrison, 'The Merchandising Reporter's first consumer survey on licensing' (1993) 2 Merchandising Rep 22.

<sup>62</sup> *Triangle Publications, Inc v Rohlich* 167 F 2d 969 77 USPQ 196, 77 EUSPQ 294 (2d Cir (1948).

<sup>63</sup> *Universal City Studios Inc v Nintendo Co* 746 F 2d 112, 223, USPQ 1000 (2d Cir 1984).

<sup>64</sup> Grimes and Battersby, "The Protection of Merchandising Properties" (1979) 69 Trade Mark Rep 431, 1.

<sup>65</sup> Mc Carthy, above n 16.

<sup>66</sup> *Toho Co v Sears Roebuck & Co* 645 F 2d 788, 210 USPQ 547 (9<sup>th</sup> Cir 1981).



Where the character is a *natural* person the question of whether the rights of that person are infringed by a publication of a certain image depends on whether that person is *identifiable* from that image. This approach stems from a person's inherent right *as a person* to the exclusive use of his or her persona for **commercial** purposes.

This 'right of publicity' has arisen out of the general tort of invasion of privacy and protects the commercial value of personality to the extent that it recognises an intangible property right to prevent misappropriation of the plaintiff's name or likeness to the defendant's advantage. The right to publicity varies from State to State, some States not recognising it at all, others recognising it as only the right of a living person, and some regarding it as property that may be passed to one's heirs. Some States, such as New York and California, being the centres of show business, have given statutory recognition to the right however, statutory recognition varies between States. Although there has been separate development of the right to publicity and the right to privacy, the privacy roots of the former remain and where a right to publicity is recognised as a right independent of privacy, the plaintiff must show that he or she is a public figure with a valuable personality.<sup>67</sup> The right has now been "codified" in the Restatement (Third) of Unfair Competition, having largely been separated from its privacy antecedents.<sup>68</sup>

The precise definition of the right to publicity is not settled at law. However, the right to publicity may be loosely defined as the right of a celebrity over all aspects of his or her image, and over which he or she has control as his or her property.<sup>69</sup> It is limited by public interest concerns such as freedom of information and freedom of speech.<sup>70</sup>

<sup>67</sup> Frazer, 'Appropriation of Personality - A New Tort?' (1983) 9 LQR 309.

<sup>68</sup> Sheldon W Halpern <halpern.1@osu.edu>

<sup>69</sup> Caenegem, 'Different Approaches to the Protection of Celebrities Against the Unauthorised Use of their Image in Advertising' [1990] 12 EIPR 455.

<sup>70</sup> In contrast to New Zealand, Australia, Canada and England, the United States provides an overriding constitutional guarantee of freedom of information in the public interest. This provides freedom to the Press to gather "news". First Amendment to the US Constitution. For example, in *New Kids on the Block v Gannett Satellite Information and News America Publishing* US District Court Central District of California, 6 September 1990, Rea J, Unreported, the Court found that the use of



There must be a balancing between the values protected by the First Amendment to the Constitution and misappropriation of a plaintiff's intangible property rights.

The Courts have placed other limits on the protection of certain aspects of personality, and in particular, upon vocal likeness as a common law right of publicity. In *Midler v Ford*<sup>71</sup> the defendants' advertisement promoting a Ford motor car made use of a sound-a-like who purposely imitated the voice of Bette Midler to a song she had popularised, "Do You Want to Dance". Neither the voice nor the picture of Midler were used, and no express reference was made to her. The defendants' had obtained copyright permission to use the lyrics and music but had imitated Midler without her consent. The evidence showed that viewers thought it was Midler singing.

The United States Court of Appeal for the 9<sup>th</sup> Circuit found that Midler enjoyed common law property rights in her distinctive voice and that there had been a misappropriation of her likeness.<sup>72</sup> The Court outlined limits which are to be placed on the protection of this particular aspect of personality. For example, not every voice imitation would be protected unless the voice was distinctive. The more substantial the reputation involved, the more likely the Courts will grant protection. In this case Midler was a professional singer and had won Grammy Awards. Other limits including, the need for there to have been a deliberate imitation for marketing purposes and for unfair competition and damage to have resulted have also been placed.

