

## Transborder Reputation

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The acquisition of reputation depends upon the usage of a particular good or service in connection with business. The protection of reputation is embodied in the action of passing off and is as such different from goodwill which is an asset, thereby, protected by law itself. Transborder reputation has its genesis under the English law and in Indian law the concept is embodied in Section 35 of the Trade Mark Act, 1999 wherein the Indian courts have recognized action by foreign plaintiff on the basis of passing off solely upon the reputation of his goods/services on the foreign soil. Several parameters have been set by the Courts for judging as case on the basis of transborder reputation yet, numerous loopholes in the application of the concept continue to remain. This article explores the genesis of transborder reputation and its recognition by the courts of law in India and other countries.

**Keywords:** Transborder reputation, spillover, goodwill

Perhaps the oldest of the contemporary legal regimes for the protection of reputation is embodied in the action of passing off. In essence, the action prevents a man from selling his goods as that of another man by the practice of deception to secure any unfair advantage over the latter's reputation. Though it is difficult to outline the history of reputation but it is widely believed that it was recognized for the first time in the action of passing off in the Elizabethan case *JG v Stanford*<sup>1</sup> wherein it was held that the law of passing off prevents commercial dishonesty on the part of the traders. The essence of passing off has retained its classic form till date. The gist of the said action lies in establishing in the first place, existence of goodwill or reputation attached to the particular goods and the degree of representation that is likely to deceive the public. Once the plaintiff establishes reputation, there is no further requirement of proving the fraudulent intent on the part of defendants.

With the growth of capitalism in the 21<sup>st</sup> century the drive to sell goods on large scale has penetrated every corner of the world; notwithstanding the numerous collateral implications it has brought along with it. This irresistible urge to expand business over various foreign territories has posed a unique problem before today's justice delivery system. How to protect the interest of manufacturers on foreign soil? This has

eventually given rise to the concept of 'transborder or spillover of reputation' which is still at an embryonic stage.

### What is Reputation?

Reputation is probably the most seriously distorted term in the field of intellectual property (IP). This one word has been made to bear three or four quite separate meanings with predictable results. Even when this term is used in the popular sense, a number of ambiguities tend to emerge before us. Does the term mean reputation of the plaintiff in general or of specific goods or services of his, or the reputation associated with a specific name, mark or brand? Or as in common terminology, does one mean any highly acclaimed person? The two are in fact not the same. In addition to this popular connotation of notoriety on one hand and esteem on the other, reputation has acquired two mutually incompatible terms of use: use in respect of the marks denoting distinctiveness with the goods or services and use as a synonym for goodwill, as legal property protected by the action.<sup>2</sup>

In absence of a statutory definition, acquisition of reputation depends upon the usage of a particular good or service in connection with business. The precise extent of use required depends upon the nature of mark, name or indicia used and of the business or goods concerned. However, the plaintiff's reputation does not have to extend throughout the country and may be restricted to a particular locality where the business establishment is conducted, such as a hotel.<sup>3</sup>

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The question of reputation was raised in the case of *Leahy v Glover*<sup>4</sup> wherein Lord Hershell LC said that 'In order to succeed in an action of passing off the first essential is for the plaintiff to prove the existence of a business in which there is goodwill and that the goodwill or part of it resides in exclusive association of the name, mark or other indicia relied on with the business.' The above proposition was further elaborated in the famous case of *Spalding v Gamage*<sup>5</sup> that held that the association is of empermal nature and it is necessary to prove that by reason of continuous use by the plaintiff the reputation subsisted at the material time. The adaptation of the above definition has been given an authoritative status even after 75 years in the case of *Star Industrial Co Ltd v Yap Kwee Kor*<sup>6</sup> wherein reputation was defined as essential specie of personal property and transferable with the business. Reputation is essential to passing off action in more than one aspect. The most important is that misrepresentation is generally based on reputation of the plaintiff's mark in the mind of public. The second is that the plaintiff's reputation can suffer if the goods passed off by the defendant are inferior. The third is existence of goodwill. In cases where goods are imported from abroad the reputation vests in foreign manufacturers or producers and not on the importers even if the importer is the sole agent in that area for that goods or service. The same principle was followed *A/B Manus v R J Fullwood & Bland Ltd*<sup>7</sup> where it was held that the reputation in the word 'Manus' belonged to the foreign manufacturer and not the importer.

