GOODWILL PROTECTION AGAINST COUNTERFEITING IN BUSINESS TO BUSINESS

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SUMMARY

This master thesis (the “Thesis”) explores the realms of goodwill and how it relates to counterfeiting in a B2B environment. Industrial companies also face the challenge of protecting their goodwill in the company name and the trademarks. It may be obvious that counterfeiting damages the goodwill of a trademark. However, how does it affect the company and what can the company do to prevent loss of goodwill? To find the answers to those questions it becomes necessary to explore the meaning of goodwill and whether the law adequately protects goodwill in counterfeiting cases. This Thesis further sets out the remedies that can be sought under the laws of trademark laws and unfair competition. Industrial companies have different considerations than retail companies in B2C settings and I have sought to highlight some of those differences in this Thesis.

The aim with the Thesis is to provide theoretical arguments backed up by case law and case studies. This is to ensure that practising lawyers and other interested parties may get an insight into how counterfeit cases are solved in practice. By illuminating the real life problems, I am also hoping to provoke discussion in the area of how the interpretation of goodwill can be unified to enhance the protection for right holders. It shall be seen how the lack of harmonisation on this topic is causing legal uncertainty.

Yet, there is a lot that industrial companies can do to protect its position against counterfeiters. At the end of the Thesis I have outlined some recommended approaches that have proven successful within the Sandvik concern.

KEYWORDS
Counterfeiting, goodwill, industrial companies, B2B, trademark infringement, unfair competition
PREFACE

I would like to express my gratitude to:

Adrian for lovingly supporting me and having taken the lion’s share of looking after the family this year.

Angelina and Lucas for unconditional love.

Sister, parents and good friends for believing in me.

Claes Granmar, my supervisor for inspiration and support.

Sandvik, for giving me the opportunity to pursue this Master Programme.

Finally, thank you all my wise and intelligent role models out there, colleagues, professors, external lawyers, factory workers, nursery and school staff, philosophers, politicians and everyone who makes a difference.

Nina Barzey
**ACRONYMS**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACTA</td>
<td>Anti-Counterfeiting Trade Agreement Agreements</td>
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<td>ANB</td>
<td>Alpha Numeric Brands</td>
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<td>BASCAP</td>
<td>Business Action to Stop Counterfeiting and Piracy</td>
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<td>CTM</td>
<td>Community Trademark</td>
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<tr>
<td>NIR</td>
<td>Nordiskt Immateriellt Rättsskydd</td>
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<tr>
<td>NJA</td>
<td>Nytt Juridiskt Arkiv (published Swedish case law)</td>
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<tr>
<td>IPR</td>
<td>Intellectual Property Rights</td>
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<tr>
<td>ISO</td>
<td>International Organization for Standardization</td>
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<td>ISP</td>
<td>Internet Service Provider</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OHIM</td>
<td>Trade marks and Designs Registrations Office of the European Union</td>
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<td>SIS</td>
<td>Swedish Standards Institute</td>
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<td>SOU</td>
<td>Statens Offentliga Utredningar</td>
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<td>WIPO</td>
<td>World Intellectual Property Organisation</td>
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I - INTRODUCTION

1.1 - BACKGROUND

We shall see that there has been a steady development in the law, which facilitates the enforcement of intellectual property rights (“IPR”) against counterfeiters. Numerous articles have been written on this topic and in textbooks. However, the material relating to counterfeiting in B2B settings for industrial companies is virtually non-existing. Industrial companies in the context of this Thesis are those that manufacture material or products and part-products for manufacturers of products that are subsequently sold to end-consumers in the industry.

Is the reason for the lack of written information on this topic that industrial companies in B2B settings are simply not troubled by counterfeiters? Not in the slightest. It is a misconception to contend that industrial companies should be immune from the prying tentacles of counterfeiters. Industrial companies frequently lose goodwill as a result of customers unknowingly purchasing counterfeit products of poor quality. Where the customer does not find out the true origin of the counterfeit product, this could set off nasty rumours about the genuine industrial company, which in turn has a damaging effect on the goodwill. Most articles, it seems, are focusing on the B2C aspects and in particular counterfeiting of the high end fashion spectrum. Tourists are bombarded with counterfeit goods that are openly sold on markets and on the Internet. However, counterfeiting of industrial products are more covert and difficult to detect due to the underground business of counterfeiting, often in some obscure factory in a deprived part of Pakistan, India or China. They are not flaunted in the street like counterfeit retail products. The marketing of the counterfeit products are posted on the Internet on, for example, e-bay by unlawfully using the trademark of reputed companies. Customers are duped into purchasing these counterfeit products and only notice that they are counterfeit when the products falter.

This is particularly hurting for reputed industrial companies as the customers then complain to the genuine manufacturer. By this time, the reputation of the genuine trademark may already have been severely damaged.
The problems faced by industrial companies must be tackled in a somewhat different manner and internal strategies ought to be implemented and adapted by considering not only the law relating to counterfeiting but also the commercial practicalities. This can be rather challenging in a global market where the parent company owns subsidiaries all round the world. How does one keep track of the underground market of counterfeit products? Many board members of industrial companies may not be fully aware of the actual and potentially damaging effects of counterfeiting. It is exceedingly difficult to come up with hard facts of exactly how much money the companies are losing due to counterfeiters. Further, how does one estimate the real loss to the goodwill? Unless clear internal strategies are in place, the company will continue to leak goodwill until the trademark (“TM”) in question has totally whittled away.

1.2 - CONSIDERATIONS AND LIMITATIONS

Counterfeiting can involve many different IPR. It should be noted that in practice an assessment of the patent infringement of the products involved in counterfeiting often goes hand in hand with an assessment of trademark infringement. My Thesis will only focus on the aspects of counterfeiting concerning trademark infringement.

In this Thesis, we are concerned with the law relating to the Directive1 for national trademarks in the European Community (the “Directive”) and also the Regulation2 concerning Community Trademarks (the “Regulation”). Although, decisions by the Office of Harmonization for the Internal Market (“OHIM”) could be used to strengthen points of arguments in national courts and vice versa, there are no guarantees that such decisions or aids in interpretation will be taken into account. This Thesis will not consider the international regimes other than in passing comments where they relate to a case study. Further, as the aim with this Thesis is to afford advice to legal practitioners working for or with industrial companies, I have sought to strike a balance between legal theories and practical considerations.

Although, the meaning of goodwill is scrutinised in relation to counterfeiting, it should be noted that the actual quantification of damage to goodwill made by the courts is of subordinate

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significance for the purposes of this Thesis. Thus, focus is on the legal meaning of goodwill in relation to counterfeiting in order to illustrate the resulting damaging effects of counterfeiting. This is of crucial importance in industrial companies when in-house lawyers are faced with the challenge of estimating damage in order to convince the management to mobilise further internal resources and to set up an internal action plan.

Moreover, the Treaty on the Functioning of the European Union has changed the name of the European Court of Justice to the Court of Justice. However, references to decisions will be as it was at the time of the decision i.e. in most cases “ECJ”. When referring to a decision after the change of name, the court will be referred to as the “Court of Justice”.

1.3 - METHOD AND MATERIAL

A traditional dogmatic approach has been used in this Thesis. However, as stated above, I have sought to strike a balance between presenting a purely academic argument and practical hands on experience. Sources of law derive from legal instruments, preparatory work, national case law and European case law. Due to the global spread of commercial counterfeiting in industrial settings, procedures and laws of China, India and Pakistan have been mentioned.

Further, my Thesis will also be based on first hand information from real cases examined by using the industrial company Sandvik as a reference point. As the Sandvik concern is a Swedish company, reference will be also made to Swedish laws. Sandvik has been chosen due to the fact that most of my experience in counterfeit matters has been gained whilst working for the Sandvik concern. Sandvik has leading positions in the following areas:

- Tools for metal cutting in cemented carbide and high-speed steel as well as components in cemented carbide and other hard materials.
- Equipment and tools for the mining and construction industries.
- Products in advanced stainless materials, titanium, special alloys, metallic and ceramic resistance materials and process systems.
For considerations of confidentiality, I have concealed the true identity of some companies and products. According to the authors Hammersley and Gomm (2007) a case study can be used to: (1) test a theory; (2) develop a new theory; or (3) simply use it to present a case scenario. I have used the case studies first and foremost to apply a practical situation to a discussed theoretical argument. The case studies will illustrate how my hypothesis has been applied in reality in B2B settings.

The analysis has been woven into the Thesis and there will therefore not be a separate part on analysis. Additionally, other sources of information include investigations, recommendations and guidelines of the European Union and of other official bodies.

1.4 - RESEARCH QUESTIONS

The underlying hypothesis for this Thesis is that counterfeiting leads to a whittling away of the goodwill of individually owned trademarks as well as the company name related trademark of the industrial company. To fully comprehend the actual damage to goodwill, it becomes necessary to examine the scope and definition of goodwill. I will seek to clarify the damage to goodwill from a legal- and business point of view, followed by a recommendation of how an industrial company can implement measures to reduce damage to goodwill of its own company name and its individual trademarks. For the purposes of this Thesis, we are concerned with counterfeit products marked unlawfully with trademarks belonging to others. The following questions will be researched by using a B2B perspective and answered in this Thesis:

- How does the law protect against counterfeiting?
- What is goodwill?
- What is the significance of a legal definition of goodwill?
- How does one determine damage to goodwill in respect of trademark infringement by way of counterfeiting?
- Is there a relation between the level of advertising function of a trademark and damage to goodwill (i.e. the higher the advertising function, the higher the damage to goodwill)?

What particular challenges do industrial companies face in preventing counterfeiting of its products?
How can industrial companies stop “leaking” of goodwill?

1.5 - DISPOSITION

My Thesis has been divided into eight parts: I- Introduction; II- The development of counterfeiting; III - Goodwill; IV - Law and enforcement; V - Damage to goodwill; VI - Practical challenges for industrial companies; VII - Conclusion; and VIII Bibliography.

In section 2, (II) The development of counterfeiting, I set out reasons for why counterfeiting has become more and more common in B2B business. This is done by looking at the commercial globalisation and new inventive methods making it easier for counterfeiters.

In section 3, (III) Goodwill, it is introduced how goodwill is connected to counterfeiting and how goodwill is defined. In section 4, (IV) Law and Enforcement, the primary task is to cast an eye on the legal framework surrounding counterfeiting. It will also be explained how decisions by national courts and decisions by the OHIM and the ECJ are placed in the hierarchy of matter of relevance and importance. The law relating to trademark infringement and the extended protection for reputed trademarks are explored followed by a brief outline of available sanctions. Thereafter, it is examined how counterfeiting can be held to be unfair competition. Section 3 is concluded by brief outlines on criminal law, product liability and the Anti-Counterfeiting Trade Agreement (“ACTA”).

Section 5, (IV) Damage to goodwill, deals with the concept of goodwill and how it could be said to be damaged by counterfeiting. It will be examined how industrial companies in B2B ought to maintain their trademarks in order to prevent leaking of goodwill. The connection between the advertising function of a trademark and goodwill will be analysed to find out if the advertising function could be regarded as an indicator of goodwill and the repercussions of such finding. As most trade is advertised on the Internet, I found it highly relevant to also analyse the advertising function in relation to counterfeiting over the Internet.
Section 6, (VI) Particular challenges of industrial companies, ropes the Thesis together by capturing the commercial reality of industrial companies. I also found it necessary to give brief outlines of how to maintain goodwill in order to preserve and build goodwill. The challenges relating to Alpha Numeric Brands (ANB) are described from a practical perspective backed up with legal considerations. This section is concluded by case studies and summary recommendations of internal strategies.

Section 7, (VII) where the main findings and conclusions are summarised and presented, is followed by the Bibliography in Section 8, (VIII).
II - THE DEVELOPMENT OF COUNTERFEITING

2.1 - COUNTERFEITING MADE EASY

2.1.1 - OUTSOURCING

In today’s competitive environment, companies are moving their production facilities abroad to countries where the cost of production is low. The outsourcing is not without risk and companies may be caught by their own lack of internal strategies concerning the IPR related to the outsourcing of production. In the past years, China and India and other Eastern countries have become host countries of numerous Western companies seeking to maximise profit. It has been estimated that infringement of intellectual property counts for about 150 billion euros per year. In China alone, industrial companies were in 2006 losing about 60 billion euros per year due to counterfeit trade. This has meant more media exposure of the genuine articles and a new market being established where counterfeiters see opportunities of “making a quick buck”. This also means that the counterfeiters have better access to the genuine articles. International authorities and various industrial associations have been wrestling with thorny issues of how to protect their IPR:s in an ever expanding global arena. The industries have put pressure on China to strengthen the laws on counterfeiting. In recent years, we have seen that the counterfeiting business is moving into countries where labour is even cheaper such as Indonesia, Bangladesh, Pakistan and Vietnam.

