The Monarch Beverage Company (Europe) Ltd v Kickapoo (Malaysia) Sdn Bhd and Another [2009] SGHC 55

Case Number	: Suit 284/2005
Decision Date	: 06 March 2009
Tribunal/Court	: High Court
Coram	: Tan Lee Meng J
Counsel Name(s)	: Ponampalam Sivakumar (Joseph Lopez & Co) for the plaintiff (in original action); R Chandran (Leo Fernando & Co) for the defendants (in original action); Tan Siew Tiong (Lawhub LLC) for the 2nd to 5th defendants (in the counterclaim)
Parties	: The Monarch Beverage Company (Europe) Ltd — Kickapoo (Malaysia) Sdn Bhd; Kickapoo Beverage Pte Ltd

6 March 2009 Judgment reserved

Tan Lee Meng J:

1 The plaintiff, The Monarch Beverage Company (Europe) Limited, an Irish company (hereinafter referred to, together with all its affiliated companies, as "Monarch"), is the registered proprietor of two trade marks in Class 32 in respect of "non-alcoholic beverages and juices", namely "Kickapoo Joy Juice" (TM No T86/05341I) and "Kickapoo" (TM No T86/05246G) (both marks will be referred to as the "Kickapoo marks").

2 The first defendant, Kickapoo (Malaysia) Sdn Bhd ("KM"), a Malaysian company, was granted an exclusive licence to produce and sell "Kickapoo Joy Juice" in cans and PET bottles in Malaysia and Singapore ("the licence agreement") by Monarch's predecessor in title, The Monarch Company Inc ("TMCI"), an American company, in 1996. The 2nd defendant, Kickapoo Beverage Pte Ltd ("KB"), is KM's Singapore subsidiary.

3 Monarch, which claimed to have terminated the licence agreement, sued KM and KB for infringement of the Kickapoo marks and passing off. KM, which asserted that it is still Monarch's licensee, counterclaimed against Monarch for breaching the licence agreement. KM also made a counterclaim against Monarch and four other defendants with respect to the tort of conspiracy in relation to the breaching of its licence agreement with Monarch and its sole distributorship agreement with, Heng Sheng Company ("HSC"), a Singapore company whose business was subsequently taken over by Heng Sheng Corporation Pte Ltd ("HSCPL"). The parties who allegedly conspired with Monarch are:

(a) the 2nd defendant in the counterclaim, Ying F & B Pte Ltd, whose name was imprinted on China-made Kickapoo beverage imported into Singapore in alleged breach of KM's sole distribution agreement with HSC;

(b) the 3rd and 4th defendants in the counterclaim, Mr Chia Yong Khoon and his wife, Mdm Yeo Puoy Cheng, who were the partners of HSC; and

(c) the 5th defendant in the counterclaim, HSCPL, which was formed on 15 November 2004 to acquire the business of HSC.

Background

4 The Kickapoo marks were first registered in the name of Monarch's predecessor in title, TMCI.

5 On 12 February 1996, TMCI assigned its business and its rights to the Kickapoo marks, to Monarch.

6 KM claimed that it appointed HSC as the Singapore distributor of its Kickapoo drinks in 1996. However, HSCPL asserted that HSC was appointed KM's sole distributor in 1998. In that year, HSC appointed PH Sales & Marketing Pte Ltd ("PH") as its co-distributor of KM's Kickapoo drinks in Singapore.

7 The Kickapoo beverage produced by KM made inroads in the Singapore and Malaysian beverage market. Indeed, sales of the said beverage in these two countries accounted for 90% of Kickapoo worldwide beverage sales. Kickapoo beverage sales were also crucial to KM's business as they accounted for 95% of its total business.

8 The original licensor, TMCI, intended its relationship with KM to be a long-term one. However, relations between KM and Monarch, to whom the Kickapoo marks had been assigned, turned sour.

9 By the end of 2001, Monarch was quite determined to terminate the licence agreement with KM. On 9 December 2001, Monarch served on KM a notice of termination of the licence agreement without giving any reason for its action.

10 One day later, on 10 December 2001, Mr Raymond Chow ("Mr Chow") of Yeo Hiap Seng ("YHS"), a Singapore company that bottles and packs a variety of beverages, requested Monarch to forward him a letter of appointment so that the terms and conditions of the proposed agreement could be outlined while the legal contract was being sorted out by Monarch and YHS.

11 That Monarch had already made up its mind to abandon KM was evident. On 11 December 2001, its representative, Ms Nella Aguf, replied to YHS' Mr Chow as follows:

> [I] think *we are going to* go ahead and *cancel the [licensing agreement with KM] anyway* and see what happens.
>
> [emphasis added]

12 As it turned out, the proposed business relationship between Monarch and YHS did not materialise. Shortly thereafter, Mr Chow left YHS to join Monarch as the vice-president of its local subsidiary.

13 Between December 2001 and June 2005, Monarch served six termination notices on KM, which rejected the said notices and affirmed the licence agreement.

14 On 20 September 2002, Monarch gave HSC, KM's sole distributor of Kickapoo beverage in Singapore, a licence to manufacture and sell Kickapoo beverage in Shanghai ("the Shanghai licence"). As all the Kickapoo drinks made under the Shanghai licence were imported into Singapore and no serious attempt was made to penetrate the Shanghai beverage market, KM asserted that the Shanghai licence was part of a plan to sabotage it.

15 Just three days after HSC was granted the Shanghai licence, Monarch informed KM on

23 September 2002 that as from 1 October 2002, Kickapoo beverage bases, from which Kickapoo drinks are produced, would be sold to KM at USD 602 per gallon instead of the current price of around USD 60 per gallon. This phenomenal price increase of 1,000%, which was unheard of in the beverage market, made it economically unviable for KM to produce any Kickapoo beverage. Monarch conceded that to date, no other licensee has been charged this exorbitant price of USD 602 per gallon.

16 KM, which alleged that this unwarranted price increase was to cripple it financially and was a serious breach of the licence agreement, responded by ordering from Monarch about a year's supply of beverage bases, which amounted to 1,000 gallons at the old price. However, Monarch supplied KM with only 200 gallons. Monarch did not deliver any more Kickapoo beverage bases to KM thereafter despite being reminded by the latter to deliver the balance of 800 gallons.