The concept of reputation is new to the Indian trademark law. With many marks such as EVER-READY,<sup>8</sup> VIAGRA,<sup>9</sup> VISA<sup>10</sup> as well as the ADIDAS AG's 'three-stripe mark',<sup>11</sup> there are few problems in establishing reputation. In other cases however, this may prove complicated. The task of ascertaining whether a mark has reputation has been dealt in the case of *General Motors Corporation v Yplon*,<sup>12</sup> where the Court of Justice gave its own interpretation of reputation. Reputation according to the Court involved some kind of knowledge, wherein it was known by a significant part of the public concerned by the products or services covered by the trademark. It was only when there was a sufficient degree of knowledge of the mark that the public, when confronted with the latter trademark might possibly make an association between the two trademarks, irrespective of the kind of product or services. The

Court also made it clear that while reputation must exist in the member state, it need not exist throughout the territory; it is sufficient if the reputation exists in a substantial part of it. Reputation requires something more than distinctiveness, which is a qualifying requirement for registrability. In UK, reputation should have a higher threshold than is applied to well known trademarks.

### **Disparity between Goodwill and Reputation**

Though the concept of reputation and goodwill are overlapping in nature yet a line of disparity tends to co-exist between them. Goodwill is an asset, and therefore species of property that the law protects. The tort revolves around the economic policy with the need to encourage and ensure commercial stability of the enterprises. On the contrary, reputation is complex and manifested in various factors which lead the clients or customers to associate the particular business with the plaintiff; such as the name of business, whether real or adopted mark, design, make-up or colour of the plaintiff's goods, the distinctiveness characteristics of services he supplies or the nature of his special process.

It is impossible to have goodwill without reputation, but the converse is not true. Moreover reputation is always associated with a person or a particular product. On the contrary goodwill is not based upon such extraneous factors. In *Anheuser-Busch Inc v Budějovický Budvar*<sup>13</sup> the learned Judge expounded the differences between the same, as 'That, as it seems to me, is to confuse goodwill, which cannot exist in vacuum, with mere reputation which may no doubt and frequently does exist without any supporting local business, but which does not by itself constitute a property which the law protects.'

### **Transborder or Spillover of Reputation**

The phenomenon of transborder or spillover of reputation is the outcome of the modern policy of liberalization adopted by various countries across the world. The essence of the concept is enshrined under Section 35 of the Trade Marks Act, 1999 which restrains a person from using a name which is likely to cause confusion and divert the business of some one else to him or likely to cause confusion in the mind of a person likely to deal with such competing business. It is well settled principle that no company or business or person is allowed to carry on business in any manner so as to generate a belief in the minds

of public that it is connected with the business of a reputed company, e.g., the mark 'Viagra'.

The concept of transborder reputation has its genesis in the English Courts. The test whether a foreign plaintiff may succeed in a passing-off action is normally decided by whether his business has goodwill in England.<sup>14</sup> The judiciary in England recognize such an action on the part of the plaintiff only when there were customers or ultimate consumers for the plaintiff's goods or services in that country. The law has been stated on similar terms in the Australian case of *Taco Bell Pty Ltd v Taco Co of Australia Inc*<sup>15</sup>, wherein in order to succeed in a passing off action within the Australian Metropolitan area a plaintiff must show that he exerts goodwill there. This can usually be proved by the existence of prior business activity within the territory involving the use of the mark or get up in question. However, it does not follow from what Walton J said that even a single transaction would suffice. If the plaintiff has English customer, he has at least some reputation in England and is entitled to be treated at par with the English plaintiff. If the public does not attribute the goods to the plaintiff<sup>16</sup> then he has no reputation *quad* the public and hence not entitled to bring any action irrespective of whether he is a domestic trader or foreign one.