2.1.2 - NEW METHODS

As the world hones in on counterfeiting, the counterfeiters are finding new inventive ways of circumventing getting caught. Instead of transporting the counterfeit goods directly from one point to the other, the goods are first taken to neutral redistribution countries. The intention is of course to confuse customs, and lengthy customs documentation is having to be verified by perplexed customs officials. The goods are also sent to countries where customs have a reputation

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4 Excluding domestic production and consumption, The Anti-Counterfeiting Trade Agreement Fact Sheet 2009, European Commission Trade at p.5.
of not being as effective. It is likely that the vast majority of goods go unnoticed as the counterfeitors are becoming increasingly cunning in hiding the counterfeit goods. They use methods such as double based floor in containers, disguising genuine trademarks with false labels or mixing fake and genuine goods in the same shipping.

2.2 - THE CONCEPT OF COUNTERFEITING

2.2.1 - PURPOSE

Counterfeiting can be of products based on copyrights, designs and patents where the intention is to dupe the customer into purchasing the counterfeit item in the belief that it is the original article. Although counterfeiting can be traced back as far back as the Greek and Roman times, it is now spreading faster than a virus. Counterfeit products range from fake branded bags and clothing to drugs, chemicals, automobile, tubes, strips of steel, inserts to metal cutting tools and aircraft parts. Without further insight in the counterfeiting trade, it may seem harmless to purchase a Rolex watch for the fraction of what an original is worth. However, one should take notice of the fact that the trafficking of counterfeit goods has been associated with organised crime in narcotics, stolen products and counterfeit money.6

Over a third of the respondents to a survey carried out by the Organisation for Economic Co-operation and Development (“OECD”) indicated a link between counterfeiting and organised crime. In industrial surveys, the respondents even provided examples of involvement or suspected involvement.7 One may question why the business of counterfeiting is a target for organised criminal networks. The answer is rather straight forward; apart from great profits to be made from selling fake goods, there is also the added “bonus” that dealing with counterfeit goods is less risky than the smuggling and sale of narcotics. In countries where there is corruption of the authorities that are responsible for enforcing laws and regulations, there is even a smaller risk of getting caught.

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2.2.2 - LEGAL DEFINITION

The precise concept of counterfeiting may not be clear to all as there are various opinions as to what is classed as counterfeit. In the OECD report, it is specifically excluded to refer to goods under a licensing agreement as counterfeit. If the goods are manufactured outside the agreed manufacturing units, for example, such additional unlawfully produced units, would therefore not be considered as counterfeit according to the OECD. One could certainly question this interpretation as such units that are produced and marked with a trademark belonging to other is not authorised by the right holder and as such ought to be regarded as counterfeit.

The remedies available in the case of counterfeiting are identical to any other intellectual property infringement. Additionally there are the Customs and Border measures that specifically target commercial scale IPR infringements such as trademark counterfeiting and copyright piracy. In footnote 14 of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS"), counterfeit trademark goods and pirated copyright goods are defined as:

(a) "counterfeit trademark goods" Shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation.

(b) "pirated copyright goods" shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.

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8 OECD, supra at page 196.
9 Signed in Marrakesh, Morocco on 15 April 1994,
For the purposes of this Thesis, only situations concerning counterfeit trademark goods are examined and analysed. The above definitions may also be found in other international instruments.¹⁰

2.2.3 - LOSS TO BUSINESS

Lack of awareness of the problem of counterfeiting leads to a false sense of security and a passivity, which of course benefits the counterfeiter. Industrial companies may not be fully aware of the total impact of counterfeiting on their business. Often, the legal departments are only informed of infringements when a sales person has stumbled across some counterfeit material in a trade fair or worse, hear customers complaining about the poor quality of the goods purchased, which later turns out to be counterfeit. Due to the unlawful nature of the counterfeiting business, it is virtually impossible to produce an exact estimation of the total loss that companies suffer as a result of counterfeiting.

According to the German Engineering Federation, German companies in the machine and valve industry, is greatly affected by illegal imitations. The German Engineering Federation reports that German machine builders lose 3-5 per cent of yearly sales due to counterfeiting.¹¹ A survey in the industry shows that 14 per cent of valve manufacturers were affected in 2009 and lost about €60 million. Further, faulty counterfeit products lead to component failures. The Association of the German Tool Manufacturing Industry has estimated that there are about 3,500 yearly accidents due to failures of counterfeit components.¹²

A report was commissioned by Business Action to Stop Counterfeiting and Piracy (“BASCAP”), to develop methodologies for estimating the economic and social impact of counterfeiting. The report is based on public data from national governments and the OECD and other industry associations and businesses.¹³ In the report, it is pointed out that “an accurate measurement of the true costs of counterfeiting and piracy is a key factor in convincing government leaders and

¹⁰ See for example the US Australia Free Trade Agreement; the US-Central America and Dominican Republic FTA; US-Chile FTA; U.S-Morocco FTA. See also EC Council Regulation 1383/2003 (“Infringing Goods Regulation”).
¹¹ “The Efficiency of Counterfeiting”, Dr Hans Joachim Fuchs and Dr Shuqin Zhou, AIPPI e.news May 2010.
ultimately consumers that stronger action is needed to stop the flow of counterfeit goods”. So, how does that relate to industrial companies? Where there is no reliable data, the business sector will not obtain sufficient support from the government in the struggle against counterfeiting. Another important reason is that industrial companies should, as part of internal strategies, ensure that data is brought to the attention of the board of directors or (the “Board”) to enable the Board to fully appreciate the scale of counterfeiting within the company. Resources may be allocated and a centralised and a mobilised effort can be made to come to grips with the loss caused by counterfeiting, such as leaking of goodwill and loss of sales. The type of costs involved for an industrial company are both hidden and overt and include costs for: product protection (anti-counterfeiting modification of the product), special packaging, litigation against counterfeiteers, private investigations and research of counterfeiteers, co-operation with governments in anti-counterfeiting programs and infringement settlements. For an IP in-house lawyer, the possibilities of maintaining and defending the trademarks against counterfeiting goes hand in hand with a clear understanding of the effects on goodwill. Once the IP in-house lawyer has a firm grip of the parameters of goodwill, the work can begin to improve the control on counterfeiting. That is the main reason why my Thesis is focussing on goodwill in relation to counterfeiting.

III - GOODWILL

3.1 – COUNTERFEITING AND GOODWILL

Counterfeiting damages the value of a brand and the image of the manufacturers of the genuine products. Those customers who were in the belief that they were purchasing genuine products are likely to make a complaint to the genuine manufacturer when the fake products falter. The mere fact that the customer starts doubting the quality of a Sandvik product may set off rumours that spread quickly in the business. This causes a loss in goodwill. Even if the customers simply stop purchasing the genuine products without actually discovering that they are counterfeit, goodwill may be lost in that customers inform other customers of the poor quality of the goods they mistakenly believe to be genuine. The counterfeit trade not only leads to loss of profits and market shares but also future sales profits due to damage to the company’s goodwill. When

14 Supra at p.1.
counterfeit goods are circulated on the market, the genuine trademarks also risk losing distinctiveness and thus reputation. Counterfeit goods with false trademarks lead to dilution of the goodwill of the genuine company as the trademark has become common in the market. The trademark has then lost its power to attract customers to the particular goods.

The goodwill in trademarks is regarded as independent intangible assets of companies.\(^{15}\) Intangible assets are also referred to as “Intellectual Capital” (“IC”). Where industrial companies are affected by counterfeiting, it strikes at the core of a trademark’s goodwill. In a global marketing environment, an established trademark has fought many competitive trademarks in the international arena and is therefore valued highly. As a multinational trademark, SANDVIK is such a trademark that has established a good reputation in various countries around the world. The trademarks as logos and wordmarks have been maintained and defended for decades. It is therefore not difficult to comprehend how the reputation of, not only Sandvik’s trademarks, but also the company name of Sandvik could potentially be in jeopardy where customers are duped into purchasing poor quality copies of Sandvik products.

### 3.2 - LEGAL DEFINITION

It is important to keep the economic definition of goodwill separate to the legal definition. The term goodwill is undefinable as an abstract and the actual value of a trademark becomes important in an acquisition. The value paid for a company over and above the value stipulated for the tangible assets, is recorded in the book-keeping as goodwill. However, the economical value of goodwill is subsequently written off in the balance sheet. Thereafter, the independent value of goodwill value ceases to exist.

A lawyer will associate the term goodwill with the trademark and the signals it sends out to the market. In Sweden, a company subjected to trademark infringement can claim damages in the form of “reasonable compensation” for the use of the trademark and compensation for “further” damage that has been incurred as a result of the infringement. When deciding on the amount of damages, regard shall be had to the interest of the right holders in that trademark infringement

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does not occur and to “other circumstances” (other than those of economical significance). In the preparatory work, “further compensation” means economical damage and market damage. Goodwill falls within the concept of “market damages” and is referred to as damnus emergens.

Contrary to purely economic damage (such as actual and expected loss of sales), goodwill damage is difficult to establish. Goodwill damage is to be estimated separately from economical damage. As to the purpose of the wording “other circumstances”, it appears to give the court a right to compensate the right holder fully. The passage does little to clarify how one in practice goes about estimating damage to goodwill in a case of counterfeiting. Further guidance on damages is given by Jan Hellner on the Swedish law on damages where he declares that the amount of damages should fulfil a preventative as well as a reparative function. In order to identify the value of goodwill, the lawyer is compelled to separate the trademark from the company’s other intellectual properties and thus find and evaluate the existing factors affecting the actual value of the trademark. Contrary to an economic perception of the intellectual property (where the value is eventually written off) the value increases as the company builds its image.

Why is there then a need to get to grips with the legal definition in terms of evaluating goodwill? In order to combat counterfeiting we need to have adequate preventative measures to deter people from unlawfully expropriating goodwill attached to genuine trademarks. Aggrieved trademark owners must therefore be compensated properly for the damages to the trademark including the goodwill. With a purely economic reasoning, the courts will not arrive at an adequate compensation for such damages. The true legal value must include factors such as: the reputation of the trademark in the particular field of goods or services; the ability for the trademark to indicate the commercial origin; and to create recognition of the trademark by the customers in the field. These factors in turn make up the potential for the trademark to generate future profits.

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16 § Varumärkeslagen 1960:644 (Swedish Trademark law).
17 See further discussion Claes Uggla, NIR 1988, “Några Tankar om beräkningen av skadestånd i varumärkesmål”, at p.523.
20 Hellner Jan, Skadeståndsrätt 2006, p.37,40.
21 See also discussion by Borgenhäll, NIR 2000:2 at p.153.
As stated above, in order to adequately calculate the true damage to a company’s goodwill, one needs to have a firm grasp of the legal definition of goodwill. Although Article 6quarter in the Paris Convention mentions goodwill there does not seem to be a codified definition in the legal framework. How does one evaluate goodwill without knowing the parameters of such definition? The Oxford legal dictionary defines goodwill as “the established reputation of a business regarded as a quantifiable asset and calculated as part of its value when it is sold.”

Further, Claës Uggla explains goodwill to encompass the economical value of a trademark as a capital asset and as a guarantee for future business. This definition provides little guidance in describing goodwill for the purposes of quantifying damage. How does one convert “reputation” into a quantifiable concept? One author, spends several pages in trying to define goodwill and finally comes up with the rather obvious: “Its real existence is in the mind of the buying public.”

In England, trader A can initiate an action for passing off against trader B from passing off trader A:s products as if they belonged to B. The prerequisites for succeeding in such action would be that A can prove that:

1. A has “goodwill”;
2. B made a “misrepresentation” that is likely to deceive the public, and
3. the goodwill of A has been damaged by such misrepresentation.

In IRC v. Muller & Co.’s Margarine, Lord Macnaghten emphasised that goodwill “is the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force that brings in customs”. However, it would seem that “reputation” is not the same as “goodwill” and it would therefore not be sufficient to establish reputation to overcome hurdle (1) above. Bainbridge explains that “for goodwill to exist, customers must be buying the goods or using the services as a result of the reputation that they have developed.” Hence, one can draw the conclusion that reputation and goodwill are not the same but nevertheless inextricably linked.

23 Uggla Claës, ”Några tankar om beräkningen av skadestånd i varumärkesmål”, NIR 1988, p.522.
This means that it becomes especially difficult in counterfeit cases to establish the exact damage caused. Showing actual or potential damage may also become necessary when performing “damage control” of the industrial company subjected to counterfeiting i.e. working out how to put an end to further damage.