17 Under the licence agreement, KM was required to purchase beverage bases from "approved" sources. In the face of the depletion of its beverage bases from "approved" sources, KM sought the assistance of Mr Joseph Norman Stutz ("Mr Stutz"), who was part of the TMCI team in the 1990s and had played an active role in the concluding of the licence agreement between TMCI and KM. Mr Stutz arranged for KM to purchase beverage bases for its Kickapoo products from BevTech International, which is not an authorised source for Kickapoo beverage bases under the licence agreement. Subsequently, he arranged for another unauthorised source under the licence agreement, Tropical International (Bahamas) Limited ("Tropical"), which owns Kickapoo trade marks in Bahamas and Barbados, to ship beverage bases to KM. According to Mr Stutz, Tropical's beverage bases were produced in accordance with the formula for the Kickapoo beverage bases previously supplied by Monarch to KM.

18 While KM used Tropical's beverage bases to produce its "Kickapoo" beverage for the Singapore market, HSC, which stopped buying KM's "Kickapoo" products, arranged for the Kickapoo beverage produced in China under its Shanghai licence to be shipped to and sold in Singapore.

19 On 23 May 2003, KM asked HSC why the latter had stopped purchasing its Kickapoo beverage since April 2002. In the same letter, KM asked HSC to comment on why a large number of retailers in Singapore were selling China-made Kickapoo drinks. HSC did not reply to this letter.

20 On 28 January 2004, KM wrote to HSC to demand that it stop its activities of supplying, selling or distributing Kickapoo drinks without its authority. Another letter was sent to HSC on 2 March 2004. HSC maintained a stony silence.

21 Monarch suspected that KM must have been purchasing beverage bases from unauthorised sources because it had not been supplying KM with beverage bases and the expiry date for the beverage bases previously supplied by it to KM had already passed. On 24 November 2004, officers from the Malaysian Ministry of Health visited KM's bottling plant in Seremban, Malaysia, and found beverage bases from Tropical on the premises. As has been mentioned, the Tropical beverage bases are not an approved source for Kickapoo beverage bases under the licence agreement. On 15 June 2005, Monarch relied on the use of the unauthorised beverage bases to terminate the licence agreement with KM.

22 Shortly after terminating KM's licence on 15 June 2005, Monarch swiftly appointed HSCPL as bottlers and distributors of Kickapoo drinks for the Singapore market on 1 July 2005. Interestingly enough, HSCPL ceased to manufacture Kickapoo drinks in China under the Shanghai licence in 2005.

Monarch's Claim on Infringement and Passing Off

23 Monarch's claim regarding infringement of its trade marks and passing off will first be considered.

Infringement of trade marks

24 Section 27(1) of the Trade Marks Act (Cap 332, 1998 Rev Ed), which concerns infringement of a trade mark, provides as follows:

> A person infringes a registered trade mark if, *without the consent of the proprietor of the trade mark*, he uses in the course of trade a sign which is identical with the trade mark in relation to goods or services which are identical with those for which it is registered.
>
> [emphasis added]

25 On 14 February 2005, Monarch's representative purchased from Sheng Siong Supermarket Pte Ltd a PET bottle and a can, both of which bore the Kickapoo marks and had the names of KB and KM imprinted on them. It was stated on the PET bottle and can that the beverage was produced under the authority of "The Monarch Company, Atlanta GA 30326 USA".

26 KM admitted that it had used the Kickapoo marks on the beverage made from bases supplied by BevTech and Tropical. There is no doubt that these beverage bases were obtained from unauthorised sources and Monarch obviously did not consent to the use of the Kickapoo marks on the beverage produced from beverage bases supplied by BevTech and Tropical.

27 When cross-examined, KM's Chief Executive Officer ("CEO"), Mr Lam Hoy Por ("Mr Lam"), conceded that KM did not seek Monarch's consent for the use of the bases supplied by Bevtech. He also admitted that KM is still using beverage bases from Tropical for its "Kickapoo" drinks without Monarch's consent.

28 An important part of the cross-examination of Mr Lam that is worth noting is the following:

Q Now, despite receiving this warning from the plaintiffs that such use could be registered trade mark infringement, you still continued to use the bases from Tropical to manufacture drinks sold in Singapore?

A Yes.

Q So even after receiving the letter of 15th June 2005, you continued to sell drinks made from Tropical bases?

A Yes.

29 KM did not plead any of the well known defences to an allegation of trade mark infringement. Furthermore, although it had initially sought in its counterclaim to revoke the registration of the Kickapoo marks, KM elected on 22 January 2008 not to proceed with the application to revoke the said registration. Instead, KM asserted that in order to maintain its commercial position as the licensee under the agreement, it had no reasonable alternative but to use alternative beverage bases from BevTech and Tropical to produce and sell its Kickapoo beverage in Singapore. KM argued that this was the means by which it mitigated the loss caused by Monarch's failure to supply it with beverage bases.

30 There are serious problems with KM's argument regarding mitigation of damage. KM affirmed the licence agreement in the face of Monarch's surfeit of termination letters. In this context, it is worth noting that in *MP-Bilt Pte Ltd v Oey Widarto* [1999] 3 SLR 592, Selvam J stated at [18] as follows:

> The duty to mitigate does not arise if the innocent party decides to affirm the contract. The duty to act reasonably arises only when the innocent party decides to treat the breach as repudiation and also annuls the contract.

31 The reality is that KM need not have acquired beverage bases from alternative sources if Monarch had supplied beverage bases to KM but this does not entitle KM to infringe Monarch's Kickapoo marks. It follows that both KM and KB breached the Kickapoo marks and cannot excuse the infringement of the Kickapoo marks on the basis of mitigation of loss.

Passing off

32 As for Monarch's assertion that KM and KB are also guilty of passing off their own goods as those of Monarch's, reference may first be made to *Perry v Truefit* (1842) 6 Beav 66, where Lord Langdale said as follows [at p 73]:

> A man is not to sell his own goods under the pretence that they are the goods of another man; he cannot be permitted to practise such a deception, not to use the means which contribute to that end. He cannot therefore be allowed to use names, marks, letters or other indicia, by which he may induce purchasers to believe, that the goods which he is selling are the manufacture of another person.