In India this concept had its inception in 1995 with the case of *How Par Bros International Ltd v Tiger Balm Co Pvt Ltd*.<sup>17</sup> In this case an Indian merchant was selling his merchandise under the trademark of 'Tiger'. However transborder reputation was not the sole criteria by which the court decided the case.

### Foreign Plaintiff- Overseas Reputation

Reputation as such is a state of fact rather than a form of property capable of being protected by the law. However, reputation of a trademark is an important factor in a passing off. The traditional theories relating to acquisition of trademark are that the trademark must be used in that concerned country. The traditional theory has nonetheless failed to protect the trademark that was neither registered nor used in that country. This approach was accepted by the English Courts in *Alain Bernardin v Pavilian Properties* that later became popular as the *Crazy Horse* case.<sup>18</sup> In the said case, English Courts refused to grant relief to the French company on the grounds that the said company did not have a place of business in England. In the *Budweiser* case<sup>13</sup>, Oliver L J stated

that in order to succeed in a passing off action in England it would not be enough only to prove reputation for the trademark in England but also existence of goodwill, which in turn could be proved by showing the sale of goods in open markets in England.

The Indian law has however departed from this traditional concept of requirement of user of the mark in India for initiating a passing off action. The Courts have recognized the international character of some businesses and the goodwill associated with them. Transgressions of boundaries have become universal in the light of the economic policies and rapid development in the field of transport and communication. If a business is carried on in several countries a separate goodwill attaches to it in each, as goodwill is local in character.<sup>6</sup> So, when a business is abandoned in that country in which it was acquired, the goodwill in that territory perishes along with the business.<sup>6</sup> The Indian Courts recognized that certain businesses are international in character and the reputation attached to it occupies the same position, e.g., the trademark 'Whirlpool'. Thus, where the reputation of a particular business is widespread it is difficult to localize goodwill.

The mere fact that the plaintiffs have never manufactured in the country does not prevent them from acquiring goodwill here.<sup>7</sup> Indian Courts have upheld this proposition in deciding a case pertaining to the trademark 'Calvin Klein'. The proof of existence of goodwill of the foreign plaintiff is sufficient to entitle him to a relief from the courts. In order to succeed the foreign plaintiff must have a business reputation in that country which he seeks to protect. Even in cases where the acts of the defendant may not result in passing off in a country's territory, but if they are meant for passing off outside country's borders, action can lie against him in the Indian Courts.<sup>19</sup> A trader in the home country should participate in a passing off for maintaining an action for tort in that country. Having a place of business in a country is not at all essential for the manufacturer or importer of foreign goods.<sup>20</sup> When the goods are being manufactured outside the country, the foreign manufacturer or the importer can rely on the trademark or get up of the goods provided he is in a position to establish reputation in that country.

It is well established under English law that a passing off action can lie even if both the parties deal exclusively in exports. Advertising and publicity for

the prospective business in the country through circulation of magazines or knowledge of relatives or friends are insufficient to establish reputation in that country. Further, if the goods are imported from abroad, the reputation in that mark subsists in this country and not abroad. The general rule is that reputation belongs to a foreign manufacturer or producer and not the importer even though he may be the sole-selling agent. However, few exceptional cases do exist wherein even the importer has been entitled to the reputation in the concerned mark. The fact that the plaintiff's have never manufactured goods in this country does not restrain them from acquiring a goodwill.<sup>21</sup> The proof of existence of goodwill in the foreign country is quite sufficient to entitle a plaintiff to maintain passing off action on that basis. Simple advertisement in this country by the foreign trader of his establishment cannot be treated as user in this country.