The importance of the need for limits to be placed on the protection of personality is no more starkly highlighted than by the dissenting judge in the case of *White v*

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the New Kids' name and likeness in connection with surveys on the pop group by callers dialling numbers beginning with "900" was related to news gathering and not mere commercial exploitation. The commercial venture was such as not to outweigh the right to exercise freedom of speech.

<sup>71</sup> (1988) US App. Lexis 8424.

<sup>72</sup> Above n 70. Her voice was an attribute of her identity and was of value to the defendants, this being the reason why they used an imitation (the value was the market value that would have been paid had she sung in person).



*Samsung Electronics America*<sup>73</sup>. In the event that a similar right to publicity is recognised in New Zealand the writer submits that Circuit Judge Kozinski's judgment should be fully examined and his reasoning adopted.

The defendant ran an advertising campaign promoting its consumer electronics. One series of advertisements depicted a robot dressed in a wig, gown and jewels reminiscent of Vanna White's hair and dress and the robot posed next to a Wheel of Fortune game board. The caption read, "Longest running game show 2012 AD". Samsung did not use White's name, voice or likeness. The advertisement was meant to convey that Samsung products would be around when White had been replaced by a robot. White sued alleging that the defendant had infringed her right of publicity by "appropriating" her "identity".

The California Civil Code 3344(a) provides that a person has a right to use their name, likeness, signature and voice for commercial purposes. The majority held that this right extends beyond name and likeness to *any* appropriation of one's identity - anything evoking one's personality. Dissenting Judge Kozinski recognised that the majority approach "is creating a new and much broader property right...it's replacing the existing balance between the interests of the celebrity and those of the public by a different balance...more favourable to the celebrity...every famous person now has an exclusive right to anything that reminds the viewer of her."

As the judge outlines, the endowment of such a property right with no limitations, violates the Copyright regime by refusing to recognise a parody exception to the right, by refusing to recognise a fair use exception and by doing away with any need for an idea expression dichotomy. For example, it would be extremely difficult to parody a movie or television show without at the same time evoking the identities of the actors. The overall effect of the majority approach is to impoverish the public domain to the detriment of future creators and the public at large.

<sup>73</sup> 1993) 989 Fed Rep (2 ed) 1512 9<sup>th</sup> Circuit



The writer submits that if a distinction between the types of characters is drawn for the purposes of New Zealand law, and in the event that an action along the lines of the American right to publicity is recognised, there should not be unlimited protection for real characters where other intellectual property laws will be undermined and where the balancing of competing policy considerations weighs in favour of denying protection. The same must be said for the opposite end of the spectrum, that is, in relation to protection for fictional characters. It would be essential that limits be placed on the extent of protection granted given that policy reasons for protection must be established before the image of a character merits protection. Where protecting such an image would have the effect of undermining the effect of existing laws and in the absence of any other social or economic justification, protection should rightfully be denied. It is simply untenable to endow the 'owners' of characters with the exclusive right to the use of **all** images, references or recollections of a character for a commercial purpose.

#### **IV AN ASSESSMENT OF THE ISSUES FOR THE VALIDITY OF A DISTINCTION IN NEW ZEALAND**

An analysis of the three 'models' reveals that in the United States, and in New Zealand, there is judicial recognition of the need for a distinction between the type of character involved in any given character merchandising case. This is in marked contrast to the more recently developed approach in Australia which is to employ a "misappropriation test" such that there need be no distinction drawn. All that a plaintiff is required to establish is a wrongful appropriation of a reputation, or, more widely, a wrongful association of goods properly belonging to the plaintiff. No misrepresentation in the sense that there is a representation of the plaintiff's endorsement, approval or sponsorship of the defendant's good or service is required for the purposes of Australian law. This then avoids the problem faced by character



merchandisers who utilises purely 'fictional' characters given that where a fictional image is involved it is difficult to establish the traditional 'misrepresentation' requirement because of the fact that it is usually immaterial where the image came from.

