



## Territorial Extent of a Trademark's Reputation in Passing-off Actions

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*The brief shall examine the recent Supreme Court decision in Toyota Jidosha Kabushiki Kaisha v Prius Auto Industries Ltd, which reiterated the foundational principle of trademark law that rights are territorial in nature. In the present global environment, goods and services are no longer offered on purely national basis. Therefore, how should a country go ahead with a situation where the foreign entity is known to its consumers without making any substantial sale within its territory? Should a country reserve the mark of the foreign entity in anticipation of use or allow the prior domestic user to continue trade using a similar or identical mark on his goods and services? Adoption and application of the principle of trans-border reputation is an attempt by the Indian judiciary to deal with such situations. However, the Supreme Court's Division Bench decisions in N.R. Dongre and Toyota cases do not seem to suggest a uniform territorial approach.*

The Hon'ble Supreme Court of India, on December 14, 2017, decided a dispute between Toyota Jidosha Kabushiki Kaisha (*hereinafter referred to as Toyota*), the Japanese automotive manufacturer of the first hybrid automobile in the world by the name 'Prius',<sup>1</sup> and Prius Auto Industries Ltd., an Indian automobile spare parts supplier, concerning the mark 'Prius'. The dispute originated in 2009 when Toyota approached the Trade Marks Registry seeking cancellation of the defendant's registered mark 'Prius' and filed an action of passing-off in the Delhi High Court. Toyota pleaded that the word 'Prius' was used by them for the first time in the year 1990 and the first automobile under this mark was sold in Japan in December 1997. Onwards 1990, Toyota registered the mark 'Prius' in many countries and the Indian application for registration was filed in 2009. On the other hand, Prius Auto had started using the mark in 2001 and sought registration for it in 2002 under class 12 i.e. auto parts and accessories.

The single judge at the Delhi High Court found that Toyota established a trans-boundary reputation for the mark 'Prius' in India in 2009 through advertisements in international automobile magazines, news items and information available at internet portals. However, the Division Bench in its judgment dated December 23, 2016, held that while 'Prius' was undoubtedly a well-received mark outside India but it had failed to satisfy the second requirement of the law on trans-boundary reputation: knowledge of the trade mark due to its reputation abroad in a domestic jurisdiction. The court also found an error in the judgment of the single judge in terms of timeline to be considered to assess evidence to determine acquisition of trans-border reputation.

It further held that Toyota did not publish any advertisements specifically in India and in any case internet penetration as of the year 2001 was limited in India.

Aggrieved by this order, Toyota filed a Special Leave Petition in the Supreme Court. Upholding the decision of the Division Bench, the Court stated that:

“[T]o give effect to the territoriality principle, the courts must necessarily have to determine if there has been a spill over of the reputation and goodwill of the mark used by the claimant who has brought the passing off action. In the course of such determination, it may be necessary to seek and ascertain the existence of not necessarily a real market but the presence of the claimant through its mark within a particular territorial jurisdiction”.

Therefore, the SC, in this case, set a new benchmark for assessing the cases of trans-boundary reputation in actions of passing-off in contrast to the settled jurisprudence in the Whirlpool case. To understand the distinction in both the cases, it is imperative to look at the remedy of passing-off in general and distinguish between goodwill and reputation of a mark.

### ***Demystifying the remedy: Passing-off***

The Trademarks Act of 1999 (*hereinafter referred to as the Act*) extends protection to both registered and unregistered trade marks in India. Section 29 of the Act states grounds for infringement of a registered trademark and Section 27 recognizes the common law tort of passing-off as a remedy for the proprietor of an unregistered or a registered trademark.

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The simplest definition of passing-off was stated by Lord Halsbury as: '*nobody has any right to represent his goods as the goods of somebody else.*'<sup>12</sup> The classical trinity test of passing off was stated by Oliver LJ in *Reckitt & Colman Products Ltd v Borden Inc.* as:

First, he [the plaintiff] must establish a goodwill or reputation attached to the goods or services which he supplies in the mind of the purchasing public by association with the identifying 'get-up' (...). Secondly, he must demonstrate a misrepresentation by the defendant to the public (whether or not intentional) leading or likely to lead the public to believe that goods or services offered by him are the goods or services of the plaintiff. (. . .) Thirdly, he must demonstrate that he suffers or, in a *quia timet* action, that he is likely to suffer damage by reason of the erroneous belief engendered by the defendant's misrepresentation that the source of the defendant's goods or services is the same as the source of those offered by the plaintiff.<sup>3</sup>