33 What must be proven in a passing off action has been reiterated on numerous occasions by the courts: see, for instance, *Caterpillar Inc v Ong Eng Peng (formerly trading as Catplus International)* [2006] 2 SLR 669. To succeed in an action for passing off, it must be established that:

> (i) there is goodwill in the marks belonging to the plaintiff;
>
> (ii) there was a misrepresentation by the defendants in the course of trade to either prospective or ultimate customers; and
>
> (iii) damage resulted from the misrepresentation or that there is a likelihood of damage as a result of the misrepresentation.

34 The above three requirements were described by Lai Kew Chai J in *Pan-West (Pte) Ltd v Grand Bigwin Pte Ltd* [2003] 4 SLR 755 at [48] as the "oft-cited trinity of requirements for a passing off action".

35 KM acknowledged that there is goodwill and reputation in Singapore in the Kickapoo marks. When cross-examined, its CEO, Mr Lam, said:

Q Now Mr Lam, do you accept that there is goodwill and reputation in the Kickapoo marks in Singapore. Goodwill and reputation that people know about the Kickapoo marks in Singapore?

A Yes.

Q Do you accept that this goodwill and reputation in the Kickapoo marks in Singapore has been developed over a long period of time since 1966?

A Yes.

36 It is pertinent to note that neither KM nor KB pleaded any positive defence to the tort of passing off. There can be no doubt that by using the Kickapoo marks on its beverage made from unauthorised bases, KM represented that its goods were licensed by the owners of the said marks. Monarch asserted that this does not convey the true picture and deceives the public.

37 As for whether Monarch suffered any damage as a result of the misrepresentation, it is worth noting that in *H P Bulmer Ltd and Showerings Ltd v J Bollinger SA* [1978] RPC 79 at 95, Buckley LJ said as follows:

> It is well settled that the plaintiff in a passing off action does not have to prove that he has actually suffered damage by loss of business or in any other way. *A probability of damage* is enough, but the actual or probable damage must be damage to him *in his trade or business*, that is to say, damage to his goodwill *in respect of that trade or business*.
>
> [emphasis added]

38 As the Kickapoo beverage sold by KM was made from unauthorised beverage bases, the threshold of "probability of damage" to Monarch was crossed. Monarch rightly pointed out that as the beverage bases were not from its authorised sources, it did not have any control over their quality.

39 I thus hold that KM and KB are also guilty of passing off.

Assessment of damages

40 Damages for the infringement of the Kickapoo marks and for passing off will be assessed by the Registrar.

41 In the meantime, KM and KB are restrained from infringing the Kickapoo marks, selling or offering to sell in Singapore any beverage bearing the trade marks "Kickapoo Joy Juice" or "Kickapoo" and from using the Kickapoo marks in their business in Singapore.

KM'S Counterclaim for Breach of Contract

42 Before KM's counterclaim for breach of contract is discussed, the effect of Monarch's many termination notices must be considered because of their possible effect on the said counterclaim.

Monarch's termination letters

43 Monarch's right to terminate the licence agreement is governed by clause 18 of the licence agreement. Clause 18(3) provides that the licensor may terminate the licence agreement –

> On thirty (30) days' written notice by the Company for *a breach of this Agreement by Licensee*, except that the notice will be null and void if the Licensee cures the breach within fifteen (15) days from the date written notice is given. The written notice of termination shall substantially describe the defaults of the Licensee of which the Company has knowledge, but the Company shall not be limited to such reasons in any judicial proceeding in which the validity of the termination is at issue. However, if the Licensee has received two (2) or more notices of breach for the same or different defaults within the preceding 360 days pursuant to this paragraph, the Company may, at its option, terminate this Agreement on thirty (30) days' notice without the

opportunity of the Licensee to avoid termination by curing the breach.

[emphasis added]

44 Apart from clause 18(3), note must be taken of clause 18(4), which allows the *immediate* termination of the licence agreement by written notice "in the event of Licensee's intentional substitution in whole or in part of the base of any of the Licensed Trademark Beverages in any way or manner by Licensee".

45 Although Monarch served a surfeit of termination notices on KM, it opted to rely on the following three alleged breaches by KM to terminate the licensing agreement:

(i) KM's alleged failure to furnish monthly reports to Monarch;

(ii) KM's alleged failure to construct a bottling plant on time; and

(iii) KM's use of unauthorized beverage bases to produce its beverage.

The monthly reports

46 On 23 November 2002, Monarch sought to terminate the licence agreement when it wrote to KM as follows:

> We note from our records that your company has failed to provide us with monthly reports on Licensed Trademark Beverage sales by package size for each preceding month for the months prior to year 2001 as required under the said Clause 16.
>
> As it currently stands from our records, it appears that you have breached Clause 16 of the Agreement. In view of the said breach, we hereby give you 30 days' NOTICE of termination of the Agreement pursuant to Clause 18A(3) to take effect from your receipt of this letter.

47 On 3 December 2002, KM's solicitors replied to deny that KM had breached its obligation regarding the furnishing of monthly reports.

48 On 16 January 2003, Monarch requested confidential information from KM with respect to the latter's customers and terms of sales. A sales report form for 2001 was also enclosed for KM to complete. As clause 16 of the licence agreement merely required KM to send a monthly report detailing its inventory of the beverage bases and record of sales by package size for the preceding month, KM replied that it would comply with clause 16 if Monarch forwarded the proper forms.

49 On 21 February 2003, KM submitted the sales reports for 2001 under protest but refused to furnish some confidential information requested by Monarch as this was not required under the agreement.

50 In relation to the submission of monthly reports, Mr Stutz stated in his AEIC at [54] as follows:

> Under Clause 16 of the license agreement, KM agree to send to TMCI at the end of each month, on forms to be supplied by TMCI, a report showing KM's inventory of bases and sales by package size for the preceding month. *However, Monarch's letter to KM dated 16 January 2002 required customer details and other confidential trade information.* TMCI had never required such confidential information from KM.

[emphasis added]

51 As Monarch did not establish that it was entitled to the confidential information sought from KM in the monthly sales reports, I find that Monarch had no right to terminate the licence agreement on the basis that monthly sales reports had not been furnished by KM.

Construction of the manufacturing plant

52 On 26 December 2002, Monarch sought to terminate the licence agreement on the ground that KM had failed to construct a manufacturing plant for the production of Kickapoo beverage in Malaysia by 1 October 1996, as was required by the licence agreement between KM and TMCI.