The implications of the general action which has emerged in Australia are numerous. Any general action for the protection against the 'misappropriation' of character merchandising "images" sets up huge monopoly rights and tends to defeat the policies inherent in copyright and trade mark legislation. The policies in the legislation are as significant for their provisions as to what is not protected, not only through express exclusions but also through the implied exclusions through the definition of what is protected. If a more general test is used as it is in Australia, there is a risk that competitors will use lawsuits or threats of suits under it to discourage and eliminate competition. This would then have the effect of increasing the expense because of the evidence which needs to be adduced in such a case. If, for example, a trade mark cannot be registered, protection lies in the uncertain realm of passing off and, as Lord Bridge in the *Holly Hobbie* case<sup>74</sup> commented, "this is likely to generate a mass of difficult and expensive litigation which cannot be in the public interest."<sup>75</sup>

The 'misappropriation' test currently applied in Australia, a test which does not require the drawing of a distinction between the types of character involved, has other significant implications. For example, where the image of a person has been used for comparison purposes only, while there may have been a clear misappropriation there should be no infringement of the rights of the proprietor of that character. One of the assumptions of the competitive economic model is that consumers are aware of the quality of goods on the market. The extent of the quality of a particular product may be communicated to consumers by comparing it to a competing product. As long as it is not done in a misleading way, there is nothing intrinsically wrong with

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<sup>74</sup> Above n 30.

<sup>75</sup> Above n 30,487.



comparative advertising. Rather, it improves the knowledge of consumers. In the *Newton-John v Scholl-Plough (Australia) Ltd* case<sup>76</sup>, for example, the purpose of the advertisement was by way of comparison. There was no suggestion that the person depicted in the photograph was Olivia Newton-John herself and while the casual reader would get the impression that the advertiser had made use of her reputation to the extent of gaining attention, they would not get the impression that the advertiser was making any suggestion of association. The Court rightfully held that her interest in the protection of her *reputation* was not infringed.

What can be said for the general Australian approach is that it avoids many of the difficult issues which must be resolved by those jurisdictions wishing to recognise a distinction. It is all very easy to advocate for the need to draw a distinction in any given case, however, there is the issue as to where the 'line' should be drawn. Given that the writer has recognised that there are four possible 'types' of character (ranging from the natural person to the fictional character played by the natural person to the fictional character of the cartoon, toy or screen character type) the law must be able to create a degree of certainty for potential litigants as to the appropriate causes of action for the 'owner' of the type of character in the given case. Should the distinction be at the one level ; between 'real' and 'fictional' characters or should it be between real characters in their 'natural' capacity and the three other types of characters lumped together. How should the law accommodate the fictional character played by the real person, the effect of which is to, essentially, blur any distinction which may be drawn. What should the remedies be, given that a 'misappropriation' doctrine would not suffice because of its failure to acknowledge the need for such a distinction?

There is then the issue as to whom the relevant 'owner' of the images and rights associated with a particular character is and who is entitled any available remedies.<sup>77</sup>

<sup>76</sup> Above n 41.

<sup>77</sup> This issue falls outside the bounds of this paper and will not be analysed further.



For example, who 'owns' the names, and images associated with a sports team? What is the situation when someone misappropriates the image of a team by suggesting there is some sponsorship arrangement between a plaintiff and a defendant. If someone wishes to utilise the images of members of the team who is to consent - the entire team or the player or players concerned? Similarly, in the *White v Samsung* case discussed above, "why is Vanna's right to exclusive profit and use of her persona, a persona that might not even be her own creation but that of a writer, director or producer, superior to Samsung's right to profit by creating its own inventions."<sup>78</sup> The writer submits that these issues can only really be fleshed out when the Courts are confronted with more cases on the issue of protection and given the growing nature of the practice, this should not be far off.

If New Zealand law is to recognise that, prima facie, a distinction should be drawn, and therefore, that such a distinction is both valid and necessary, it must then provide acceptable remedies, within socially and economically justified bounds, for the 'owners' of characters from each of the four different types of character identified. That is to say that after balancing the competing policy factors detailed above, the natural person whose image has been wrongfully appropriated may be justified in seeking a remedy just as the 'owner' of an image in an artificial character may. That is not to say, however, that the extent of protection should remain the same, or even the type of protection. The writer submits that in accepting that a distinction is valid if the implications of the general Australian approach are to be avoided, the time has come for New Zealand law to rationalise as to whether a right to publicity, along the American lines, should be recognised and, at the opposite end of the 'character spectrum', whether in the absence of protection under the current statutory intellectual property regime and under the extended passing off action, the 'owners' of artificial characters deserve protection from unauthorised use.