The three elements of passing off i.e. goodwill, misrepresentation, and damage have been expressed in many cases at the House of Lords with some variations. However, what we may certainly say is that the remedy of passing-off is older and wider than the remedy of infringement. Thus, passing-off is often availed in addition to an infringement claim by the registered trade mark owner because where infringement may fail, passing-off may succeed. This may happen as passing-off is the remedy against the invasion of a right of property in the form of goodwill.

Though the basic elements of passing-off have been settled for many years now, the lack of precise definition offers some flexibility (and inconsistency) to the concept. Owing to this flexibility, the boundaries of passing-off vary over time and territory.

### **Goodwill or Reputation?**

The objective of passing-off action is to protect the goodwill of the plaintiff from damage caused by misrepresentation. However, more often than not courts in India (and the United Kingdom) have interchangeably used the concepts of goodwill and reputation.<sup>4</sup> Indeed these concepts may overlap, yet they are distinguishable. A business may have reputation without goodwill, but not vice versa.<sup>5</sup> Goodwill is a benefit derived from reputation and hence the existence of reputation may prove useful to establish the existence of goodwill. Goodwill is a legal property.<sup>6</sup> As asset goodwill can be created, owned, assigned and extinguished with a business. Lord Macnaughten defined goodwill in the case of *Inland Revenue Commissioners v Muller & Co's Margarine Ltd.* as:

"It is the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force which brings custom. It is the one thing which distinguishes an old established business from a new business at its first start. The goodwill of a business must emanate from a particular center or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has the power of attraction sufficient to bring customers home to the source from which it emanates."<sup>7</sup>

In a unanimous judgment of the United Kingdom Supreme Court in *Starbucks v British Sky Broadcasting Group*, Lord Neuberger specifically stated that passing-off protects the proprietary interests of the claimant's goodwill and not his reputation *per se*.<sup>8</sup>

Hence, what is required in passing-off is that the plaintiff must have acquired goodwill in the mark by its continuous use over a period of time in a certain territory and the customers associate the mark with a particular quality of goods. The amount of time it may take a business to acquire goodwill depends on various factors like duration of trade, extent, and mode of advertisements, nature of the mark, sales, number of customers etc. A foreign business which lacks goodwill cannot file an action for passing-off.

Goodwill has an intrinsic territorial component which is the cardinal principle of intellectual property laws. Intellectual property rights and protection, including trademarks, are territorial in nature.<sup>9</sup> Under the territoriality doctrine, a mark is considered to have a separate existence in each sovereign territory where it is registered or is in use.<sup>10</sup> Ideally, for a mark to have goodwill it must operate within a territory i.e. have a customer base in a territory. However, courts have differed as to precisely what may be included to assess if a mark has goodwill.

In contrast to territoriality, the doctrine of universality states that a trademark when used or registered in one country should gain universal recognition as a source indicator.<sup>11</sup> For goodwill, application of universality would mean that a foreign mark will be protected in a territory even when the mark has not actually been used or registered in that territory but has developed a global reputation.

On the other hand, reputation is the association of the customers with the producer or the characteristics of the product. It is a non-proprietary interest.<sup>12</sup> In *General Motors Corporation v Yplon SA*<sup>13</sup>, the court stated that reputation involves knowledge by a significant part of the public in a territory of a trademark. A trademark may have a reputation in a territory without any physical presence. This distinction between goodwill and reputation may prove crucial in a passing-off action.

### **Territoriality of Goodwill: Indian position**

Can a trademark be enforced (by an action of passing-off) in India when it has never been used in commerce or registered here? Can a domestic trader adopt a trade mark of a foreign entity (with or without *malafide* intention) which has no or little presence in India?

On the basis of our discussion above on goodwill and territoriality, it does seem that the local trader can use the trademark for a foreign trader, who has no presence in India, without being liable for passing-off. However, Indian courts have crafted the principle of trans-boundary reputation or spill-over reputation to decide such cases whereby 'locality is not everything'.<sup>14</sup> The concept of trans-boundary reputation operates as an exception to a basic tenet of trademark law that rights in marks arise only through the use of the mark in connection with goods and services in commerce within a territory.