The lack of clear guidelines for the courts to follow in assessing goodwill damage was clear in the Swedish SODASTREAM case. The company Sydbrand refilled old empty carbon dioxide cylinders marked with SODASTREAM. Once the cylinders were refilled, Sydbrand affixed a yellow sticker stating that the cylinders contained carbon dioxide and that they had been refilled by Sydbrand. The cylinders were still marked with SODASTREAM’s trademark. Sodastream brought infringement proceedings against Sydbrand and claimed that its trademark had lost its distinctiveness. Sodastream argued that its goodwill damage amounted to 180 000 SEK but the Swedish Supreme Court disagreed without further elaboration and awarded 25 000 SEK for the damage to the distinctiveness. The Swedish court most likely sought to adhere to the vague legal provisions stating that the award must be “reasonable”. It could be argued that without a legal definition and a strict requirement to motivate the reasoning behind the goodwill award, trademark owners may not achieve adequate legal redress.

Similarly, in a Swedish recent case, the court recognised that the American company Abercrombie & Fitch Co. sold clothes under trademarks that were considered reputed trademarks (ABERCROMBIE & FITCH, A&F, ABERCROMBIE, HOLLISTER RUEHL etc). A Norwegian company, Only The Brave Industry AS, was selling identical clothing marked with ABERCROMBIE & FITCH and was holding out that they were distributors of the American company. The clothes were found to be false copies and an injunction was granted by a Norwegian court against the Norwegian company. Clothes had also been offered by the Norwegian company to a Swedish retailer (“NK”) before the injunction had been granted. Proceedings were brought against the Norwegian company by the American company in the Swedish court for trademark infringement. In its judgment, the Swedish court emphasised that the

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28 Rättegångsbalken (RB) 35:5.
29 T19-10 of 17 November 2010 (Abercrombie & Fitch).
infringement was intentional or negligent and that compensation for “further damage” would be considered reasonable due to the facts that: (1) there was an infringement in a registered right; (2) the trademarks were “well known” and the plaintiff had therefore a “strong interest” to prevent infringement; (3) the defendant had not fulfilled the duty to investigate whether the clothes were genuine; (4) the plaintiff had sent a warning letter; (5) the counterfeit products had been sent to Sweden even after the injunction had been awarded in Norway; and (6) the defendant had misrepresented the truth about being authorised distributors for Abercrombie & Fitch products.

The customs had confiscated 10 159 counterfeit products. However, despite the courts recognition of the trademarks being well known and that there had been some damage to the goodwill the court thought it reasonable to award 50 000 SEK for such damage. Again, the lack of guidelines in establishing damage to goodwill and perhaps in appreciating the actual goodwill loss leads to unsatisfactory awards with unfounded awards. True, it should not be underestimated the difficulties in establishing and calculating loss to goodwill but is it perhaps time to consider alternative ways of compensation that takes into account the reputation of the infringed trademarks? Presumably, if a trademark is reputed, it must follow that the damage to goodwill is higher than if the infringed trademark is not reputed? We shall explore this further later on in my Thesis.

IV - LAW AND ENFORCEMENT

4.1 - CIVIL AND CRIMINAL PROCEDURES

The World Intellectual Property Organisation (“WIPO”) Convention\textsuperscript{30} covers enactment and enforcement of intellectual property legislation and the Paris Convention for the Protection of Industrial Property\textsuperscript{31} (“Paris Convention”) protects industrial property. These legal instruments are however vague and it would appear that the most comprehensive remedies against trademark infringement are provided for in the TRIPS Agreement.

Members of the World Trade Organisation (“WTO”) have committed to implement procedures for the enforcement of IPR. The Members are allowed to provide for a higher level of

\textsuperscript{30} 14 July, 1967.
\textsuperscript{31} 20 March, 1883.
enforcement procedures but not lower than the minimum standards under TRIPS. The enforcement provisions must be fair and equitable, timely, accessible and in accordance with the principles of due process.\(^{32}\) There is a special provision for the least developing countries to implement the TRIPS provisions by 1 July 2013.\(^ {33}\) TRIPS provides that there must be the possibility for the judicial authorities in civil and administrative procedures to order:

- injunctions to prevent the commercialization of IPR-infringing goods\(^ {34}\);
- seizure and destruction of the infringing goods and the disposal of any equipment for producing such infringing goods (instrumental celeris)\(^ {35}\);
- damages in cases of wilful or careless infringement\(^ {36}\);
- Prompt and effective provisional measures to prevent IPR infringements.\(^ {37}\)

WTO members must also adopt border measures to suspend the commercialisation of counterfeit trademark goods at the point of importation (Article 51). It should here be noted that such provisions are only mandatory in respect of imported counterfeit goods. It is also optional to extend the border measures to cover goods in transit or transhipment and small quantities of goods imported for non-commercial purposes. This could for example be goods in the hand luggage or goods sent in small consignments.

The mandatory measures do not cover ex officio action where the competent authorities, without the prior request by the IPR holder, can suspend the circulation of counterfeit goods. TRIPS members are however free to implement such rules as long as certain safe guards are met. Under Article 61 of TRIPS, members must provide for the application of criminal proceedings against wilful violations on a commercial scale. As with civil proceedings, the seizure and destruction of the infringing goods and of the equipment for their production must be available. These remedies must also be sufficiently effective to constitute a deterrent against IPR infringement related to

\(^{32}\) Part III, Article 41 and ff of the TRIPS Agreement.
\(^{34}\) PART III, Article 44 of the TRIPS Agreement.
\(^{35}\) Supra Article 46 TRIPS.
\(^{36}\) Supra Article 45 TRIPS.
\(^{37}\) TRIPS Article 50.
It is clear that TRIPS sets the minimum standards for the members and is helpful in harmonizing the legal provisions on IPR infringement but at the same time allowing the members to retain discretion as to the specific enforcement of these rules. Although there is a suggestion in TRIPS to extend the border measures to cover exports, it does not expressly provide for how that should be done. One can question whether there are “prompt and effective provisional measures to prevent IPR infringements”. Are the current awards on damage to goodwill adequately preventing counterfeiting? Further, the mandatory criminal sanctions appear to be limited to cases of wilful trademark counterfeiting or copyright on a “commercial scale”. Albeit an interesting discussion, it is beyond the remits of this Thesis to analyse the efficiency of TRIPS.

4.2 - TRADEMARK INFRINGEMENT

4.2.1 - CIVIL LAW

The significance of creating a legal system that recognises the purposes of trademark protection is of paramount importance in today’s ever expanding global commercial environment. The Commission has recognised this and has declared that “Europe depends on powerful brands. This requires strong trademark protection that is effective against improper licensing, non-use, or infringements”.\(^\text{38}\) When counterfeit goods are sold on the market, it is treated in European law under the provisions of trademark infringement. To fully appreciate the legal system concerning trademark infringement I will briefly explain the legal structure of the courts below.

4.2.2 - LEGAL STRUCTURE

Further, recitals 2 and 4 of the Directive explain that the intention of the Directive is to ensure the harmonisation of the functioning of the internal market in respect of the substantive law. Provisions relating to unfair competition, civil liability and consumer protection are not intended to be affected by the Directive. It is important to note that the Directive, which has been fully

implemented by all the member states, concerns national trademarks. The Regulation for community trademarks (“CTM”) is applicable to the registration, revocation and invalidation procedures of a CTM. Infringement proceedings are dealt with by the “Community trade marks courts” designated by the Member States. These two regimes of: on the one hand the member states’ trademark legislation harmonised by the Directive, and on the other hand the Regulation and OHIM, must be regarded as separate systems running parallel.

Thus, a decision by the OHIM is by no means binding on the national courts concerned with a national trademark. Likewise, a decision by a national court will not bind OHIM or the CTM courts. Decisions and referrals to the Court of Justice can be made from both regimes.

4.2.3 - LEGAL RIGHTS TO THE TRADEMARK

In Article 2 of the Directive, it is stated that:

'A trade mark may consist of any signs capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings."

Once a right holder has a trademark registration, it is by far easier to claim trademark infringement of a counterfeit product. Although there are countries, such as Sweden, that recognises a right by use, such right is rather difficult to prove. The claimant to such right must then often produce extensive use evidence including:

(1) Evidential materials illustrating the use of the referenced mark, the time scales thereof and whether there are others using the referenced mark in the market.
(2) The sales and market shares of the goods or services.
(3) Advertising quantity, advertising expenses and promotion materials.
(4) Sale regions, market distributions, sale locations and the areas of exhibition.

39 Art.95, 96 and 97 of the Regulation.
40 Identical provision is to be found in Article 4 of the Regulation.
(5) Other materials that prove the referenced mark distinctiveness.

The evidence of use must relate to the area in which the trademark infringement is claimed.

In Recital 2 of the EC Council Regulation on infringing goods\(^{41}\) (“Infringing Goods Regulation”), it is emphasised how the marketing of counterfeit and pirated goods does “considerable damage to law-abiding manufacturers and traders and to right-holders”. The objective is that such goods should “in so far as is possible, be kept of the market...” So, how does one in practice keep such goods off the market? Industrial companies keep a close eye on the market for trademark infringements but often fail to acknowledge the underground trade of counterfeit products being sold right under their noses. One needs to remove “the rose tinted glasses” to fully grasp the reality of the counterfeit trade. Once one has accepted that it is out there both in the physical market place and cyber space, a firm action plan must be drawn up involving not only the lawyers but also the sales and marketing departments and the production departments. The management should bear the responsibility for disseminating this information throughout the organisation with the assistance of the lawyers.

4.2.4 - IDENTICAL MARKS AND IDENTICAL GOODS

The law is of course the main ingredient in reclaiming rights in a counterfeit case. Where identical counterfeit goods are discovered bearing an identical national trademark to the genuine products, the trademark owner can claim infringement of the national law (which has implemented the Directive) or the Regulation. In Article 5(1)(a) of the Directive, the owner of a trademark with an identical mark and identical goods has the right to prevent third parties from using such marks in the course of trade (provided that no prior consent to such use has been given). This relates to the straight forward cases of counterfeiting. The meaning of identical has been held by the ECJ to cover a trademark if:

\(^{41}\) EC Council Regulation 1383/2003 concerning customs action against foods to have infringed such rights.
“it reproduces, without any modification or addition, all the elements constituting the trademark or where, viewed as a whole, it contains differences so insignificant that they may go unnoticed by an average consumer”.42

Thus differences in capital or small letters or typeface will not alter a finding of identical marks unless the typeface changes the overall appearance to that of a figurative mark. A difference in just one letter could be enough for the finding of a non-identity.43 As regards the regime relating to a CTM, the OHIM states in its Opposition Guidelines that for the purposes of assessing identity, the notion of likelihood of confusion does not need to be established as it is “irrebuttably presumed”44. OHIM points out that:

“It is sometimes said that in these situations confusion is inevitable because both the signs and the goods in dispute are identical, as the public will be in no position to distinguish between the marks”.45

This notion of presumed likelihood of confusion can be traced back to TRIPS.46 The meaning of identical goods may be interpreted more generously it would appear. The authors Bentley and Sherman point out that even where the earlier mark covers a broader description of goods which includes the later mark’s goods, it should be considered to be identical goods.47

4.2.5 - IDENTICAL MARKS AND SIMILAR GOODS

Under the TRIPS agreement, for a product to be “counterfeit trademark goods”, the marks must be identical. The definition under TRIPS indicates that the goods must be of the “same type” as
those that the genuine trademark is registered for. The Council Regulation (EC) No 1383/2003\textsuperscript{48}, defines “goods infringing an IPR” as:

(a) “counterfeit goods”, namely:

(i) Goods, including packaging, bearing without authorisation a trademark identical to the Trademark validly registered in respect of the same type of goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the trademark-holder’s rights under Community law, as provided for by Council Regulation (EC) No 40/94 of 20 December on the Community trademark or the law of the Member State in which application for action by the customs authorities is made;

(ii) Any trademark symbol (including logo, label, sticker, brochure, instructions for use or guarantee document bearing such a symbol), even if presented separately, on the same conditions as the goods referred to in point (i);

(iii) Packaging materials bearing the trademarks of counterfeit goods, presented separately, on the same conditions as the goods referred to in point (i)\textsuperscript{49}

It would seem that when the marks are identical but the goods are not identical, but rather similar, an assessment under Article 5(1)(b) of the Directive must be performed. This would involve considering the overall impression of the mark and whether there is likelihood of confusion (including likelihood of association) from an average consumer’s point of view.\textsuperscript{50} The threshold for establishing likelihood of confusion in the English courts is rather low as it is assessed by asking whether one can reasonably say that a likelihood of confusion \textit{could not} be created by

\textsuperscript{48} Article 1(a) of Council Regulation (EC) 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights”.