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<sup>78</sup> Above n 73.



In accepting that there should be a distinction drawn between the types of characters in any given case, a number of secondary issues must be dealt with before some assessment of the way the law should protect character merchandising rights in New Zealand can be made. The writer deals with the issues pertaining to 'real' characters and those pertaining to 'fictional' characters in the discussion which follows.

### *A Issues for the 'Real' Character Merchandiser*

Given that the writer has identified that different policy considerations arise in relation to 'real' characters based on a natural person's inherent right to privacy, it is not surprising that there are additional factors to consider when determining where exactly the 'line' should be drawn and how, if one is drawn, the 'owner' of the natural person's image is to derive protection from unauthorised use.

To begin with, there are some problems with attaching a property element to personality particularly in drawing a distinction between that right and the right of others, an issue which arises particularly where the type of character in question is a natural person who is playing the part of a fictional character.

The *Midler* case emphasised the notion of the value of Midler's vocal characteristics to others. The defendants had copyright in the lyrics. A conflict arises therefore, because although the copyright owner had rights in the song itself, the singer's property rights in her vocal attributes were infringed because it sounded like the singer herself. The District Court was concerned that such protection may be at the expense of the copyright holder for the copyright holder may have to purchase additional rights to perform a song to avoid facing litigation. Therefore, in the context of sound-a-like claims, the Courts must be careful to distinguish between precise and generic similarities.



The writer submits that this is also of relevance to look-a-likes, such as allegations that Madonna has in the past attempted to snatch the image of Marilyn Monroe. Madonna may have taken advantage of Marilyn's popularity, but Madonna does have some genetic similarities. Had the vocalist's natural voice sounded like Midler, the result in that case may have been different. The alternative view is that deliberate use of such a voice to draw the association with Midler is actionable wrongful appropriation.

If a distinction is recognised for the purposes of New Zealand law, a proprietary interest in personality has other significant ramifications. For example, does this mean that it has an inheritable quality along with the other property comprised in an estate. The issue of whether the right of publicity ceases with the death of a celebrity or whether it survives death and can be passed onto heirs by will or licence has been considered by various States in America due to the recognition of the right to publicity as property, rather than as a personal right. Questions then arise as to descendability and assignability, the ability generally to realise the property value in the marketplace (alienability), and as outlined, issues as to competing rights to an image, questions which must be asked of other intangible property rights.

In determining whether it is desirable to recognise that there should be a valid distinction drawn between types of characters, and therefore, to recognise a right of publicity along American lines to protect the 'real' character, there are other considerations which need to be factored into the balancing equation. The first is the economic efficiency of recognising private property rights in respect of personalities. Secondly, there are ethical considerations including the effect on the distribution of wealth and the limitation of free speech and information. Thirdly, there is a jurisprudential question as to the compatibility of such a right with the scheme of English - based property law which does not recognise a right to privacy as such. A detailed discussion of these issues falls outside the bounds of this paper.



## ***B Issues for the 'Fictional' Character Merchandiser***

The crux of the issue for the character merchandiser who utilises 'fictional' characters, be they fictional characters played by real people or fictional characters which are not, is whether or not the creator is protected where there has been 'unauthorised' use of the image and reputation of the character which does not deem there to have been a breach of the statutory intellectual property regime or where passing off fails to provide a remedy.

As outlined in the preceding analysis, the protection afforded by copyright and trade laws is confined to narrow and rigidly prescribed circumstances and should a conservative approach to the elements of the tort of passing off be required in New Zealand (as Fisher J's judgment in *Tot Toys* suggests will be) there will be numerous instances where the creator of a fictional character will be denied a remedy. An example would be where there has been a misappropriation of the image and reputation of a screen character but not one which would lead one to assume that there was a representation that the 'misappropriator' was the licensee or was the subject of some sponsorship agreement with the 'creator'. Where this is the case the only chance of the owner being granted a remedy is if the 'character' is deemed to fall within the bounds of the statutory intellectual property regime.