It refers to a situation where the reputation of a mark in other countries is recognized by a particular country. The concept of trans-border reputation is the result of liberalized trade policies adopted by various countries, the rise of communications technology and increasing international mobility of the world population.

To understand the adoption and application of the reputation-without-use principle in India, we may briefly look at three landmark Supreme Court decisions:

#### ***N.R. Dongre v Whirlpool Corporation***<sup>15</sup>

In this case, Whirlpool, the US manufacturer and seller of washing machines, filed an action of passing off against the Indian trader, Dongre, seeking an injunction against the use of the mark 'Whirlpool'. The Supreme Court affirmed the decision of the Division Bench of the Delhi High Court restraining the local trader from selling washing machines under the mark 'Whirlpool'. Though the Whirlpool wasn't actually selling the products in India, there was evidence of limited sales made to the U.S. Embassy and U.S. Aid offices in New Delhi. Additionally, by extensive advertisements of Whirlpool's products in international magazines available in India, the court held that Whirlpool's reputation has traveled trans-border to India. The court stated that Whirlpool is the prior user of the mark as it was using the same since 1941, outside India. Elaborating on the requirement of use in the territory of India, the court held that even advertisement of the mark without the existence of the goods in the market constitutes use of the trademark. This case became an important precedent in subsequent cases concerning trans-border reputation.

#### ***Milmet Oftho Industries v Allergan Inc***<sup>16</sup>

In this case, Allergan, a foreign manufacturer of pharmaceutical products, filed an action of passing-off to restrain the use of a mark 'Ocuflox' in India on the basis of prior use outside India. Following the Whirlpool case, the Court held that the plaintiff has established its reputation internationally by submitting evidence of voluminous sales, publication in medical journals and advertisements which are in circulation in India.

However, it cautioned that multinational corporations who do not have any intention to come to India or sell their product in India should not be allowed to throttle the business of India trader. The fact that the mark in question was being used in respect of pharmaceutical products, where confusion should be minimal further influenced the decision in favor of Allergan.

#### ***Toyota Jidosha Kabushiki Kaisha v Prius Auto Industries Ltd***<sup>17</sup>

The Hon'ble Supreme Court of India, in this case, denied Toyota the remedy of passing-off as it failed to produce sufficient evidence to prove prior use of the mark 'Prius' in India. The Court held that the prior use of the trade mark in one jurisdiction will not *ipso facto* entitle the user to claim exclusive rights to the mark in another jurisdiction. The Court further clarified that the date to assess the reputation of the plaintiff in India is the date since when the defendant started using an identical or similar trade mark.

Applying the principle of territoriality to trans-border reputation, the Court held that presence of the plaintiff in the Indian market has to be established by cogent and substantial evidence. The advertisements in automobile magazines and international business magazines, availability of information on internet portals like Wikipedia and Britannica dictionary were held to be insufficient to prove goodwill of the product in Indian market at the relevant time.

From the above discussion, the Court does not seem to uniformly agree on the approach to be followed in situations where the mark has not been used or registered in India by the foreign trader or to say what exactly is the meaning of 'use' in India. Until the decision in Toyota case was delivered, cases decided by the SC and most High courts upheld the application of trans-boundary reputation via universality principle where advertisements and promotion of the mark through various forms of media (print, electronic, internet portal, in-flight entertainment, in-flight magazines, sale at duty free shops etc) were found sufficient to establish reputation (and goodwill) within a particular territory.<sup>18</sup> In the Toyota case, the SC stated that lack of substantial advertisements directed at a specific market establishes lack of imminent intention to do business in that territory.

#### ***International Agreements***

Under Article 6bis of the Paris Convention for the Protection of Industrial Property, 1883, a trademark protection must extend to an unregistered trademark even when it has not been used locally but has become a 'famous mark' in a member country. Article 16(2) of the TRIPS Agreement supplements the protection to well-known marks by the Paris Convention and amplifies it to service marks. It also states that knowledge of the public may be obtained from promotion and not just the use of the mark. However, these international agreements are not self-executing and need to be specifically implemented within the domestic laws.