\textsuperscript{49} Please note that the definition of (b) “pirated goods” and other definitions have been omitted as it is not relevant in this Thesis.

\textsuperscript{50} Case C-251/95, Sabel v Puma [1997] E.C.R. I-6191.
considering the overall impression.\textsuperscript{51} The test of confusion relates to the trade origin and must include the likelihood of association with the earlier trademark. According to ECJ case law, the average consumer must draw the conclusion that the products originate from the same undertaking or that there is an economical link between the undertakings.\textsuperscript{52} For the purposes of industrial companies, it would be assessed whether the average customer in the field would be confused as to the commercial origin.

\section*{4.3 - EXTENDED PROTECTION FOR REPUTED TRADEMARKS}

\subsection*{4.3.1 - PREREQUISITES}

Many multinational industrial companies have trademarks that are reputed within its circle of customers in a country or in a particular region. Sandvik owns many trademarks that are well recognised by customers within the fields it operates. However, even though the company name Sandvik and its trademark SANDVIK is well recognised in Sweden, it does not mean that it will be so everywhere in, for example, China or India. The Directive does not specify what is meant by a reputed trademark.\textsuperscript{53} As with cases of double identity, in the assessment concerning trademarks with reputation it is not necessary to prove a likelihood of confusion. Trademarks with reputation can even go further and prevent others from using the same trademark for \textit{dissimilar} goods.\textsuperscript{54} However, for the purposes of counterfeiting, we are concerned with goods and services that are so similar that they could be confused as coming from the same company.

In order for a claimant to be successful in a claim under Article 5.2 of the Directive the following requisites must be established:

1. reputation of the earlier registered trademark; and
2. that the use of the later mark would take unfair advantage of the distinctive character or repute of the earlier trademark (free-riding); or is detrimental to the distinctive character (dilution) or the repute of the earlier mark (tarnishment); and

\textsuperscript{53} Note that the meaning of reputed is not actually the same as in Art. 6bis of the Paris Convention. The WIPO Recommendation of Protection of Well-Known Marks provide a little more guidance in Art.2.  
\textsuperscript{54} Art 5.2 and Art 4.3 of the Directive and Art 9(1)(c) Regulation, Art.16(3) TRIPS.
3. such use is without due cause.

4.3.2 - REPUTATION

In the *Cheyv* case\textsuperscript{55}, the ECJ stated that for a national trademark to have reputation the trademark must be known in a substantial part of the member state concerned. The trademark “CHEVY” was registered by General Motors Corporation (“GMC”) in the Benelux countries. The registration covered inter alia motor vehicles. Yplon SA registered the mark “CHEVY” in 1988 in the Benelux countries for detergents and other cleaning products. GMC sought to restrain the use by way of injunction of “CHEVY” by Yplon SA. GMC argued that the use of “CHEVY” by Yplon lead to a dilution of its own trademark and that it damaged its advertising function. Yplon tried to rely on a defence that GMC had not been able to prove that its trademark had reputation in the Benelux countries. The court further held that it would suffice if a “significant part“ of the relevant public knew about the mark\textsuperscript{56} This could for example mean the public at large or a specialised sector.\textsuperscript{57} Although the ECJ did not elaborate on this definition it listed the following pieces of evidence that were relevant when assessing reputation: (1) the market share of the claimant in the particular goods or services; (2) the extent of use of the mark; (3) geographical scope; (4) duration of use; and (5) promotional and advertising investment.

As regards CTM:s, it would be sufficient for a trademark owner to establish reputation in a substantial part of the European Community.\textsuperscript{58} and one member state could be regarded as a substantial part.\textsuperscript{59}

This extended protection may be used to prevent similar goods. The ECJ introduced a requirement of having to establish a link in the case of *Adidas/Fitnessworld*.\textsuperscript{60} Adidas owns the figurative registration of three stripes that are typically placed on sides, shoulders, sleeves, legs and side seams of garments. The ECJ laid down a test where in order to prove infringement under

\textsuperscript{55} C-375/97, General Motors Corp. v. Yplon S.A., [1999].
\textsuperscript{56} Supra at paragraphs 12 and 26.
\textsuperscript{57} Supra at paragraph 24.
\textsuperscript{58} Case C-301/07, Pago international GmbH v Tirolmilch registrierte Genossenschaft mbH, Judgment of 6 October 2009 at paragraph 30.
\textsuperscript{60} Case C-408/01 2004 E.C.R. I-12537 Adidas v. Fitnessworld.
Article 5(2), a link must be established in the minds of the consumer between the reputed mark and the alleged infringing sign.

4.3.3 - UNFAIR ADVANTAGE OR DETRIMENT

It is not difficult to see how it would be regarded as taking unfair advantage of a reputed trademark to imitate an already established genuine trademark on the market. Proof of risk of detriment appears to require evidence of a change in the economic behaviour of consumers resulting from the use of the later mark (or a serious likelihood of such change). In the Intel case\textsuperscript{61} an action was brought under Article 4(4)(a) of the Directive for invalidity based on reputation of an earlier registered trademark and the corresponding provision under the infringement provision under Article 5(2) of the Directive. Intel sought to claim a generous protection by arguing that a link by way of a mental association would be sufficient for a finding of infringement. The ECJ decided that if the earlier mark is brought to mind when seeing the alleged infringing mark it would be sufficient to establish a link, but it must also be proved that the alleged infringing sign has taken unfair advantage of or caused detriment to the earlier mark. The ECJ further held that to prove detriment, the claimant must show that there has been a change in the economic conduct of consumers. This idea of change in consumer behaviour is by no means a new concept and can be found in the Directive on misleading and comparative advertising\textsuperscript{62} (the “Misleading Advertising Directive”) where it explains misleading advertising as “….likely to affect their [persons to whom advertising is directed] economic behaviour”.\textsuperscript{63}

It can be a rather complex task for a trademark owner to adduce market evidence that one has a reputed trademark, but it seems even more difficult to actually prove that there has been a change in the conduct of consumers. Even where it could be said that clients are purchasing the fake product instead of the genuine product, to what extent must there have been a change?

The ECJ did not lay down any clear guidelines on how this is supposed to be done. Many trademark owners invest a vast amount of time and financial resources in: (1) targeting a

\textsuperscript{62} Directive 2006/114/EC concerning misleading and comparative advertising.
\textsuperscript{63} Supra Misleading Advertising Directive Article 2(b).
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competitive product to put into commercial circulation; (2) finding the right trademark; and (3) building and maintaining its reputation. Through investment in marketing and advertising, the trademark has then acquired reputation. Some commentators have, however, welcomed the ECJ’s new test on consumer behaviour in the *Intel* case as it clarified the concepts of detriment and unfair advantage.\(^{64}\)

Although, how one in practice manages to produce evidence of an effect on consumer behaviour is not so clear. Will it be sufficient to provide sales figures? If so, how does one go about proving that a decline in sales figures is in fact due to the detriment or unfair advantage taken by the defendant? Some question the extended protection for reputed marks. One commentator argues that it was “certainly not meant as a “fits all cases” legal claim. It should be viewed as a unique legal tool to be used only in an unusual case.”\(^{65}\) Confusingly the ECJ in the L’Oréal case paid no notice of the change of consumer test derived from *Intel*. The answer of which approach to follow must lie in the facts of each particular case. It should be noted that a global assessment where all relevant factors to the circumstances of the case are taken into account.\(^{66}\)

Detriment can be in the form of blurring where the earlier reputed trademark is diluted by losing its identity and the ability to indicate origin. Detriment by tarnishment is more concerned with the actual damage to the brand image of the trademark. If the mark used stirs up negative images in the mind of consumers, it is more likely that there is detriment by tarnishment. In the *Elleni* case, detriment by tarnishment was described as use of a reputed trademark in an "unpleasant, obscene or degrading context, or on the other hand, in a context which is not inherently unpleasant but which proves to be incompatible with the trade mark’s image."\(^{67}\)

As regards a claim for unfair advantage, the ECJ has stated that there must be some benefit taken from the reputed mark.\(^{68}\) To avoid opening up the floodgates to even the remotest claims of

\(^{66}\) C-252/07, Intel Corporation Inc v CPM United Kingdom Ltd [2008] ECR I-8823 at paragraph 68.
\(^{68}\) *Intel* [2009] E.T.M.R 13 at paragraphs 36 and 78.
unfair advantage or detriment, the claimant must also establish that there is a serious future risk of unfair advantage or detriment.\(^69\) It is not difficult to see that a claimant could, rather vaguely, put up a successful argument of a “future risk”. Therefore, the court has also, wisely, included that such risk must not be hypothetical but presented by way of proper evidence and argument.\(^70\) However, in situations where the reputed trademark is highly reputed, there is a possibility that unfair advantage or detriment could be presumed.\(^71\)

### 4.3.4 - COUNTERFEITING AND UNFAIR ADVANTAGE

In the case of counterfeit products, the criteria laid down by the ECJ in L’Oréal would be fulfilled. Take the example of a counterfeit drill with a similar appearance to a genuinely established product on the market marked with an identical trademark. There is similarity of goods and mark and there would be no doubt that such products were created with the intention of furthering marketing of the imitations i.e. counterfeit goods.

In the subsequent case of L’Oréal v Bellure,\(^72\) whilst the ECJ acknowledged the *Intel* case, it nevertheless decided not to apply the further requirement of having to prove a change in consumer behaviour.\(^73\) Taking unfair advantage was regarded as “clear exploitation on the coat-tails of the mark with a reputation”.\(^74\) The concept of unfair advantage is far from clear to apply in practice but the ECJ made an attempt at facilitating the evidential procedure by stating that an overall assessment must be carried out and the stronger the reputed mark being brought to mind by the sign, the more likely it is that unfair advantage has been taken of the reputed mark.\(^75\)

The defendants, Malaika and Starion sold packaging and bottles that were similar to the reputed marks registered by L’Oréal. Bellure NV produced imitations of the fragrances sold by L’Oréal and others. The reputed trademarks TRÉSOR, MIRACLE, NOA NOA and ANAÏS ANAÏS were registered in the UK by L’Oréal. The ECJ stated that it was apparent that the similarity between

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70 Supra; and C-67/04, SPA-FINDERS, at paragraph 34.
71 Case T-215/03, 22 March 2007, CFI at paragraph 48.
72 Case-487/07, L’Oréal v Bellure and others, Judgment 18 June 2009.
73 Supra at paragraph 37-39.
74 Supra at paragraph 42.
75 Supra paragraph 44.
the marks and the products was created with the intention of furthering marketing of the imitations. Therefore, the ECJ held that a commercial advantage had been taken by the defendants. The ECJ, decided that there can be an infringement under Article 5(2) on the basis of unfair advantage without having to establish detriment.

4.4 - SANCTIONS

4.4.1 - INTERIM MEASURES

Where the case is urgent to stop ongoing infringement, preliminary measures such as interim and ex parte injunctions, can be applied for in the national courts. In Sweden, an application for preliminary measures can be tried within 48 hours as they are tried on a summary basis. In terms of goodwill protection, the right holder will be successful where the right holder can persuade the court that:

1. there is probable cause for infringement; and
2. it can be reasonably assumed that the value of the trademark risks being diminished if infringement continues.

Once it has been established that there is an infringement, the right holder can also ask for an injunction against further infringement. The ECJ solved a conflict between Swedish national law and European law in the case of Nokia Corporation v Wärdell. Nokia Corporation had brought proceedings against Joacim Wärdell seeking an injunction against further use of the signs NOKIA. Flash-sticker had been attached to mobile phones featuring the NOKIA trademarks. The stickers contained light-emitting diodes that flashed every time the phone rang. These signs were held to be confusingly similar to NOKIA:s national- and CTM registrations. When the action was initiated by NOKIA, the infringing stickers had been destroyed. Even though the Stockholm District Court allowed the injunction, it was subsequently set aside by Svea Court of Appeal on the grounds that NOKIA could not prove that there was a risk of future infringement by Wärdell. The infringement had ceased and there was no evidence of past repeated infringement by Wärdell. The national provision under the Swedish Trademark Act stated that “The court may upon application by the proprietor of the mark, prohibit the person committing the

76 Case C-316/05 judgment rendered 14 December 2006.
infringement….from continuing the infringement”77. As the wording is “may”, it would seem that it is within the court’s discretion to grant an injunction.