The issue therefore becomes, whether some protection should be afforded in this instance and the only means of affording protection in these circumstances would be for New Zealand law to recognise a 'misappropriation test' along the lines of the Australian model. Fisher J has clearly rejected this option given that he has recognised that it is not easy to see how "the association of goods properly belonging to the applicant" could be wrongful on any basis other than either a property right or the misrepresentation that the defendant had some form of association with those who stood behind the image. As he commented, "it cannot be false for the defendant to assert that his goods have some form of association with the image itself, divorced



from its proprietors and their other property, if the association amounts to nothing more than joint appearance of the image and the defendant's product in the same advertisement. If it is a property right instead of a deception, where did it come from? It cannot be suggested that it came from passing off, since passing off requires deception."<sup>79</sup>

Further, it is simply unjustifiable to endow the owners of characters with the exclusive right to the use of all images, references or recollections of a character for a commercial purpose. New Zealand law does not protect all intangible elements of value which may flow from the exercise by an individual of his or her powers or resources, whether in business or by the use of ingenuity, knowledge, skill or labour. Some other social or economic justification is required. A test of misappropriation, based on it is on the notion of 'reaping without sowing', is fundamentally inconsistent with the precepts of New Zealand law and with acceptable principle. To endow proprietary rights in an image of an artificial character where no such rights are available from the statutory intellectual property regime would be inconsistent with the general policy principles discussed in Part II. Rather than unjustifiably extending the tort of passing off to enable such protection, the writer submits that there may be arguments in favour of reforming the statutory intellectual property regime to ensure that it caters for the growing practice of character merchandising.

In accepting that a distinction should be drawn between the types of characters in question in any given case, there are arguments for and against providing more protection to the character merchandiser who utilises fictional characters to market his or her goods and services, just as there are for those who employ real people to do so. As Fisher J outlines in his judgment, there is already considerable protection for the former from trade marks, registered designs, patents, the Fair Trading Act, copyright, and where there really is the false representation of an association with the plaintiff or

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<sup>79</sup> Above n 2, 362-363.



his or her goods and independent damage such that conventional passing off provides a remedy.<sup>80</sup>

There are several policy considerations which favour increasing protection for the 'fictional' character merchandiser. For example, the incentive principle suggests that the opportunity to profit from a 'monopoly' encourages individuals to devote their time and resources to the creation and promotion of images which in turn have the potential to bring pleasure and value to mankind as a whole. Further an argument could be made that there is a consumer's interest to be served in facilitating the identification of commercial sources and associations. This, however, is a strained argument because character merchandising is a poor guide to origin or quality. Most of the time the choice of the licensed user in an unrelated field will have turned upon nothing more than his or her being the highest bidder.<sup>81</sup>

There are, however, stronger arguments in favour of not creating 'fresh monopolies' in this area. The notion that people should have the freedom to express themselves, to comment and criticise, the fact that the community should have access to intellectual developments and the public interest in competition favour not protecting the 'fictional' character merchandiser in every situation. In applying the test for passing off, consideration must be given to the extent to which the recognition of those rights would impinge upon the public's right to free speech and expression as the door needs to be left open for satire and parody. Some characters, for example, become so famous that they become part of society and folklore. To inhibit any mention of these characters may impose restrictions on the public. Therefore, some room for parody, satire, education and fair comment is necessary.

Perhaps the strongest argument against adopting a similar test to that used in the Australian jurisdiction, the effect of which is to not draw a distinction between the

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<sup>80</sup> Above n2, 364.

<sup>81</sup> Above n 2, 364.



types of characters in question and therefore to provide a remedy, with essentially no limits and in the absence of strong social and policy considerations justifying this, is the argument that aspects of the current statutory intellectual property laws will be undermined.