#### **Foreign Plaintiff Having no Place of Business in the Country**

The onus of establishing reputation by a foreign plaintiff who has no place of business in India stands at a much higher ground than one who has a place of business. The leading judgment on this concept is *N R Dongre & Others v Whirlpool Corporation*<sup>22</sup> wherein the Court accepted that the advertisement of the trademark without existence of the goods in the market is also to be considered as use of the mark. It is also not at all necessary that the association of the plaintiff's mark should be known all over the country or to every person in the area where it is known best. A foreign trader having no place of business can maintain an action of passing off in India on fulfilling the following<sup>23</sup>:

- (1) The goods and services are of international reputation.
- (2) Indian travellers have purchased or brought such goods to India in the form importation.
- (3) Such goods and services are marketed or sold on large scale in India.
- (4) Advertised in international journal or magazine, which has circulation in India and many customers or potential consumers are subscribers of the said journal.
- (5) The defendant has failed to give satisfactory explanation for the adoption of the said mark.

The Courts in India have followed a liberal path

with an intention to preserve commercial stability and discourage unethical practices on the part of traders, e.g., use of trademark 'Sheraton' and 'Gillette' in India. At the same time, the Courts have also restrained Indian traders from deriving illegitimate advantage from the reputation enjoyed by a foreign trader and thereby widening the scope of passing off or vice-versa. These principles have emerged from the decision in various cases, e.g., in the *Apple Computer* case<sup>24</sup> it was held that mere advertisement in this country by a foreign trader of his establishment abroad could not be treated as use in this country.

Subsequently, the principle laid in *Crazy Horse Saloon* case was also not accepted by Courts both in England and in India. In *Tan-Ichi v Jancar*<sup>25</sup> (HC Hong Kong) Justice Sears recognized the concept of transborder reputation on the basis of development of international communication, transgression of tourists across national boundaries and speed and efficiency of modern technology. This view was taken by Indian Courts in the case of *Indian Shaving Products Ltd v Gift Pack*<sup>26</sup> and *Allergan Inc v Milmet Oftho industries*<sup>27</sup> wherein the plaintiffs has acquired large reputation abroad but did not have any business in India. It was also held that where the defendants sought to enter into a joint venture project with the plaintiff's business, it is implicit that the defendants were aware of the status and reputation of the plaintiff's mark. Both these above decisions go on to show that wrongful use of transborder reputation of mark is discouraged and relief can be availed from courts in India.

Recently the Delhi High Court in *George V Records SARM v Kiran Jogani*<sup>28</sup> for the first time took cognizance of reports, write-ups and interviews of the plaintiff, which appeared in various magazines apart from the submission of international newspaper, and magazines, which had been used to establish transborder reputation in previous cases. India's first permanent injunction in a contested matter based on the principle of transborder reputation was granted in *Jolen Inc v Doctor & Company*<sup>29</sup> where the Court permanently restrained Doctor & Company, the defendants, from using the trade name Jolen accompanied by Jolen's design and get-up.

The past years have seen a tremendous surge in the field of intellectual property (IP) awareness to an extent that it can be called an era of IP awakening. This has resulted in unleashing a massive creative energy and consequently resulted in the better

functioning of IP rights mechanism. In 2004, the Intellectual Property Appellate Board of Chennai laid down elaborate principles on transborder reputation. It was laid down that mere filing of the details of sales figure of goods sold in foreign countries does not prove that their mark has reputation in India. In order to succeed in a reputation proceeding, sufficient evidence of promotion of the said mark by means of advertising, publicity, and presentation at fairs and exhibition, newspapers, sports sponsorship, journals magazines have to be adduced. The concept of reputation is also applicable in case of services. A foreigner providing services, as a foreigner providing goods, can also acquire such a reputation in relation to the business carried on in this country, in *Sheraton Hotel Services*.<sup>30</sup>

### Criticism

Firstly, the absence of a decisive definition of goodwill and reputation in the statutes forms the fundamental detriment in understanding of the concept. Courts in India have repeatedly failed to distinguish between these two terminologies and hence have used it interchangeably. It should be kept in mind that goodwill is a species of property that is restricted to the local jurisdiction while an action of passing off is based on reputation, which transgresses boundaries. This fallacy in law has left the fate of litigants totally to interpretation of the courts. Further, it becomes even more difficult if the two are overlapping in nature due the nature of the goods and services.