53 KM contended that it had been given more time by TMCI to construct the manufacturing plant. It explained that by 1994, it had taken the requisite steps to plan for the construction of the said plant in Seremban, Malaysia, but it faced difficulties in acquiring an effluent treatment plant that complied with local stringent health and environment regulations for the disposal of waste water. On 20 October 1997, KM wrote to TMCI about the delay and on 4 January 1998, Mr Stutz, signing as Vice-President of TMCI, replied to KM as follows:

> [I]t was necessary for me to discuss, what *I suspect could be a long delay in getting your plant operational*, with Mr Frank Armstrong.
>
> We had some experience with effluent treatment with our franchisee in Thailand a few years ago….
>
> *Both Mr Armstrong and myself fully understand the problem….*
>
> [TMCI] … agrees that as long as you continue the promotion and marketing of Kickapoo and assure that adequate supplies of Kickapoo are available to meet the demands of the market, your Licence agreements for Singapore and Malaysia of January 9 1996 will remain in full force and effect.
>
> [emphasis added]

54 Relying on Mr Stutz's letter of 4 January 1998, KM's solicitors replied on 31 December 2002 that there was no basis for Monarch's attempted termination of the licence agreement.

55 Mr Stutz corroborated KM's case when he explained in his AEIC at [31] as follows:

> At all material times KM kept TMCI informed of the progress on the construction of the plant and that KM faced difficulties in complying with local government requirements imposed on the effluent treatment plant and the technical problems in designing and building the facility and that there would be a protracted delay. After discussing the problem … I was authorized to write a letter on behalf of Monarch International to KM on 4 January 1998 that both Armstrong and myself fully understood the problem and that as long as KM continue the promotion and marketing of Kickapoo and assure that adequate supplies of Kickapoo are available to meet the demands of the market, KM's licence agreements for Malaysia and Singapore will remain in full force and effect.

56 In the light of the position taken by the previous licensor, TMCI, the very least that Monarch should have done if it wanted to alter the position regarding the time-table for the construction of

the plant was to give reasonable notice to KM of its new position regarding the construction of the manufacturing plant. Monarch's CEO, Mr Arnaud, conceded that there was no evidence that Monarch bothered to find out from KM when the plant would be ready when it terminated the licence agreement on 26 December 2002. In fact, the plant started operating in April 2003, some four months after Monarch's purported termination of the licence agreement in December 2002. I thus hold that Monarch's attempt to terminate the licence agreement on the ground that the bottling plant had not been completed on time was unjustified and ineffective.

Use of unauthorized beverage bases

57 As for the question of use of unauthorized beverage bases, what needs to be noted is that clause 6 of the licence agreement requires KM to use Kickapoo beverage bases from *approved* sources for the production of Kickapoo beverage and under clause 18(4), the licence agreement may be terminated *immediately* on written notice when unauthorised beverage bases are substituted for the authorised bases.

58 As has been mentioned, during a raid on KM's Malaysian bottling plant in Seremban in November 2004 by the authorities, beverage bases supplied by Tropical, which was an unauthorised source for beverage bases, were found on the premises. Not surprisingly, on 15 June 2005, Monarch's solicitors served a notice of termination of the licence agreement on the ground that KM had used unauthorised beverage bases for producing its "Kickapoo" beverage.

59 KM's assertion that it is entitled to use the unauthorised beverage bases to mitigate the damage caused by Monarch's breach, has already been considered and rejected in the earlier discussion on KM's infringement of trade marks. It follows that Monarch was entitled to terminate the licence agreement on 15 June 2005. This finding makes it unnecessary for me to consider KM's counterclaim in relation to specific performance of the licence agreement.

60 I now turn to Monarch's assertion that clause 18A(3) of the licence agreement allows it to rely on the use by KM of unauthorised beverage bases to justify its termination letter on 3 February 2003. The relevant part of clause 18(A)(3) is as follows:

> The written notice of termination shall substantially describe the defaults of the Licensee of which the Company has knowledge but the Company shall not be limited to such reasons in any judicial proceedings in which the validity of the termination is at issue.
>
> [emphasis added]

61 Monarch asserted that as KM had purchased beverage bases from an unauthorised source before one of its many termination notices was issued on 3 February 2003, it is entitled to rely on the said breach to justify its termination notice on that date even though it was unaware of the purchase of unauthorised beverage bases at the material time.

62 It is pertinent to note that clause 18(4) of the licence agreement allowed Monarch to terminate the licence in the "event of Licensee's intentional *substitution* in whole or in part of the base of any of the Licensed Trademark Beverages in any way or manner by Licensee". There is no evidence that there had been any substitution of the beverage bases before 3 February 2003. Although KM admitted that it ordered unauthorised beverage bases before February 2003, it had hoped that Monarch would relent and supply it with the 800 gallons of beverage bases that it had ordered in September 2002, just before the hefty price increase of 1,000% took effect. KM's assertion that it first began to use unauthorised bases in the production of Kickapoo beverage in March 2003 was not contradicted. As

KM began to use unauthorised beverage bases after Monarch's termination notice of 3 February 2003, this breach cannot be relied upon to justify the said termination notice. It follows that the licence agreement was terminated by Monarch only on 15 June 2005.

KM's counterclaim for breach of contract

63 In view of my finding that Monarch validly terminated the licence agreement on 15 June 2005, only events prior to that date are relevant to KM's counterclaim for breach of contract by Monarch.

Issuance of unjustified termination notices

64 KM complained that Monarch breached the licence agreement by issuing unjustified termination notices. However, the unjustified notices had no effect since KM rejected them and affirmed the licence agreement. In *Fercometal SARL v Mediterranean Shipping Co SA* [1989] 1 AC 788, Lord Ackner approved of Asquith LJ's statement in *Howard v Pickford Tool Co Ltd* [1951] 1 KB 417, 421 that "an unaccepted repudiation has no legal effect ('a thing writ in water and of no value to anybody')". Admittedly, the fact that a party has affirmed the contract does not deprive it of damages but in the present case, KM suffered no loss from the ineffective termination notices. As such, it is unnecessary to consider these ineffective notices of termination any further.