Undoubtedly, in extending the protection of artificial character merchandising rights, relationship to existing legislation must be considered. There can be no justification for the endowment of proprietary or other rights in artificial characters where no protection exists under existing intellectual property statutes, particularly trade mark and copyright legislation, or where the traditional elements of passing off are not made out. The endowment of 'proprietary' rights, in these circumstances, and with no limitations, has the effect of violating these statutory regimes. For example, protection of industrially applied copyright works is deliberately limited to 16 years and other copyrighted works, registered designs and patents are similarly limited to finite periods. The extension of the tort of passing off to the extent that has occurred in Australia would mean that the ability for a plaintiff to enforce the fact that there has been a misappropriation of his or her character's image and reputation would continue infinitely. This would have the effect of hampering competition and, moreover, not all harmful competition is unfair or unlawful. Most important is the countervailing public interest in free competition which often demands priority even at the cost of condoning practices which deserve censure as dishonest trading.

Other aspects of the intellectual property statutes outlined in the preceding analysis which would appear unnecessary should passing off be extended to a 'misappropriation' doctrine are the requirements of various forms of novelty and, or, originality. Further, protection of a registered trade mark is denied once the proprietor traffics in the mark by licensing it for fields of activity over which the proprietor has no control. Protection under a 'misappropriation' doctrine, which does not require the drawing of a distinction between characters, would be granted regardless of this.



The writer submits that, in general, where copyright, design, or trade mark rights are not infringed, a misappropriation is acceptable so long as there is no misrepresentation or deception to the public such that the traditional elements of the 'extended' action in passing off are satisfied. Obviously a distinction must be drawn at some level, between real and fictional characters given that at the extreme ends of 'character spectrum' there are serious policy issues which suggest that protection should or should not be afforded, these issues having unique implications depending upon the 'existence' or 'non existence' of the particular character .

#### IV CONCLUSION

This paper has attempted to explore Fisher J's suggestion that in determining whether or not there should be protection granted in any given character merchandising case, judges should begin their analysis of the law by immediately drawing a distinction between the promotional use of names, reputations and images of real person and artificial character merchandising.

This area of the law is far from easy. Courts are required to strike a balance between three sets of interests. First, a plaintiff has an interest in protecting his or her promotional goodwill from misappropriation. Secondly, a defendant has an interest in being free to compete without undue restrictions and thirdly, consumers have an interest in that they need to be protected against misleading or deceptive conduct by traders. The question becomes 'whose interest is to be preferred'?

Recent character merchandising cases, particularly in Australia, demonstrate that Courts have tended to favour protection of the plaintiff's property rights such that they have shifted the foundations of the tort of passing off from misrepresentation to 'misappropriation' and come close to a tort of unfair competition based on the principle of 'reaping without sowing'. In doing so they have effectively ignored any



need to begin any analysis of the law by recognising that a distinction must be drawn between the type of character in question so that there is now potential for an insufficient boundary to lie between pro-competitive behaviour and anti-competitive behaviour and the interests of the owner in protecting the character's reputation. The ultimate effect of this is to undermine aspects of the current statutory and common law intellectual property regimes with the owners of, particularly fictional, characters now being granted protection when they otherwise would not be.

Undoubtedly the test of passing off has developed into a flexible structure within An examination of the fundamental principles underlying intellectual property law reveals that, aside from specific issues relating to copyright, the most cogent justification for the endowment of proprietary rights in respect of a character lies in the protection of the reputation, or goodwill, of that character. This is a convenient focus because an examination of character merchandising practices reveals that it is the reputation of the character which is invariably used. Injury to a character's goodwill, or at least the diminution of financial returns from that goodwill is not necessarily wrongful as that injury may arguably be competition at work. Thus, when considering whether a character merchandiser's rights are unlawfully prejudiced, it is necessary to balance competing factors identified. It is submitted that because additional considerations must be factored into the balancing equation where real characters are involved, in order to apply current laws to the modern practice of character merchandising one should begin by identifying the nature of the character involved and then recognise that policy considerations dictate the need to afford different types and extent of protection depending on the nature of the character.