However, according to Article 102 of the Regulation, it is stated that a Community trademark court (once infringement has been established): “shall, unless there are special reasons for not doing so, issue an order prohibiting the defendant from proceeding with the acts which infringed or would infringe the CTM.” According to the Regulation, the national court would be obliged to issue an injunction unless there are special reasons for not doing so. It does not appear to put the burden of proof on the claimant to prove that there is a likelihood of future infringement. The ECJ delivered a blunt answer and stated that once infringement had been proven, there was a clear right to an injunction unless there are special reasons for not doing so. These special reasons should be interpreted strictly and only be allowed in exceptional circumstances. It reasoned that it would otherwise create uncertainty in the legal interpretation between the national courts in Europe. The aim is to strive for a uniform interpretation.

In an article by Henrik Wistam, the author welcomes the judgment and states that “the ECJ is underscoring the precedence of EU legislation over national legislation...and the need for an autonomous and uniform interpretation of Community trademark law”78. However, he points out that it remains unclear as to what amounts to “special reasons”. Since the ECJ:s decision in NOKIA, Swedish courts seem to have applied the principle that a final injunction can be granted once infringement has been established and that there is no need to prove a likelihood of future infringement.79

4.4.2 - CUSTOMER BOARDER MEASURES

Infringing articles often come from other countries than the country in which the industrial company has its head office. A preferred alternative is therefore to prevent the infringer from producing the counterfeit goods at the point of origin. There is also the option for a company of having the counterfeit goods seized by the customs authorities in the country of import. The

77 37(b) §Varumärkeslagen 1960:644.
TRIPS Agreement, Articles 51 and 52 require that the members implement such measures. Customs authorities and Interpool seek to work together in the battle against counterfeitters. Customs authorities may exercise rather extensive enforcement rights under the Infringing Goods Regulation. The Infringing Goods Regulation is of great assistance for any claimant looking for a swift and efficient remedy concerning an EU member state. It does not affect the member states’ provisions on the judicial procedures or the competence of the courts. Therefore, as stated previously, any claims of trademark infringement will be determined under national law. There is the possibility of avoiding litigation and right holders can apply for the infringing goods to be destroyed. Preamble 10 sets out the objective of the Infringing Goods Regulation and states that the measures laid down to deal with counterfeit goods should:

“not only deprive those responsible for trading in such goods of the economic benefits of the transaction and penalise them but should also constitute an effective deterrent to further transactions of the same kind”

Customs authorities are permitted to act on goods suspected of infringing an intellectual property right when such goods “are entered for release for free circulation export or re-export” and when such goods are found “during checks on goods entering or leaving the Community customs territory”. A traveller’s personal luggage can even be checked provided that there is an indication that the traveller is in possession of counterfeit goods of “commercial nature”.

Upon a right holder’s notification to the customs authorities, the goods suspected of infringing IPR may be detained for a period of three working days from the receipt of the notification whilst the right holder submits an application for action. The bonus for right holders of a CTM is that a request can also simultaneously be made to other customs authorities in other member states. It should be noted that only registered CTM:s can form the basis for an application in multiple

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82 Preamble 10 supra.
83 Article 1(1)(a) supra.
84 Article 1(1)(b) supra.
85 Article 3(2) supra.
86 Article 4(1) supra.
jurisdictions. In terms of quickly stopping leaking to goodwill, one can see how this option is particularly efficient. However, should it subsequently be apparent that the goods are not infringing an IPR, the right holder must assume liability for the wrongful action.\footnote{87 Article 6 supra.} A negative point about this action is that the right holder agrees to pay for the costs in keeping the goods under customs control. This could mean months or even years before an action for trademark infringement is decided. A right holder with limited funding may instead choose not to use the customs boarder measures. However, where the counterfeiter does not object or contest to an application for the destruction of the goods\footnote{88 Article 11 supra.}, there will be no need to prove infringement of an IPR and thus no cost for the detainment of goods will be incurred.

\subsection*{4.4.3. – QUICK RELIEF}

Normally, the aggrieved party in a counterfeiting case is mainly concerned with preventing the circulation of the counterfeit products, the question of damage to goodwill is not raised during trial. One could however point out that having the products swiftly destroyed, in import cases serves to protect the goodwill in the trademark much better than when the aggrieved party is drawn into lengthy infringement proceedings where damage has already been done and is continuing.

In the recent Swedish case of Samsung in Stockholm District Court\footnote{T 6438-10 of 9 September 2010.}, Mr Akil Alkatib, tried to import 50 mobile battery charges and 50 travel chargers marked with the CTM “SAMSUNG” belonging to Samsung Co Ltd. Samsung argued that the imported products infringed its trademark rights under Swedish Trademark law\footnote{4 § Varumärkeslagen 1960:644.}. The Swedish District Court ruled that:

1. the counterfeit products confiscated by customs (under the Council Regulation 1383/2003) should be destroyed;
2. a fine of 100 000SEK would be payable if Mr Akil Alkhatib imports, markets or sells products market with any of the trademarks owned by Samsung Electronics Co Ltd; and
3. the trial costs must be paid by Mr Akil Alkhatib.
As the defendant Mr Akil Alkahatib did not respond to the claim, the court could take the decision to have the products destroyed.

4.4.4 - SEIZURE

Not surprisingly, the bulk of the articles seized in 2006 had its point of origin in China. Over 43,000 cases of fake goods were reported in 2007 at EU:s external border.\(^91\) and more than 79 million articles were seized at EU borders in 2007.\(^92\) About ninety per cent of the cases involved infringements of a trademark.\(^93\) Most of the articles are DVD:s and CD:s and electrical equipment/computer equipment and shoes. Articles such as machine and machine tools counted for 57 of the cases and 239 cases involved vehicles including accessories parts.\(^94\)

4.5 - UNFAIR COMPETITION

4.5.1 - EUROPEAN LAW

Many European countries afford protection to traders for unfair commercial practices. England refers to a law in tort; “passing off” and Germany has a special Act named German Act Against Unfair Competition. According to the Article 10\(^{bis}(3)\) of the Paris Convention member states are supposed to implement “effective protection against unfair competition” and the following acts are unfair:

“1. All acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;
2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;

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\(^92\) The Anti-Counterfeiting Trade Agreement Fact Sheet 2009, European Commission Trade at p.5.
\(^93\) Report on EU Customs Enforcement of Intellectual Property Rights, European Commission, Taxations and Customs Union, Results at the EU Border 2009 at p.17.
\(^94\) Customs Union, Results at the EU Border 2009 at p.22.
3. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.”

The protection has been extended in some countries to cover also, slavish imitation, misleading advertising and dilution of another trader’s indications. The marketing of counterfeit material in a manner that causes customers to confuse them with the original is a form of misleading marketing under the European Directive. The Unfair Commercial Practices Directive regulates business-to-consumers although recital 8 suggests that more extensive protection should be provided in the field of unfair competition “if necessary”. It recognises that there are other commercial practices that could “hurt competitors”. The Commission is urged to “examine the need for Community action in the field of unfair competition beyond the remit of this Directive”. The laws on unfair competition vary between the member states and to quote Bentley & Sherman: “…European harmonisation also appears unlikely in the near future, though in the longer term European harmonisation of consumer protection law may pave the way for the introduction of a parallel regime of business regulation.”

The Directive 2006/114/EC on misleading and comparative advertising that protects traders against misleading advertising has in Sweden been implemented under Marknadsföringslagen 2008:486 (the Marketing Act). The Swedish Marketing Act protects consumers and traders. An aggrieved trader can make a claim for misleading advertising if a counterfeiter is using the Internet or other media to mislead customers.

Sandvik has had several cases where traders are using Sandvik’s registered trademarks on Internet sites giving the false impression that the trader is selling products made with Sandvik material. Where this concerns Sandvik’s knife steel, the advertising is directed both to customers, knife makers and consumers. Consumers may purchase the knives directly from these websites.

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95 WIPO, Protection against Unfair Competition (WIPO Pubn.725(E)) (1994).
and knife makers may also purchase the cold rolled stripped knife steel from the counterfeiter. Provided that the trader has not purchased genuine Sandvik steel from an authorised distributor of Sandvik, the trader is not only infringing Sandvik’s trademark but also misleading customers and other traders as to the true origin of the steel. Although Sandvik does not directly sell to the end-consumers, the goodwill of the company Sandvik and its trademarks will be affected where the goods are shown to be counterfeit. Should the knife steel come into bad reputation due to counterfeit material, consumers are not going to purchase the hunting knives marked with SANDVIK 12C27. This would lead to fewer sales to knife manufacturers of Sandvik’s knife steel. Therefore, Sandvik is heavily involved in ensuring that counterfeit material is not circulating on the market. Also, some knife manufacturers do not have the resources nor the finances to follow up on counterfeiters.

4.5.2 - RELATION BETWEEN ACTIONS FOR TRADEMARK INFRINGEMENT AND UNFAIR COMPETITION

In Sweden, misleading marketing is actionable under the Swedish marketing laws.\textsuperscript{100} It should be noted that a counterfeit product with an infringing identical trademark is actionable under trademark laws as well as under the marketing laws. However, in Sweden the Marketing Court (“Marknadsdomstolen”) will not rule on whether a misleading act under the law could be said to infringe an intellectual property right.\textsuperscript{101} An aggrieved party must initiate two proceedings if it wants to bring an action for both trademark infringement and misleading marketing. Quite understandably, due to costs and other factors such as administrative burden and time, parties opt to bring only one action. One could certainly question the adequacy of protection in counterfeit matters where two separate actions must be brought to claim trademark infringement under the Swedish Trademark Act and infringement of unfair competition under the Swedish Marketing Act. The author Ulf Bernitz holds that such possibility of accumulating both claims in one action would be practical.\textsuperscript{102} Such possibilities do exist in other Scandinavian countries such as Denmark and Norway.

\textsuperscript{100} 8 § Marknadsföringslagen 2008:486.
\textsuperscript{101} Please refer to for example: MD 1988:6, Klorin I, MD 1995:23, Kupolhus, MD 2001:12, Eldflugan.
\textsuperscript{102} Immaterialrätt och otillbörlig konkurrens, 9:e upplagan, Ulf Bernitz, Gunnar Karnell, Lars Pehrson, Claes Sandgren, published by eddy.se.ab 2005 at p.291.
4.6 - CRIMINAL LAW

In some member states, possession of counterfeit goods is punishable under criminal law.\textsuperscript{103} In Sweden, a criminal prosecution can be brought under the Swedish Trademark Act, where it can be proved that an infringement was wilful or grossly negligent. It is rare that a criminal prosecution is brought and the prosecution must be in the public interest. An aggrieved party may file a complaint with the police or directly with the public prosecutor. The punishment for criminal infringement is a fine or imprisonment of up to two years. Even preparations or attempted infringement is covered by the law. Where a complaint has been made by the aggrieved party and where the prosecution will be in the public interest, the prosecution may be brought by the public prosecutor. The threshold of “public interest” results in very few prosecutions.

In the past, the trademark owners were unable to retrieve the contact details of the recipient of counterfeit goods. This lead to a request for interpretation in the ECJ on 14 October 1999 in the Adidas judgment\textsuperscript{104} where it was held that any national legislation that prohibits the disclosure of contact details of any entity or person trading in counterfeit goods is unlawful and goes against EU law. These rules are also applicable to goods in transit i.e. goods that have not yet arrived at the final destination.

4.7 - PRODUCT LIABILITY

Although the aim of this Thesis is not to elaborate on product liability, it should be mentioned as there is a link between product liability and goodwill. Commercial counterfeiting has been in the spot-light in relation to products causing threats to health and safety. Non-conforming substandard products that have posed health and safety concerns include:\textsuperscript{105} parts intended for use on the F-4 fighter plane and the Chapparall and Lance missile systems; brake diaphragms of low quality used on a bus; parts for helicopters in military fleets for Britain, Germany, France, Belgium and the US. Also, the medical industry has been flooded with potentially lethal medicines.

\textsuperscript{103} For example Sweden, France, Italy.
\textsuperscript{104} C-223/98 (Adidas).
Let us imagine that a third party puts into circulation, hunting knives made of fake steel of poor quality by a counterfeiter. The knife blade is marked with Sandvik 12C27. An end consumer purchases the knife and when using the knife, a piece of the knife blade is chipped off and damages the left eye of the end-consumer. Under existing laws on product liability\textsuperscript{106} Sandvik would not be liable for such damage as the knife blade does not originate from Sandvik and Sandvik has not put such knife blades into circulation. However, this poses real problems as there is the risk that consumers and customers start associating Sandvik’s knife steel with negative connotations. Until the knife steel has been tested and analysed, the goodwill of the trademark SANDVIK and of its trademark SANDVIK 12C27 will be in jeopardy. Financial damage may already have been inflicted in the form of lost sales. Even where it is clear that it was not Sandvik steel, end consumers start hesitating in purchasing knives marked with SANDVIK 12C27 for fear of purchasing counterfeit. Further, the possibility for Sandvik to market and sell other products unrelated to the knife steel could be dampened by the uncertainty of customers regarding the quality of Sandvik’s products.