Failure to supply KM with the 1,000 gallons of beverage bases ordered

65 As has been mentioned, just before the price for the beverage bases was increased on 1 October 2002, KM ordered 1,000 gallons of beverage bases and that Monarch only supplied KM with 200 gallons. Despite reminders, Monarch did not send the balance of 800 gallons to KM.

66 Monarch contended that the licence agreement did not require it to meet every request by KM for beverage bases. However, so long as the licence agreement is in force and KM remains the exclusive licensee, Monarch is obliged to meet reasonable requests from KM for beverage bases. It is thus necessary to consider whether Monarch had any legitimate excuse for not shipping the 800 gallons of beverage bases to KM.

67 On 30 September 2002, Monarch informed KM as follows:

[W]e can only provide 200 units of Kickapoo … for the following reasons:

1 Since we were not warned in advance you would be considerably increasing orders for Kickapoo, nor did we receive your 2002 projections, our production cannot accommodate this order in its entirety.

2 In addition, we have decided to reformulate Kickapoo to harmonize tastes and formulas used in different markets. This change will take place very shortly. Therefore, it is unreasonable to supply you with a year's worth of concentrate at this time given the shelf life of the product.

68 In its defence to KM's counterclaim, Monarch pleaded another reason for not despatching the balance of 800 gallons to KM, namely that prolonged storage of such a large quantity would affect the quality of the bases and the beverage made from them.

69 Monarch's reasons for refusing to supply more than 200 gallons of beverage bases to KM cannot be taken seriously. Mr Stutz testified that there is no clause in the licence agreement requiring KM to furnish its annual projection of orders for Kickapoo bases and that KM had not been required to furnish

any projection of orders in the past. He also confirmed that KM had previously been supplied with bases, ranging from 200 to 1,000 gallons by TMCI and that KM had always managed to use up the beverage bases well within their shelf life. It follows that Monarch should have supplied the outstanding beverage bases to KM, or at least a portion of the order, when it was reminded by KM to do so on 2 May 2003. KM had made it clear to Monarch that its beverage base stock was running low and it would be appreciated if at least 200 gallons could be shipped as soon as possible. Monarch did not respond to this reminder and its CEO, Mr Arnaud, had the temerity to offer the following answers during cross-examination:

Q Was [Monarch] going to supply the 800 gallons at any point of time after September 2002?

A At the right price, definitely….

Q So therefore, even if there were reminders sent everyday from October to December 2002 … it will not make any difference to the position because [Monarch] wanted to sell at the new price?

A Yes….

Q *A new price that [Monarch] wasn't applying to anybody else in the world even today?*

A Yah, I mean, that's correct.

[emphasis added]

70 I thus find that in failing to supply KM with the remaining 800 gallons of beverage bases ordered before the price increase, Monarch was in breach and must compensate KM for the loss suffered as a result of the failure to supply the outstanding 800 gallons of beverage bases to KM.

The price increase of 1,000%

71 KM also asserted that Monarch breached the licence agreement by its phenomenal price increase of around 1,000% in September 2002. The effect of this price increase need not be considered at the present moment because KM did not protest or write a single letter to Monarch to complain about the alleged breach. Neither did KM order any beverage bases after the price increase on 1 October 2002. Instead of insisting on its contractual right to be supplied beverage bases, KM took the unwise step of acquiring beverage bases from unauthorised sources. In view of these circumstances, the effect of the phenomenal price increase will be considered in the later part of this judgment in relation to KM's allegation that the price increase was part of a conspiracy to harm its interests.

Conspiracy

72 KM's allegation with respect to the tort of conspiracy by unlawful means will next be considered. While referring to a conspiracy by unlawful means in *Wu Yang Construction Group Ltd v Zhejiang Jinyi Group Co Ltd* [2006] 4 SLR 451, Andrew Phang JA said at [76]:

> There is, first, the situation, where unlawful means have been used (also known as "wrongful means conspiracy") The relevant law in this context appears to be straightforward. In particular, there is no need for the plaintiff concerned to prove that there has been a predominant intention on the part of the defendants to injure it. It would appear that the very utilisation of unlawful means is, by its very nature, sufficient to render the defendants liable, regardless of their

predominant intention. This would appear to be both logical as well as just and fair, especially if we bear in mind the fact that the central core, as it were, of the tort of conspiracy hinges on the proof that the conspiracy is somehow unlawful and that the plaintiff is entitled to succeed provided that it can prove that it has suffered damage.

73 KM alleged that Monarch and the 2nd to 5th defendants in the counterclaim committed the tort of conspiracy by unlawful means in that they:

(a) wrongfully caused Monarch to breach and wrongfully terminate the licence agreement between KM and Monarch; and

(b) wrongfully and intentionally procured or induced KM's former sole distributor in Singapore for Kickapoo beverages, HSC, to breach and wrongfully terminate the distribution agreement between KM and HSC.

KM's case is that but for the conspiracy, it would not have been deprived of beverage bases by Monarch.

Whether there was a sole distributorship agreement

74 While it was clear that Monarch had a licence agreement with KM, HSCPL pleaded that it had no sole distribution agreement with KM. If HSCPL is right, KM's allegation that there was a conspiracy to breach the sole distribution agreement will not get off the ground. After wasting much time on this issue, HSCPL finally admitted during the trial that it had a sole distribution agreement with KM as from 1998. This concession should have been made long from the very start because HSC had complained to Monarch that KM had breached the sole distributorship agreement by allowing other companies to sell its Kickapoo beverage in Singapore. This was revealed by Monarch in its Reply and Defence to KM's Defence and Counterclaim (Amendment No 3) when it pleaded [at 10(vi)] as follows:

> [KM] breached an existing sole distributorship agreement with Heng Sheng Company … by causing and or permitting other distributors … to also supply KICKAPOO products in Singapore.

75 The 2nd to 5th defendants next argued that even if there had been a sole distributorship agreement, it had been terminated because HSC, and subsequently HSCPL, had stopped purchasing Kickapoo drinks from KM for some time. While the termination of an agreement may, in appropriate cases, be inferred from the circumstances, HSCPL, which was busy misleading the court as to whether or not it was KM's sole distributor, did not introduce any evidence to show when the sole distributorship agreement finally ended. As such, the court has no basis to make a finding that the sole distributorship agreement had been terminated before the appearance of the alleged conspiracy. What is clear is that in May 2003, KM still regarded HSC as its sole distributor as it reproached HSC for not having purchased any Kickapoo beverage from it since the end of 2002. HSC could have replied to KM to deny that it was obliged to order any Kickapoo beverage from KM but it did not do so. Instead, HSC's successor, HSCPL, clutched at straws by making an unsubstantiated assertion that KM was unwilling to sell any beverage to HSC at the material time.