Earlier in this paper the principles governing the endowment of proprietary rights in respect of characters were canvassed. Granting a "monopoly" to the creator on the basis of the 'natural law' axiom asserted by Libling<sup>82</sup> that any entity generated by the expenditure of skill, effort and expertise should be afforded proprietary rights must be balanced against the economic and social needs of free competition. Any approach



which is based on a 'misappropriation test' and therefore, which does not recognise that a distinction should be drawn between characters, overlooks these principles and for this reason alone should be dismissed for the purposes of New Zealand law. New Zealand law should not protect all intangible elements of value which may flow from the exercise by an individual of his or her powers or resources, whether in business or by the use of ingenuity, knowledge skill or labour. Some other justification is required.

Undoubtedly the tort of passing off has developed into a flexible structure within which the three competing interests identified may be addressed and balanced, however it is submitted that for the purposes of New Zealand law a conservative approach to the misrepresentation requirement must be taken in contrast to the liberal Australian approach. Such a test, based on some 'reasonable likelihood of confusion' test or the notion that passing off proscribes any *misrepresentation* by a trader that its product possesses some commercial association (such as, by licence, sponsorship, endorsement, or approval with the 'owner' of a character) is consonant with the theoretical bases for protection established above and represents an appropriate division between what is regarded as 'pro-competitive' behaviour and 'anti-competitive behaviour'. It would also mark the boundary of the interests of the owner of a character in protecting its reputation.

While current legislation should, to an extent, be tailored to more adequately meet the particular demands of the practice of character merchandising, it is submitted that there is no justification for extending common law protection any further. The owner of a fictional 'character' does not warrant the granting of proprietary rights outside existing causes of action, including copyright and a conservatively applied extended passing off action.

As for the need to provide more protection to the 'real' character, it is submitted that New Zealand law should recognise a 'right to publicity' similar to the American

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<sup>82</sup> Above n 14.



cause of action and ensure that this action remains open for invocation where both the images of the real character in its natural capacity and the real character playing the fictional character have been misappropriated. The action should lie alongside passing off (which would provide protection where a person's *reputation* is infringed) and would have the effect of recognising a natural person's inherent right to privacy and their inherent right to control aspects of his or her image.

Limits would have to be placed on such a cause of action. For example such a right should only protect against commercial uses and should not be honoured where there is a valid free speech issue such as parody or political comment. Further there should be no liability where the appropriation is not an advertisement but comprises purely factual matters, the publication of which is in the public interest. If the circumstances of the appropriation are such that they would in an action for defamation give rise to defences of qualified or absolute privilege or fair comment then a plaintiff should be denied a remedy. If the name, likeness or voice which has been appropriated would not be recognisable or identifiable by a person of ordinary facilities acquainted with the plaintiff or where the appropriation is merely incidental the right should not be honoured.<sup>83</sup> In the event that the right is codified, any statute should include fair use provisions in line with the Copyright Act 1994 and should expressly exclude purely fictional characters of the cartoon type given that their inclusion would have the effect of broadening the cause of action to a general one of unfair competition and general misappropriation, the ramifications of which have been outlined in the preceding analysis.

It is submitted that, indeed, there are strong arguments in favour of Fisher J's suggestion that a distinction should be drawn in any character merchandising case such that real and fictional characters should be treated separately when considering whether the particular character merchandising in question merits protection. While there are numerous issues to be resolved as to exactly where the line should be drawn,



who is to be classified as the 'owner' of the particular images for remedial purposes and the nature of the remedies which should be available, an examination of policy considerations and of the explanatory power of three different legal models for the protection of such a practice does reveal that it is logical and justifiable to advocate for the need to distinguish between the types of character in question and afford different types and extent of protection against unauthorised use on this basis.

Undoubtedly, character merchandising is a multi-billion dollar international industry and, therefore, it is surprising that to date there have been few character merchandising cases brought before New Zealand Courts. It is likely that the number of cases will increase and as it does it is submitted that it is imperative that decisions are made, or, at the very least, considerations be given to the direction in which the law should take. While evidence can be sought from overseas, particularly from Australia and the United States, notice must be taken of the unique circumstances of New Zealand - its laws, commercial practices and demography so that an overreaction does not occur which could result in the creation of a general action for misappropriation which fails to distinguish between types of characters and which would provide unjustified protection in many instances. New Zealand Courts must be willing to recognise commercial practices without themselves succumbing to the realities of marketing strategies.

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<sup>83</sup> Above n 67.



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