4.8 - ACTA

It was back in 2006 that Japan and the United States decided to battle the counterfeit trade and to implement a mutual system of sanctions. Subsequently, the EU, Canada and Switzerland were invited into the discussions. As the discussions turned into official negotiations the following countries were added to the exclusive list of invitees: “Australia, Mexico, Morocco, New Zealand, Singapore and South Korea. An “Action Plan” was signed on 30 January 2009 to improve co-operation between EU and China. It was implemented in April 2009 and focuses on 4 key-areas: (1) seizures of goods; (2) creation of network of ports and airports targeting high risk consignments; (3) better co-operation with other enforcement authorities; (4) partnerships between business communities in China and the EU. The purpose of the ACTA agreement focuses on civil and criminal sanctions, how to draw boundaries and sanctions in a digital environment. The key to this is international co-operation and the deterrence of counterfeiting and piracy goes to the heart of the negotiations. The contracting states agree to synchronise their

laws in accordance with what is agreed. The goal has been to have a finalised agreement sometime during 2010. Stefan Johansson, responsible for the ACTA negotiations under the Swedish Chairmanship of the EU, explains that there is an intention that ACTA will be applicable also on the Internet.\textsuperscript{107} In the ACTA document it is stated that focus will be on counterfeiting and pirate copying that substantially affect commercial interests. It would seem though that it is a difficult task to unite the wishes of all parties involved in the negotiations. Stefan Johansson has explained that there are a diversity of opinions as regards the calculation on damages and whether or not there should be punitive damages. There is however, a consensus to exclude patents from ACTA.\textsuperscript{108} It remains to be seen as to how effective the ACTA will prove to be in practice.

\textbf{V - DAMAGE TO GOODWILL}

\textbf{5.1 - QUANTIFYING LOSS}

To accurately appreciate the total damage of counterfeiting to a company, it would be necessary to calculate the damages taking into account the short term, medium term and long term damages. It should also be included any past or pending compensations. Dr Hans Joachim Fuchs and Dr Shuqin Zhou points out the lack of awareness in management boards of the cost benefit analysis of IPR protection.\textsuperscript{109} They suggest the following formulae to calculate the total damages that results from counterfeiting:

\begin{equation}
\text{COST FOR PROTECTION IN THE PERIOD (to-tX) MINUS COMPENSATION} <= \text{CURRENT LOSS IN TURNOVER} + \text{LOSS OF MARKETSHARE} + \text{BRAND DAMAGE + LIABILITY}
\end{equation}

The authors argue that the results of such calculations often illustrate that the damages due to counterfeiting may be tenfold higher that the costs of IPR protection. It should however be noted that, the factual damage to goodwill is anything but a straightforward numerical calculation. In

\textsuperscript{107} Dagens Nyheter, Hans Rosén, 16 October 2009.
\textsuperscript{108} SFIR möte, Stockholm, 23 August 2010.
\textsuperscript{109} Ibid ”The Efficiency of Counterfeiting”.
my view, the above formulae should therefore be used as a guide rather than a strict reference point. In order to mobilise sufficient internal resources to get to grips with counterfeiting, the management may need some ball point figures on actual and potential damage. Unfortunately, such task is akin to “mission impossible” in an international company without a universal definition of “goodwill”. Professor Dr. Bojan Pretnar explains that the global economy strengthen the value of trademarks and will require a global approach in infringement litigation. He stresses that “a universal interpretation of what is goodwill – and what is not – will soon become a “must”.

He further suggests that WIPO initiates such approach in the WIPO Standing Committee on Trademarks.

There is no hard and fast rule on how to calculate goodwill and the damage is often calculated low in the Swedish courts. Professor Marianne Levin asserts that damage to goodwill can also be regarded as a humiliation of integrity. She therefore proposes a further sanction that judgment of trademark infringement should be published to deter from counterfeiting.

Due to the diversity of methods of calculating loss to goodwill, it appears that it would be unwise to stipulate anyone method. WIPO, for example sets out a variety of methods in estimating the value of intellectual property in general. It is proposed that factors such as gross profit differential, excess profits and the relief from royalty should be examined. Claes Granmar has recognised the difficulty of stipulating one single method for estimating “a trademark specific economic goodwill value”. He points out that the International Accounting Standards Board has not approved any one method and asserts that even if:

“an infringement is normally remedied by damages, this does not necessarily imply that the amount corresponds to a quantifiable damage of valuable meaning associated with the trade mark.”

110 Professor Dr. Bojan Pretnar, NIR, No.6, p.2004 at p.515.
113 Granmar Claes, Trade mark Paradoxes in European Brand Competition, Doctoral dissertation, European University Institute 2010 at paragraph 3.2.3.
114 Ibid.
Claes Granmar further suggests that punitive damages may be a way of overcoming the obstacles in establishing the effects of the value of a trademark as a result of a third-party use. Federal law in the US enables the courts in the US to award punitive damages. These punitive damages are separated from compensation for actual damage. Then one may of course wonder how exactly such punitive damages ought to be awarded in the case of goodwill. Is the damage to goodwill regarded as an outright abuse and as such must be punished? That would of course entail an examination of the degree of the abuse. The infringing company could then be awarded, say, threefold the normal compensation just for the fact that the infringement was particularly severe due to its intentional or reckless character. This approach certainly ought to be considered for the sake of providing more certainty into the assessment of the compensatory elements in a counterfeiting case.

5.2 - RELATION BETWEEN GOODWILL AND ADVERTISING FUNCTION

5.2.1 - FUNCTIONS OF A TRADEMARK

How is goodwill connected to the functions of the trademark? Law and economy should be considered together when assessing essential functions of a trademark. Professors Cornish and Llewelyn maintain that one can distinguish the purposes of a trademark as: (1) indicating origin; (2) guaranteeing expectations of quality; and (3) protecting investment or advertising. As seen above under (1), one of the functions of a trademark is to guarantee the commercial origin of the product linked to the trademark. However, by “guarantee function” one can also mean the actual quality of the product (under (2)). Professor Per-Jonas Nordell emphasises that the guarantee function can mean quality and refers to the decision in Hoffman-La Roche where it was indicated that there was a connection between the commercial origin function and the guarantee function. Further, it has been argued by Ann-Charlotte Söderlund, established lawyer in the field of IP law, that there is a connection between the level of goodwill and the strength of the guarantee function of the trademark i.e. the expectations by consumers. In the situation of

116 Case: 102/77 (Hoffman-La Roche) p. 6–7.
117 Professor Per Jonas Nordell, "Om varumärkets funktioner i ljuset av EU-domstolens avgöranden i Mål C-487-07 (L’Oréal) och de förenade målen C-236/08-C-238-08 (Google)", NIR, 3/2010 at p.264.
industrial companies selling to manufacturers there are no immediate consumers but the concept of a guarantee function would be as applicable to the customer companies. Any marketing and commercial advertising applies to Sandvik’s immediate customers as well as the customers/consumers purchasing products made from Sandvik’s customers. By way of example, Sandvik sells steel strip to various knife manufacturers around the world. Consumers and other customers purchase the finished article, the knife, much due to its good quality and reputation of the Sandvik steel strip.

5.2.2 - RELATION BETWEEN DAMAGE AND ABUSE

Ann-Charlotte Söderlund categorises products that are expected to perform according to a certain standard and where consumers may not readily examine the quality as “group 3” products. She argues that the guarantee function for such function is higher than for products that are not normally dangerous and where the quality can be easily examined, such as clothes (“group 1 products”). In group 2 you would find products that are mainly protected by copyright and where a consumer purchases the CD expecting the actual singer to sing on the CD. For the purposes of this Thesis, we are concerned with products in group 3. If there is even a hint of suspicion that the products in group 3 could be faulty, it is highly unlikely that any customers or consumers would purchase the products. It leads us to the conclusion that the fact that the customers/consumers are duped into purchasing the knives (because they are marked with “SANDVIK 12C27”) is an outright abuse of goodwill.

However, could it be said that the total estimated value of the damage to goodwill is equal to the unlawful use of goodwill? Ann-Charlotte Söderlund argues that the damage in respect of products in group 3, may in fact be greater than the actual value of the abuse of goodwill. This could occur where the use of the counterfeit product leads to damage, which has the effect of eliminating the demand for such products. She discusses the example where VIAGRA is invaded by counterfeit products and where the fake pill VIAGRA has no physical effects, customers could be deterred from purchasing any pills marked with VIAGRA. In such case, the market could completely disappear and the damage to the goodwill is higher than the abuse of goodwill. This theory can also be applied to the industrial companies. If counterfeit knife steel prove to be of such poor quality that consumers cease purchasing any knives marked with SANDVIK 12C27, Sandvik’s
knife steel marked with “SANDVIK 12C27” or “12C27” would eventually have to be taken off the market due to no sales.

In the case of the trademark SANDVIK, it could be argued that the trademark indicates that the products are of good quality as Sandvik is known to produce high quality products. The commercial origin more or less warrants the quality. Reverting back to how counterfeiting destroys goodwill; by extensive investment in commercial advertising and marketing Sandvik, as a company, has acquired goodwill. That goodwill can instantly be diminished if not wiped out by false rumours concerning the quality of its products, as with the tube case above. One could therefore draw the conclusion that the stronger the advertising function of a trademark is, the more damage can be done to the goodwill in this respect.

5.2.3 - INTERNET AND ADVERTISING FUNCTION

The use of Internet has proven a blessing in the skies for the vast majority of commercial companies. Marketing on the Internet is as common as advertising in magazines and newspapers. Unfortunately, this has also enhanced the possibilities for counterfeiters to reach a wider audience. The multi billion industry of search services on the Internet, provided by for example Google, Yahoo and Microsoft offer ample opportunities for counterfeiters to feed on established trademarks. The advertiser is allowed to choose its target group and either its own trademark or the trademark of a competitor. Thus, counterfeiters may purchase key words for the purposes of displaying advertising messages. These keywords are often identical with a trademark and identical counterfeit goods are also offered on the site. When an Internet user searches a keyword such as for example “Louis Vuitton”, a number of hits appears. When an Internet user clicks on the keyword “Louis Vuitton”, the user is instantly directed to the site with the counterfeit products. This is a beneficial method of advertising as the advertiser only pays for the actual clicks on their adverts. Google has exercised a somewhat more liberal approach as regards the use of their “AdWords” than for example Yahoo and Microsoft. Not surprisingly, the use of the “AdWords” has generated a rash of litigation across the globe.

Once the user has been directed into the site of the counterfeit goods, it is often not evident that the goods are actually counterfeit due to their identical appearance and the lay-out of the site. It is
a complex task to go after the counterfeiters with only references from the Internet. All of us practising lawyers who have tried, understand the difficulties of tracing a counterfeiter all the way to some obscure factory in a remote part of a country. Although the notice and take down procedure exists in Europe under the E-commerce Directive\textsuperscript{119}, trademark owners have more or less been left to fend for themselves in these types of infringement cases. Hardly any assistance can be found in the judgment concerning Google and Louis Vuitton,\textsuperscript{120} from 23 March 2010 by the Court of Justice, where it was held that the responsibility lies with the advertiser but that the Internet Service Provider (“ISP”) cannot be held responsible for storing key words identical with a trademark.

The ISP may only be held liable if it was aware of the fact that it was storing illegal contents.\textsuperscript{121} One of the intricate legal issues here concerning the advertising function does not seem to be whether the advertising function of a trademark has been affected but rather to what extent the advertising function must be affected to establish infringement. In other words, how much goodwill damage must there be for the Court of Justice to rule that there is an infringement of trademark? The Court of Justice described the functions of a trademark as:

\textit{“Those functions include not only the essential function of the trade mark, which is to guarantee to consumers the origin of the goods or services (‘the function of indicating origin’), but also its other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising”}\textsuperscript{122}

The Court of Justice acknowledged that such use of keywords as identical trademarks may have \textit{“certain repercussions”} on the advertising use of the earlier trademark and on its commercial strategy. Nevertheless, the Court of Justice concluded that there was no infringement on the part of Google as there had been \textit{“no adverse effect on the advertising function of the trademark”}\textsuperscript{123}.