The evidence relating to the alleged conspiracy

76 It is not easy to prove the existence of a conspiracy. In *Asian Corporate Services (SEA) Pte Ltd v Eastwest Management Ltd (Singapore Branch)* [2006] 1 SLR 901, Chao Hick Tin JA, who delivered the judgment of the Court of Appeal, pointed out (at [19]) that it is not often that the victim of a conspiracy has direct evidence to prove the allegation and that proof of conspiracy is normally

inferred from other objective facts. He approved of the following passage from *R v Siracusa* (1190) 90 Cr App R 340 at 349:

> [T]he origins of all conspiracies are concealed and it is usually quite impossible to establish when or where the initial agreement was made, or when or where other conspirators were recruited. The very existence of the agreement can only be inferred from overt facts. Participation in a conspiracy is infinitely variable.

77 All the defendants in the counterclaim were aware of the existence of the licence agreement and the sole distributorship agreement and the contention of the 2nd to 5th defendants that they did not know that there were problems between Monarch and KM was, in the light of the evidence, a blatant lie. What needs to be noted at this juncture is that Mr Chia Hock Seng ("Mr Chia"), the *sole* witness for the 2nd to 5th defendants in the counterclaim, conceded that Monarch and HSCPL would be committing a wrong if they caused the other party to breach the said agreements with KM. The relevant part of the cross-examination is as follows:

Q So [Monarch and HSCPL] know that you --- you each have got exclusive agreements with KM, correct?

A Yes.

Q Good. Now if you two did anything to cause the other one to breach these two agreements, you will be guilty of wrongdoing. Would you agree?

A Yes.

78 It must be borne in mind that Monarch was quite determined to terminate the licence agreement by the end of 2001. By December 2001, Monarch already had discussions with YHS to replace KM as their licensee and on 9 December 2001, Monarch served on KM a notice of termination of the licence agreement without bothering to furnish any reason for the termination. On the very next day, YHS asked for a letter of appointment as the new licensee. On 11 December 2001, Monarch's representative, Ms Nella Aguf, informed YHS that Monarch would cancel the licensing agreement with KM "anyway and see what happens".

Monarch admits it made preparations with HSC

79 Monarch admitted in its further and better particulars that as it wanted to terminate the licence agreement with KM, it began to make preparations "before March 2003" to ensure that "the continued presence of beverages bearing the [Kickapoo marks] in the Singapore market would be maintained". Monarch disclosed that those involved in the said preparations, or in KM's view, the conspiracy, to maintain the presence of Kickapoo drinks in Singapore included HSC and PH. Mr Chia, who represented HSC as well as PH in these discussions, wore many hats. Apart from being the managing director of PH and the former general manager of HSC, whose partners are the 3rd and 4th defendants in the counterclaim, Mr Chia is a director of HSCPL, which was formed to take over HSC's business, and a director of the 2nd defendant, Ying F & B Pte Ltd. It is also pertinent to note that Monarch's Mr Chow, the vice-president of the Singapore subsidiary, had his office in the premises of PH, of which Mr Chia was the managing director and that KM alleged that Mr Chow and Mr Chia are key players in the conspiracy.

80 What was the plan, or in KM's view, the conspiracy, formulated by Monarch, HSC and PH to maintain the presence of Kickapoo drinks in Singapore after KM was sidelined?

The unwarranted price increase

81 KM asserted that unsure as to whether its termination notices were valid, Monarch hatched a plan to increase the price of beverage bases by a phenomenal 1,000% as from 1 October 2002 in order to make it economically unviable for KM to continue to produce any Kickapoo beverage at competitive prices.

82 Monarch's chief executive officer ("CEO"), Mr Didier Arnaud ("Mr Arnaud"), claimed that the Kickapoo beverage bases had been sold to KM at an unusually low price in the past. However, he was contradicted by Mr Stutz, who pointed out that when TMCI sold KM beverage bases at the old price, it already made a gross profit of 400%. He explained in his AEIC at [61] and [62] as follows:

> 61 Given the almost 400% gross margin of profit to TMCI, any adjustments in the prevailing price would be nominal at best….
>
> 62 The upward revision of the cost of the flavour component alone would almost equal the wholesale selling price of the beverage. To the best of my recollection, there were no significant changes in the market prices for the bases in 2002.

83 Monarch's Mr Arnaud was less than candid when he testified that the market price for the beverage base was around USD 400 - 600 per gallon and that its Shanghai licensee, HSC, and subsequently HSCPL, was charged USD 470 per gallon. When cross-examined, he said as follows:

> Q Why did you not, in answer … say that the price of US$470 was also applied to Heng Sheng company in – in Shanghai?
>
> A Okay … I mean, I should have …. Because that's the price we are charging.

84 However, it was not disputed that the nett price for the Kickapoo beverage bases sold to HSC and HSCPL was only USD 200 per gallon because HSC and HSCPL had a rebate of USD 270 for each gallon purchased. No such rebate had been offered to KM.

85 Monarch also claimed that the price increase of 1,000% was necessary for it "to fund advertising and promotion expenses which would add to the health and wealth of our brands". However there was no basis for Monarch to require KM to fund advertising and promotion expenses. TMCI's former officer, Mr Stutz, explained in his AEIC at [56] as follows:

> In accordance with the license agreements, at no time was there an advertising component built into the price for Kickapoo bases. In fact, TMCI and Monarch made no contribution for advertising or marketing and it was left to KM to fund the creation of the advertising and marketing materials and the costs of all point of sale and media advertising and marketing.

86 I thus find that Monarch's unprecedented price increase of nearly 1,000% on 23 September 2002, a hefty price which has, to date, not been applied to any other licensee in the world, was a most unusual step and must be taken into account when considering whether there was a conspiracy by unlawful means.