Secondly, though Indian Courts have applied the concept, it has not been applied in its entirety. The important aspect of residual reputation and shared reputation has not been considered at all. The *Whirlpool* case, which is a classical example of residual reputation, has been ignored. The concept of residual reputation has been aptly described in the case of *Ad Lib-Club Ltd v Granville*<sup>31</sup> wherein the plaintiff relied upon the reputation in their name four years after the business had closed down. When the plaintiff's have ceased to use the mark or name, they can still rely upon the residual reputation from the past use of the name or mark.

Thirdly, what is the extent of spillover of reputation that shall be considered by the courts of law? The above question entails from a series of cases mentioned above in which it has been a major issue. Moreover deciding upon question, Courts have

relied on extraneous factors e.g. newspapers and magazines, which is a non-exhaustible list subject to transformation with the change in modern means of communication. Without the existence of proper laws, the concept is boundless and subject to expand like an amoeba in a pool of water.

Fourthly, what are the parameters to judge the spill over of reputation? The Indian Courts have been conservative in their approach and constantly harped upon the circulation of magazines, journals and extent of Indian travellers going abroad while deciding cases on transborder reputation. This approach is outdated in the light of the modern means of exchanging information. The Internet for example provides a global forum for any product manufactured in one country and accessible throughout the world. In such a circumstance would it be justified to say that reputation for that particular good exists in India? Say as in 'Philip Petit' which is a renowned mark for its exquisite watches. The proposition based upon foreign travellers is out of proportion for it is based upon the concept of permutation, e.g., a Singapore based confectionery store called 'Bread Talk' enjoys massive reputation in the south East Asian countries but that does not imply that majority of Indians going to Singapore are aware of such information so as to cultivate such reputation in India. Further, how does one decide that a particular good or service enjoys international reputation? In absence of adequate guidelines every product owned by a multinational company would enjoy international repute and would prevent any local competition merely on the grounds of likelihood of deception. In *Rob Mathys v Synthes*<sup>32</sup> the Delhi High Court read that the concept of transborder reputation seems to contradict the legislative intent requiring user 'for trade mark protection against infringement and the liberal view of extending protection to trademarks irrespective of user and the above said limitation to this country on the strength of reputation abroad hardly known in India excepting those who are glued to cable TV.'

Lastly what is the recourse for the Indian trader who is inflicted by a charge based on transborder reputation? If an Indian manufacturer adopts a mark without the knowledge of its existence in some discreet country in a bona fide manner he shall be subjected to undue hardship if that foreign manufacturer suddenly decides to proceed against him in the Indian courts based on the current proposition. Such an action will render Indian courts in a catch-22

situation where it has to apply the concept on one hand and on the other prevent the complete destruction of the economic fiber of the home country.

### Conclusion

The present approach adopted by the judiciary has had essential implications upon the trading society and the general public as a whole. However, this approach is not applicable to all scenarios. Certain situations demand the English rigidity for the protection of national economic interest. Although no statutory or legislative amendments have been made in the intellectual property laws of the country but adhering to its importance, the Courts have laid down an assortment of guidelines to protect the interests of the traders and combat the incessant menace of passing off prevalent in the market today. Unfortunately the magnanimity of the Indian market and the deep-rooted plagiarism cultivated in our society dilutes the effective implementation of these parameters. Nonetheless the adoption of this concept has redefined trademark laws in our country and it is only time which will reveal the vigour of these parameters in the light of ever changing economic world.

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