\textsuperscript{120} Case C-236/08, Google France SARL and Google Inc v Louis Vuitton Malletier SA; Case 237/08 and C-238/08, between Google and Viatricum SA, Luteciel SARL, Centre national de reserche en relations humaines SARL, Tiger SARL and Mr Thonet and Mr Raboin.
\textsuperscript{122} Google v Vuitton and Others supra at paragraph 77; The Court of Justice referring to L’Oreal and Others Case C-487/07.
\textsuperscript{123} Supra at paragraph 98.
This was explained by a descriptive explanation on how the search results are arranged on the site when a user has entered the search term. When typing in the keyword, a list of “natural results” will appear and advertisements will appear alongside the list of results. Some of these ads are from advertisers offering counterfeit goods. The ads are not provided according to objective criteria but rather depending on additional payment by the advertisers. The question before the Court of Justice was whether the use of keywords corresponding to a trademark could be regarded as use of a trademark. The Court of Justice reasoned that as the trademark owner’s home and advertising page would also be in the list of natural results of the search, the advertising function could not be affected. The Internet referencing service provider could not be held liable in storing and organising the display as it was not held to be use within the meaning of Article 5(3)(d) i.e. used in advertising. In its Opinion, the AG relied on the Céline case and emphasised that there was only a use if that use was linked to marketing and not when used to designate an undertaking.\textsuperscript{124}

The AG justified the finding of non-use by arguing that the Adwords are not identical nor similar to the goods offered by the trademarks concerned. As regards Article 5(2), the AG in its Opinion, described the protection as being at the “top of the scale” as a special protection enabling trademark owners to prevent negative associations (those that could harm the trademarks reputation or distinctive character) or positive associations (those that take advantage of the trademark owner’s investment).\textsuperscript{125}

The Court of Justice reached its conclusion in relation to Article 5(2), that the ISP could not be held responsible as the use could not be classed as use.

Some immediate questions spring to mind; Is the Court of Justice indicating a minimum threshold as to what extent the advertising function must be affected? What difference does it make in reality that the advertising page of the earlier trademark appears in the list of natural results? Surely, the function of protecting investment and advertising is definitely going to be

\textsuperscript{124} Supra at paragraph 65.
\textsuperscript{125} Supra at paragraph 98.
affected in a substantial manner as consumers are lead to enter the site of the counterfeit goods. Although the Court of Justice confirmed the advertising function of a trademark, it did not appear to have analysed such function at all. Instead, by referring to the earlier trademark appearing in the natural results, it seems solely concerned with the function of indicating origin.

As regards the advertiser, the Court of Justice stated:

“…in the case of offers of imitations for sale, that, where a third party attempts, through the use of a sign which is identical with, or similar to, a reputable mark, to ride on the coat-tails of that mark in order to benefit from its power of attraction, its reputation and its prestige, and to exploit, without paying any financial compensation and without being required to make efforts of its own in that regard, the marketing effort expended by the proprietor of that mark in order to create and maintain the image of that mark, the advantage resulting from such use must be considered to be an advantage that has been unfairly taken of the distinctive character or the repute of that mark (L’Oréal and Others, paragraph 49).”126

The Court of Justice noted that when the laws on trademark infringement were written, the commercial trade on the Internet had not taken off yet. However, the Court of Justice pointed out that it should not mean that the use of trademarks as search words cannot fall within the scope of trademark infringement. As generous as it may first appear, the above statement falls flat in the face of owners of reputed trademarks attempting to get to the root of the problem with the fast expanding offers of counterfeit goods on the Internet. Consequently, Internet advertising affords such advertisers with a cushy hiding nest. Industrial companies are no different to B2C companies in that they are depending on the Internet to advertise its products. Where counterfeiters post sales of fake products on the Internet, it is virtually impossible in many cases to trace such advertisers. One could therefore argue that there is no efficient remedy for trademark infringement in counterfeit matters on the Internet. Most likely, counterfeit advertisements would diminish if the ISP:s would be forced to exercise greater control over the advertising sites on the Internet.

126 Supra at paragraph 102.
VI - PRACTICAL CHALLENGES FOR INDUSTRIAL COMPANIES

6.1 - MAINTAINING GOODWILL

6.1.1 - DEGENERATION

Industrial companies, just as any other commercial company, is constantly faced with the challenge of ensuring that the goodwill of the trademark is maintained. This is part of the task for in-house IP lawyers, to ensure that the company maintains its trademarks in written and verbal communication in such a way as to preserve the goodwill. One example is when the use of the trademark in internal communication is to indicate the product rather than commercial origin with the risk of the trademark becoming degenerated. At Sandvik, we had an example where the following was included in a proposal for a brochure:

“Visual differences in oxide spallation and sagging properties between A Kanthal APMT tube (left) and a standard Fe-Ni-Cr tube after 2300 h at 1100°C (2010°F).”

Sandvik had registrations in the wordmark KANTHAL APMT. However, innocent the above statement may seem at first glance, it nevertheless poses a risk that the industry would start using the “APMT tube” indicating the product. Where competitors cleverly pick up on this and start using APMT tube as the product name and thus a generalised word for the particular product, Sandvik would no longer be able to claim that the mark is protected as it is a distinctive trademark indicating commercial origin. A further complicating fact of this case is that there is currently a tube referred to as the “APM tube”, which is a term that appears to have become generic. Some other examples of where trademarks have become generic are: “dynamite”, “thermos” and “hoover”.

6.1.2 - DESCRIPTIVE USE

As a rule of thumb one can say that the more descriptive the word is, the less likely is it that goodwill can be established. On the other hand, could it be shown that the word has become “distinctive” or has acquired a “secondary meaning”, goodwill may be established. Some examples of descriptive words that have acquired secondary meaning and thus goodwill are:
“CAMEL HAIR”\textsuperscript{127} for belts; OVEN CHIPS\textsuperscript{128} for potato chips; and MOTHERCARE\textsuperscript{129} for clothes for pregnant women and clothes for children.

\textbf{6.2 - INTERNET}

As regards Sandvik, there have been a number of cases where advertisers have posted advertisements of counterfeit products on an Internet site such as for example E-bay. As soon as the advertisement is deleted by the ISP (as a result of a notification by Sandvik) the advertisement is likely to be posted elsewhere on another site. When users look for products made by Sandvik, they would, for example, type in the search word “Sandvik stump grinding teeth” in the search engine. A number of results may then appear and along side of the results counterfeit advertisements may be posted. According to the reasoning by the Court of Justice in Google, there has been no trademark infringement by the ISP as the function of the trademark has not been effected. However, the goodwill of the trademark will reduce for every counterfeit article being posted and sold on the Internet and yet there is no efficient remedy within reach.

It would appear that it is not possible or at least severely difficult to stop the use of search words by Swedish marketing laws under the unfair competition regime. In a judgment by the Swedish Market Court, the use of the search word: “blocket” (owned by the company Blocket) by the company Metromarknad was not held to be an infringement of Swedish marketing laws.\textsuperscript{130} Blocket could however stop Metromarknad from advertising its site with a number of indexed adverts.

Further, as the protection of IPR varies greatly between the countries, it poses more problems in enforcing the rights where counterfeit products are advertised on the Internet. The Internet page is often broadcasted in English and therefore covers a range of jurisdictions and legislations.

\textsuperscript{127} Reddaway v. Banham [1896] AC 199.
\textsuperscript{130} MD 2006:16, Metromarknad, (Judgment by the Swedish Market Court on 30 May 2006).
6.3 - ALPHA NUMERIC BRANDS

In terms of goodwill and trademarks, it should be noted that industrial companies often use non-conventional trademarks that acquire goodwill. The case studies in this Thesis has involved the trademarks SANDVIK 12C27 and 12C27. In counterfeit cases, industrial companies face the challenge of establishing that there has been a trademark infringement when the bulk of the goods sold involve metal strips or inserts where the mark denoting the particular steel is a mark made up of combined numbers and letters. This is a real problem for industrial companies as opposed to retail goods where the trademark is featured prominently on the individual items. Many high technology industrial companies spend a vast amount of resources into research and development in finding high quality, cutting edge parts and products. Sandvik is a company with expertise in materials technology. Sandvik’s leading position is preserved by being able to market and sell new improved materials, in particular steel. To distinguish the various steel types, they are given different marks in the form of a combination of letters and numbers i.e. Alpha Numeric Brands (“ANB”). The ANB are promoted in marketing materials, catalogues and brochures all over the world. Sandvik’s marks 12C27, SANDVIK 12C27, SANDVIK 14C28N and SAF2507 could be said to be recognised amongst a significant part of customers purchasing steel strip. The ANB often derive from certain systems specific for Sandvik only and thus customers will be more likely to associate it with Sandvik. So for example, in the Notation 11R51, 11 denotes the percentage of carbon; R the fact that it is stainless steel (i.e. “rostfritt stål” in Swedish); and 51 denotes the percentage of chrome and nickel.

Some countries (such as Sweden) provides for the right to a trademark by use. The possibilities of successfully claiming right to an ANB is rather limited where the ANB is not registered. There is also of course a risk that some ANB can be regarded as purely descriptive and therefore fall under the absolute grounds for refusal by the trademark authorities.\(^{131}\)

There are also other official certification systems that certify some steel types. Anyone is able to use such certified steel types. It is challenging to establish distinctiveness of ANB. Unless the requisite threshold for distinctiveness has been reached, the ANB may not be registered by the

\(^{131}\) In the case of CTM:s; Article 7(1)(c), Council Regulation (EC) No 207/2009 of 26 February 2009.
trademark authorities\textsuperscript{132}. There is also the problem of monopolising numbers that are needed for use by other competitors.\textsuperscript{133} The registration of ANB were treated restrictively by the Swedish registration authorities. However, since a decision from 1998\textsuperscript{134}, the ANB were treated according to new more generous principles which lead to more ANB being registered in Sweden. The ECJ annulled a decision by the court of First Instance to uphold a refusal to register “SAT.2” as a trademark.\textsuperscript{135} The letter combination had been assessed separately to the number 2. Consequently, the OHIM had reached the conclusion that as the letter combination “SAT” and the number 2 were devoid of any distinctive character, the whole mark was also devoid of any distinctive character. The ECJ firmly stated that the combined word must be assessed as one word and on its own merits regardless of whether the separate combinations were not distinctive. Interestingly, the ECJ further clarified the threshold for distinctiveness:

“Registration of a sign as a trade mark is not subject to a finding of a specific level of linguistic or artistic creativity or imaginativeness on the part of the proprietor of the trade mark. It suffices that the trademark should enable the relevant public to identify the origin of the goods or services protected thereby and to distinguish them from those of other undertakings.”\textsuperscript{136}

The counterfeit material circulating on the market may very well contain certified ANB and ANB that could be trademarks of Sandvik. If the counterfeit goods are marked with a certified ANB, Sandvik will face an uphill struggle to claim infringement of any TM. How does one prove distinctiveness where other companies on the market are lawfully marking their products in the same manner? However, should Sandvik have a patent or a design in such products, Sandvik could be successful in claiming patent or design infringement.

Counterfeiting of ANB, which may have been used for several years by Sandvik, inevitably means that there will be a loss of goodwill and consequently a loss of profits. This further causes disruption of business in that Sandvik may no longer continue using the particular ANB and building a new brand is expensive and often takes several years.

\textsuperscript{132} Article 7(b) of the Regulation, Article 3(1)(b) Directive.
\textsuperscript{133} See further discussion by Holmqvist, NIR 1996, at p.44.
\textsuperscript{134} Patentbesvärsrätten (“PBR”), 15 of January 1998 in Case 97-098.
\textsuperscript{135} C-329/02 P (SAT.2).
\textsuperscript{136} Supra (SAT.2) at paragraph 41 of the judgment.
6.3.1 - ANB OR WORDMARK?

A strong trademark increases the chances of protection against counterfeiting. With ANB, there is no real certainty of succeeding a claim for trademark infringement. It also varies greatly between the jurisdictions whether they are regarded as distinctive trademarks. In light of the risk of counterfeiting of ANB and the questionability of the distinctiveness of such ANB, one may ask why industrial companies opt to register them at all? The administrative processes involved from the brainstorming stage until the registration stage are countless. Often there are many different departments involved in these processes such as the production department, the marketing department, the legal department, managerial departments etc. Finding a trademark that is not already used by other companies is not an easy task in many close-knit industries. In her thesis, “Siffer-och bokstavskombinationer som varumärken” (in English: “numerical and letter combinations as trademarks”), Anna Axelsson examines the use of ANB amongst industrial companies and she states that the combination of letters and numbers can be made in several different combinations and it therefore simplifies the process of finding a suitable trademark.

Further, Sandvik makes steel strips in varying compositions of material depending on the ultimate use. The strip marked 12C27 may be purchased from customers for use in the productions of knives and SANDVIK14C27 is another type of strip used for producing, knives, ice-skate blades and surgical edge tools. Also, some products are prone to be reinvented and exchanged for newer models and it would not be cost efficient nor practical to keep coming up with new trademarks for such products. Sandvik would not want to have important trademarks associated with old models. It is therefore important that the mark given to such products can be slightly modified when a more recent model comes along. In a global market it is more complicated and expensive to create a trademark that is accepted in all languages.