The link between the hefty price increase and the Shanghai licence

87 KM asserted that while Monarch made it economically unviable for it to produce any Kickapoo

beverage by increasing the price for its beverage bases by more than 1,000%, the alleged conspirators acted in concert to ensure that the Singapore market was stocked with Kickapoo drinks manufactured in China under the Shanghai licence granted to HSC on 20 September 2002, just 3 days before Monarch increased the price of beverage bases offered to KM.

88 The evidence supports KM's assertion that the Shanghai licence was a sham that was intended to cater for the Singapore market while KM was deprived of beverage bases. In this context, the following facts are relevant:

(i) All the drinks produced under the Shanghai licence were sent to Singapore;

(ii) No Kickapoo drinks produced under the Shanghai licence were sold in Shanghai or other parts of China and no serious steps were taken to establish Kickapoo as a serious player in the Shanghai market; and

(iii) The parties took extensive steps to camouflage the trail of the drinks made under the Shanghai licence to Singapore.

89 A question arises as to why Monarch had to rely on drinks produced under the Shanghai licence to service the Singapore market when it could have taken the simple step of appointing a Singapore bottler and distributor after having taken the step to terminate the licence agreement with KM. After all, the Singapore market is crucial to Monarch because the sales in Singapore and Malaysia account for 90% of the world-wide sales for this beverage and as early as December 2001, Monarch had been keen on appointing YHS, a Singapore bottler of beverages, to replace KM as the supplier of Kickapoo beverages for the Singapore market. KM asserted that Monarch did not appoint a Singapore bottler because it was not certain that its termination notices were legally valid. That is why the Shanghai licence given to HSCPL came in handy. In fact, it was only in July 2005 that Monarch finally appointed HSCPL as its Singapore bottler. This was immediately after Monarch found an iron-clad ground for serving yet another termination notice on KM on 15 June 2005, namely that KM had used unauthorised beverage bases, a fact confirmed in a raid on KM's factory in Seremban, Malaysia. Not coincidentally, HSCPL's China operations under the Shanghai licence ceased after it had been appointed Monarch's Singapore bottler.

All beverages produced under the Shanghai licence arrived in Singapore

90 Effectively, the beverage produced under the Shanghai licence were all exported to Singapore. The first shipment from China to Singapore alone involved 518,400 cans of Kickapoo drinks. Mr Chia claimed that there could be no conspiracy because Monarch, and more particularly, its key man in Singapore, Mr Chow, did not know that his company, HSC, imported China-made Kickapoo drinks to Singapore even though, as has been mentioned, Mr Chow's office was located within the premises of PH, of which Mr Chia was the managing director. Why he made this assertion cannot be fathomed as he tied himself in knots during cross-examination on the issue of Mr Chow's lack of knowledge. The relevant part of the proceedings is as follows:

Q … The plaintiffs' own pleaded case says, they, you and PH got together to make this thing happen, Shanghai to Singapore, …and you are now saying Raymond Chow doesn't know anything about it?

A *Raymond Chow told Heng Sheng in [April 2003] that "Now, you can import"* …

Q Prior to February 2003, you got the licence from [Monarch] for Shanghai … All nicely stated here, “Prior to 3rd February 2003, the parties PH, Heng Sheng and [Monarch]” And you want to say that Raymond Chow of [Monarch] sitting in your office, didn’t tell you about this? When they themselves said that these were the steps they took, the preparation….

A I told you no. This is their … not mine.

Q Their version. Now you are saying Raymond Chow and Monarch are lying?

A No. I – I never say that. That is their version.

Q Then what are you saying?

A --- this is my version, you know.

Q *So if there are two versions and one version is true and one version is not, one of you is lying…?*

A *I won’t know.*

[emphasis added]

91 For the record, Mr Chia finally accepted that his imports of Kickapoo drinks from China after May 2003 were made with the full knowledge and approval of Monarch. The relevant part of the proceedings is as follows:

Q [F]rom 2003 …., you and Monarch were already working together about this Kickapoo drinks made in China and sold in Singapore. Correct? You had a working relationship with them.

A Yes.

Q Yes. Very good. And Monarch agreed for Heng Sheng to obviously carry on selling Kickapoo drinks made in China, right? Yes, they --- they agreed.

A Yes….

[emphasis added]

No sales in Shanghai

92 If the Shanghai licence was a genuine licence that was intended to cater for the Shanghai market, there would have been sales of Kickapoo products in Shanghai after September 2002, when production in China started.

93 When answering an interrogatory, Mr Chia declared that he did not know whether any Kickapoo beverage produced under the Shanghai licence had been sold in Shanghai. However, when cross-examined, he finally conceded that China-made Kickapoo beverage had *not* been sold in Shanghai. The relevant part of the proceedings is as follows:

Q Did you sell a single can of Kickapoo drink in Shanghai in 2002?

A 2002, we produced.

Q Did you sell a single can of Kickapoo drink, a single can of Kickapoo bottle of any Kickapoo in any packaging in Shanghai in the year 2002?

A We manufactured.

Q Did you sell in Shanghai or China any Kickapoo drinks in the year 2002, that's the third time I am asking you. It's a very simple question.

A I think in my interrogatory I answered you.

Q Answer the question that's put to you now.

A Do we sell? *We never sell. [HSC] never sell.*

[emphasis added]

94 When pressed further during cross-examination, Mr Chia admitted that no evidence of sales in Shanghai of the Kickapoo drinks made under his Shanghai licence had been furnished to the court. His concession is reproduced below:

Q [W]ere the drinks made in China all exported [to] Singapore? ….

A Not all.

Q Do you have any evidence that they were sold in Shanghai?

A No ….

Q *So based on that evidence available in this court, all the drinks made in China were sent to Singapore, isn't it?*

A *Based on the evidence, yes. Court evidence.*

[emphasis added]

95 Monarch's CEO, Mr Arnaud, admitted that Monarch could not furnish to the court any evidence of sales in China of drinks produced under the Shanghai licence. Although Monarch had sought to persuade the court that it was entitled to terminate its licence agreement with KM on the ground that the latter had failed to furnish it with information on sales and customers, it was clearly not as insistent about receiving timeous reports on sales and customers from its Shanghai licensee.