There may be an argument that India has no provision corresponding to the provisions of the Paris Convention and the TRIPS Agreement and hence trans-border reputation should stand as an exception to the fundamental principle of trademark territoriality. However, one may argue that S. 11(2) of the Act enacts these provisions. It provides extensive protection to the owner of a 'well-known trademark in India' where a mark may not be used in India but has a reputation here. This remedy is different from passing-off as it requires knowledge and recognition of the trade mark in the relevant section of the public in India as opposed to goodwill in India.

#### **Conclusion**

In a globalized world with innovative communication networks, multinational corporations will indeed be able to disseminate information about their trademarks more efficiently. This way the reputation of the business may surpass the territorial frontiers; however, without physical presence, goodwill may not be established.

For a claimant seeking relief of passing-off, the protection of marks must occur in conjunction with the principle of territoriality. Prior use of a mark in any territory should not *ipso facto* entitle the owner to protection in any other country. 'Use' must be established through specific and substantial evidence.

The changing business landscape in India will require a level playing field for both the Indian businesses and businesses incorporated elsewhere. In such a situation, it becomes all the more important for a developing country like India to enforce the bedrock principle of territoriality to protect the interests of small businesses within its jurisdiction. As stated by Lord Neuberger in Starbucks case, an appropriate balance must be struck between competition and protection. If mere reputation is enough to claim remedy of passing-off, the balance would tilt too much in favour of protection.

The Toyota case comes as an exception reiterating the tenet that territorial extent of a trademark is above trans-boundary reputation. The reluctance of the Indian courts to protect marks where the foreign entity does not carry business in India seems fair in protecting the interests of Indian businesses who otherwise would always be under a fear of litigation by an unknown or barely known claimant from any part of the world who may have mere reputation but no goodwill in India. Nevertheless, it is true that it may not contribute positively to improving India's ranking in the Global IP Index and may create problems of reciprocity.<sup>19</sup>

## End Notes

- <sup>1</sup> *Toyota Jidosha Kabushiki Kaisha v Prius Auto Industries Ltd.* AIR 2018 SC 167.
- <sup>2</sup> *Frank Reddaway & Co. Ltd. v George Banham & Co. Ltd.* (1896) 13 R.P.C. 218 at 224.
- <sup>3</sup> [1990] 1 WLR 491 at 499.
- <sup>4</sup> See, e.g., *William Grant & Sons Ltd v McDowell & Co Ltd*, 1997 (17) PTC 134 (Del).
- <sup>5</sup> *Starbucks v British Sky Broadcasting Group* [2015] UKSC 31 ¶ 26.
- <sup>6</sup> Christopher Wadlow, *The Law of Passing Off: Unfair Competition by Misrepresentation* (5th edn, Sweet & Maxwell 2016) 91.
- <sup>7</sup> *IRC v Muller & Co's Margarine Ltd.* [1901] AC 217 at 223.
- <sup>8</sup> *Starbucks v British Sky Broadcasting Group* [2015] UKSC 31.
- <sup>9</sup> Article 6(3) of the Paris Convention states: a mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of origin.
- <sup>10</sup> *Trans Tyres India Pvt. Ltd v Double Coin Holding Ltd.* 2012 (49) PTC 209 (Del), para 13.
- <sup>11</sup> *ibid.*
- <sup>12</sup> *Supra* (n 6).
- <sup>13</sup> [1999] ECR I-5421 at 5449.
- <sup>14</sup> Arpan Banerjee, 'Spill-over reputation in passing off actions: Indian and English law compared', *Oxford University Commonwealth Law Journal* Vol 14 No. 1 21, 33, n87.
- <sup>15</sup> (1996) 5 SCC 714.
- <sup>16</sup> (2004) 12 SCC 624.
- <sup>17</sup> AIR 2018 SC 167.
- <sup>18</sup> See e.g. *Kamal Trading Co. v Gillette UK Ltd.* (1988) 8 PTC 1 (Bom), *William Grant & Sons Ltd v McDowell & Co Ltd*, [1997 (17) PTC 134 (Del), *Calvin Klein Inc v International Apparel Syndicate* (1996) 16 PTC 293 (Cal).
- <sup>19</sup> India's current ranking is 44th out of 50 countries.

## About the O.P. Jindal Global University

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