96 If, as alleged by the 2nd to 5th defendants, the Shanghai licence was a genuine licence intended for the Shanghai market, serious steps would have been taken by HSC to position itself as a serious player in the Shanghai beverage market. When cross-examined as to why HSC settled for a bottler in Tianjin, near Beijing and not a Shanghai bottler when its licence was for the Shanghai market, Mr Chia's answers were illuminating. The relevant part of the proceedings is as follows:

Q [A]s soon as the agreement is signed, you went to Tianjin, which is way up north near Beijing…. Why go to Tianjin when your business is in Shanghai?

A He can work with us.

Q Why get [a licence] for Shanghai when you have to go all the way north to Tianjin?

A *Shanghai, I don't know anybody that can work with us to distribute the drink.*

[emphasis added]

97 Mr Chia's admission that he knew no one in Shanghai who could distribute Kickapoo drinks in that city prompted the following interesting exchange between KM's counsel, Mr Chandran, and Mr Chia:

Q [Y]ou don't know anybody in Shanghai to deal with soft drinks manufacturing, distribution, marketing or sales. Yet [Monarch] gave you this exclusive [licence for Shanghai]?

A Because they want the China market.

Q Doesn't make sense?

A *They are … hard up …*

[emphasis added]

98 Mr Chia initially asserted that HSC was serious about the Shanghai market as it gave free concentrates to the China bottlers to encourage them to flood the Shanghai market with drinks. When asked in an interrogatory to reveal the total quantity of the drinks made and used for promotional purposes, the answer given was as follows:

Save that about 400 gallons of concentrates were provided to produce drinks for promotional purposes, HSC … have no knowledge of the total quantity produced….

99 When cross-examined, Mr Chia admitted that the answer was untrue. The relevant part of the proceedings is as follows:

Q Here you said the 400 gallons were used for promotional purposes. They never were used for promotional purposes. They were sent to Singapore, weren't they?

A I've said to them to stop and send [back to Singapore].

Q Yes…. 400 gallons were never used for promotional purposes. The first two shipments came straight to Singapore.

A Yes.

100 When asked why he had claimed that 400 gallons of beverage bases had been used for promotional purposes when he knew that this was not true, Mr Chia said that he had answered the interrogatory on HSC's behalf and although PH knew through him that the 400 gallons had not been used for promotional purposes, HSC did not. The relevant part of the proceedings is as follows:

Q [The beverage bases were] not used for promotion in China, correct?

A Heng Sheng [did] not know that.

Q You are Heng Sheng and you are also PH, isn't it? …

A … Heng Sheng do not know all this thing, PH is PH. You cannot say I am Heng Sheng and PH.

Ct You answered this, right? ….

A It's under Heng Sheng. Heng Sheng [doesn't] know.

Camouflaging the trail from China to Singapore

101 The length to which the defendants in the counterclaim went to cover up their tracks in relation to the importing of China-made Kickapoo drinks into Singapore is really astounding. What unfolded in the trial in relation to the defence to KM's assertion of conspiracy was a web of half-truths and outright lies.

102 For a start, when the 2nd to 5th defendants were asked for further and better particulars of the identity and address of the manufacturer and exporter of Kickapoo beverage from China that was then being shipped to Singapore, they stated as follows:

> It is *believed* that the manufacturer of the beverages is Zhenjiang Kickapoo F & B Co Ltd. The 2nd to 5th defendants in the counterclaim … *do not know the identity of the exporter* of the said beverages.
>
> [emphasis added]

103 Evidently, Mr Chia knew the identity of the exporter and that the manufacturer was not, "*as believed*", Zhenjiang Kickapoo F & B Co Ltd. When cross-examined, he said as follows:

Q [O]n behalf of Heng Sheng, you instructed Tian to manufacture these drinks in China, didn't you?

A Yes.

Q And on behalf of Heng Sheng, you instructed Zhenjiang Inter-China to get the drinks from Tian to export … didn't you?

A Yes.

104 It is also noteworthy that although HSC was the Shanghai licensee, its name did not appear on the Kickapoo beverage products imported into Singapore. Instead, the name of Ying F & B Ltd, another Singapore company, of which Mr Chia is also a director, was printed on the bottles and cans of Kickapoo drinks produced in China for the Singapore market. Mr Chia conceded that HSC's name should be on the beverage products imported from China and he could not explain why Ying F & B's name was there instead. The relevant part of the cross-examination of Mr Chia is as follows:

Q If it's manufactured for the Singapore market, whose name should appear on the can …?

A [HSC].

Q … [O]r the bottle? …

A [HSC].

Q Then whose name appears on this?

A Ying.

Q *Why?*

A *That one I don't --- I can't --- I can't answer you ….*

Q *Yes. Why don't you put [HSC's] name on the … packaging?*

A *That one I can't answer you.*

[emphasis added]

105 It was regrettable that Monarch offered only one witness, namely, its CEO, Mr Arnaud, who was quite unfamiliar with many of the issues raised by KM with respect to the conspiracy. Admittedly, he talked about Monarch's interest in entering the China market. However, while any company can be interested in entering the China market, Mr Arnaud shed no light on his company's grant of the Shanghai licence to HSC. Monarch should have called its local subsidiary's vice-president, Mr Chow, a former employee of YHS, as a witness, and especially so since KM had alleged that he was a key player in the conspiracy. KM pointed out that it was Mr Chow who signed the Shanghai licence agreement with HSC. Evidently, there is much more than meets the eye in Monarch's decision not to have Mr Chow cross-examined in the present proceedings.

106 To sum up, KM managed to establish that the Shanghai licence was not really intended for the Shanghai market and that it was a poorly camouflaged scheme to allow HSC to manufacture drinks in China for the Singapore market while there was still a valid and subsisting licence agreement between Monarch and KM, and while HSC was still KM's sole distributor in Singapore. For Monarch, the advantage was that instead of reaping around USD 60 per gallon from KM for the beverage bases, it earned USD 200 from HSC for each gallon. As for HSC and subsequently, HSCPL, they made more profits by importing the Kickapoo beverage from China manufactured under the Shanghai licence as compared to buying such beverage from KM.

Conclusion on conspiracy

107 I hold that all the defendants in the counterclaim were involved in a conspiracy by unlawful means against KM and that this conspiracy preceded KM's infringement of the Kickapoo marks. Evidently, this conspiracy injured KM. Damages will be assessed by the Registrar.

Costs

108 Monarch is entitled to costs with respect to its claim on the infringement of the Kickapoo marks and passing off.

109 KM is entitled to costs with respect to its counterclaim.