B2C business research reveals that the numeric characters are significant in assisting customers to choose the product generation and the letters will enable the customers to distinguish the actual

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One alternative to using ANB as trademarks would be to protect the main product line with one trademark. Subsequent, add-on products such as different steel types can be marked with a serial number or ANB but without using them as trademarks.

6.3.2 - UNFAIR ADVANTAGE

Where a counterfeiter sells imitation products bearing the trademark of another genuine company one would seek to argue patent infringement (provided there is a patent) and/or trademark infringement where such rights can be argued. However, where there is no patent infringement and the products are bearing only ANB it becomes trickier to establish infringement. It could still be said that the counterfeit product imitating the particular style and shape of the product is counterfeit.\textsuperscript{140} Commercial counterfeiting has been defined as “the fraudulent practice of affixing a false trademark to a product, which then appears superficially indistinguishable from its legitimate counterpart.”\textsuperscript{141} Companies selling branded bags and clothing will claim infringement of their trademarks and possibly design rights. Where does this leave industrial companies producing for example material, inserts, tubes, for use in other products? Whilst it is of course

\begin{itemize}
\item \textsuperscript{139} Kunter Gunasti and William T. Ross, Jr, “How and When Alpha-Numeric brand names Affect Consumer Preferences”, Advances in Consumer Research, Volume 36, p.678, 2009.
\item \textsuperscript{140} Oxford dictionary defines counterfeit as “made in exact imitation of something valuable with the intention to deceive or defraud”, Oxford dictionaries.com (accessed on 10 August 2010).
\item \textsuperscript{141} James L. Bikoff, “Commercial Counterfeiting”, NIR, No.2, p.239, 1983.
\end{itemize}
allowed for other parties to reproduce items where no IPR:s can be claimed, one must be alert to the fact that a third party’s use of ANB could amount to an infringement.

6.3.3 - ANB AND UNFAIR COMPETITION

As we have seen, it is not altogether clear to as to what extent ANB can be protected. The ECJ has held that a competitor who uses the core elements of a distinguishing mark of another competitor’s letters and numbers, cannot be said to take unfair advantage of the reputation of the first company.\(^{142}\) The case concerned the use of order number: VIPA 928-3UB21 by VIPA Gesellschaft für Visualisierung und Prozeßautomatisierung mbH ("VIPA"). VIPA had also included in the catalogue that the “order numbers correspond to those of Siemens programme modules".\(^{143}\) Siemens brought proceedings against VIPA claiming that it had taken unfair advantage of the reputation of Siemens’ products. The system of order numbers were referred by VIPA in advertising and were known in trade circles. Comparative advertising is permitted provided that it does not take unfair advantage of a trademark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing products”.\(^{144}\) However, it should be noted that the ECJ also pointed out that a third party’s use of a mark may take unfair advantage if the use gives the public a false impression of the relationship between the advertiser and the trademark owner.\(^{145}\) In the case of a counterfeiter, there is a blatant attempt at taking an unfair advantage of the reputation of the genuine company.

So, for example, where a counterfeiter offers for sale cheaper copies of metal strip bearing the trademark similar or identical to that of the trademark belonging to the genuine company, customers will be caught by pre-sale confusion. This scenario is different to when a trademark is used in order to compare the products in advertising. It is not unusual for goods marked with ANB to be posted on the Internet with a reference to the genuine company. A claim under the rules of unfair competition may then be met by a defence of comparative advertising. Should one here take into consideration that the products in questions are obvious imitations? The answer lies

\(^{142}\) C-59/05 (Siemens).
\(^{143}\) C-59/05 at paragraph 9.
\(^{144}\) Article 4(g) of Directive 2006/114/EC. The ECJ considered Article 3(1)(g) under Directive 84/450/EEC as repealed by Directive 2006/114/EC according to ANNEX II correlation table.
in inter alia the Siemens judgment and one should pose the question whether it gives the public a false impression of the relationship between the advertiser and the genuine company. It would depend on how the information is relayed on the site in the form of structure and content and must be decided on a case by case basis.

6.4 - CASE STUDIES

6.4.1 - TRADEMARK INFRINGEMENT (SANDVIK LOGO)

By way of example; the SANDVIK logo is protected as a logo in blue and white:

![SANDVIK Logo]

Where an identical sign to the SANDVIK logo has been copied but “SANDVIK” has been changed to “Santvik”, it could be actionable under national laws as it is an infringement against the registered CTM. Sandvik would probably be required to prove likelihood of confusion. Figurative marks, according to the OHIM guidelines, would not be regarded as identical in this case as “any additional element, however, trivial or secondary, is sufficient to conclude that the marks are not identical”.

An assessment must then be made under Article 5(1)(b). In the case of a CTM registered under the OHIM procedure, such infringement procedure must be brought under the national provisions in the Community courts. Could it be held that this is a case of counterfeiting under the Infringing Goods Regulation? The mark is not identical but we may be successful if we managed to argue that the mark “cannot be distinguished in its essential aspects” from the genuine trademarks. This would of course be a matter of assessment by the courts.

6.4.2 - TRADEMARK INFRINGEMENT (INDIA)

As regards the advertising function of for example the trademark SANDVIK, the trademark has been heavily marketed all over the world where the company has established business. The

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146 OHIM’s Opposition Guidelines-“Identity”, Part 2, Chapter I, paragraph 3.3.
customers purchase the products as a result of its reputation for quality. Sandvik’s customers may not be in a position to evaluate its quality directly when the goods are purchased but faults typically transpire after the products are put into use. Hence, one could say that the advertising function of the trademark “SANDVIK” has been heavily compromised where customers purchase counterfeit products that later turn out to be defective. A few years ago, Sandvik was contacted by a customer company that had erroneously purchased tubes, which it thought originated from Sandvik Materials Technology. The tubes later turned out to be defective and as a result, the customer lost business and investment. Fortunately, nobody was injured in the process of using these faulty tubes. The tubes are inter alia used in the oil and gas industry. Not surprisingly, the customer contacted Sandvik and demanded an explanation as to why Sandvik was selling tubes made of poor quality. A technical analysis of the tubes confirmed that it was a clear cut case of counterfeiting. Even the certificates issued at the time of purchase were false copies that purported to be signed by a Sandvik official. Despite the quick discovery that the tubes were counterfeit, the damage had already been done as rumours were spreading about Sandvik’s “faulty” tubes. Counterfeiting inevitably leads to a misbelief in the industry, which has a devastating knock-on effect on the company’s goodwill.

6.4.3 - TRADEMARK INFRINGEMENT (SOUTH AFRICA)

Another incident occurred more recently where knife steel was branded as 12C27 and sold on to knife manufacturers in South Africa. The market became saturated with the knife steel marked with 12C27 and Sandvik’s sales staff was finding it difficult to sell Sandvik steel. Knife makers in South Africa had started complaining that the knife steel marked with 12C27 did not have the same hardness, finish and microstructure as it used to. One of our knife makers decided to have the material tested and found that the material was totally different to the previous knife steel. It transpired that a Swedish manufacturer was branding another type of steel, not originating from Sandvik, with Sandvik’s trademark 12C27.

After thorough tests of the steel, it was clear that the particular steel was of considerably lower quality. One of the immediate problems that occurred was of course the lack of sales opportunities due to the rather bold trademark infringement by the Swedish supplier of counterfeit knife steel. However, a more pressing concern was the fact that poor quality knife
steel was now circulating the market in South Africa and the knife makers were questioning Sandvik’s material. It would not be long until the demand for knives marked with 12C27 would seize amongst the end consumers of the knives. Purchasers of knives marked with 12C27 in South Africa are discerning and are likely to immediately switch to a knife with a different knife steel should the quality prove dissatisfactory. By that time, the damage to the goodwill would already have been done and the risk of losing the market of knife steel in the particular country would be a fact.

By acting quickly, Sandvik managed to stop the manufacturer from selling further counterfeit goods. After a warning letter, the supplier stopped the illegal activity of branding the knife steel with 12C27. However, there were loss of sales and the damage to the firm related goodwill of the registered trademark “SANDVIK” could not be undone. Apart from the damage to the company related goodwill in Sandvik, Sandvik’s trademark 12C27, had been seriously damaged. The sales force was left to pick up the pieces and had to begin the hard work of regaining the confidence of the customers again. This is time and effort that is difficult to quantify for the purposes of claiming damages and for that reason, claims for compensations can be difficult to enforce in a trial.

Akerlof described this economical effect of reduced trust when assessing consumers in 1970.147 All consumers who are under the belief that they will be deceived, are less willing to purchase the genuine products. This affects a great number of the consumers on the market even though the actual deception on the market is fairly small. According to respondents of an OECD survey, the effects were “erosion of the company name” or “destruction of brand reputation”. This included respondents in industrial sectors such as the automotive spare parts, car accessories and pharmaceuticals.148 There were also reports from respondents of the survey that they had been driven out of business as a result of loss of brand value and other respondents claimed reduced profitability.149

148 Supra OECD, 2005a, at page 145.
149 Supra OECD, 2005a, at page 148.
6.4.4 - UNFAIR COMPETITION (INDIA)

Let us take the example that a company in India copied Sandvik’s blue and white logo and used it on identical goods but the word “SANDVIK” had been changed to “Savis Steel Ltd”. The products with the label were sold in India. Sandvik could not claim trademark infringement as we do not have any registered rights in that logo with the word “Savis Steel Ltd” and it could not really be said that “Savis Steel ltd” is confusingly similar to “SANDVIK”. There is further no right to claim right of use as Sandvik does not use the blue and white logo with other words than “SANDVIK”. However, under the equitable system (derived from England) in India, a claim for passing off could be considered. Protection against a company passing off its goods as its own may be granted where the parties are engaged in the trade of the same or similar products. In Europe, passing off would be “unfair competition”. This protection is afforded to the unregistered rights in India and can be brought by foreign companies with trademarks that have established goodwill and a reputation by extensive advertising and publicity in India. The prerequisites for this action would be that there is:

- similarity in the trade names; and
- deception on the part of the defendant or that there is confusion in the minds of the public.

If Sandvik was successful in an action for passing off, the remedies would include (1) an injunction restraining further use of the mark; (2) damages; (3) an account of profits or an order for delivery of the infringing labels and marks for destruction.

6.4.5 - CRIMINAL LAW (PAKISTAN)

Last year, SANDVIK had to fend off counterfeit steel knives in the area of Pakistan. The company producing counterfeit knives marked with 12C27, contacted a customer of Sandvik with an intention to sell the knives. The customer became suspicious and immediately informed Sandvik. At this point it was important to carry out an analysis of the material to ensure that it was not in fact genuine knife steel sold by Sandvik. A local agent was hired in Pakistan to investigate the market of counterfeit knife steel marked with “12C27” or “SANDVIK 12C27”.

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150 P.Narayanan, Law of Trademarks (Trademarks Act, 1999) and Passing Off, 5th edition (India).
Sandvik had registered the trademark 12C27 in several countries but not in Pakistan. Sandvik could, however, rely on its registration of SANDVIK in Pakistan. As Sandvik did not have a registration in Pakistan at the time and no production of the particular knife steel, it would have been difficult to claim any rights in the mark 12C27 alone. As the mark SANDVIK 12C27 consisted of the word SANDVIK, which could be said to be the dominant part of the trademark, Sandvik could claim trademark infringement. This was a prerequisite for a raid under criminal law. Sandvik decided that it would be much more efficient and time-saving to pursue a raid under criminal law than to initiate a civil procedure in Pakistan.

Once the counterfeiter was traced, the agent organised a test purchase of the knife steel where the counterfeiter offered to mark the knife steel SANDVIK 12C27. When the counterfeit knife steel was to be collected, the agent together with the local police, carried out a raid of the factory. Several thousands of knives were confiscated as well as the tools for marking the knife steel. Some knives were marked and some were unfinished. The raid served a very important purpose in that it signalled to the other counterfeiters on the market that Sandvik protects its IPR in the company related goodwill of Sandvik as well as the trademark SANDVIK in Pakistan. As markets are often interconnected, the message would have been relayed even to neighbouring countries such as India. I set out below some photos taken during the raid:
The confiscated knives marked with SANDVIK.
The unfinished knives.

The stamping machine

The agent with the police in the factory
The counterfeiter had to sign an affidavit that he would not sell counterfeit goods again and if found involved again, an FIR (“First Information report”) may be lodged against him, which could lead to him being arrested following another investigation.

6.4.6 - CRIMINAL LAW (CHINA)

Although there are laws and judicial procedures that one can use in counterfeit cases, such remedies do not appear to be sufficient to come to grips with the fast-spreading practice of counterfeiting. However, the company SNA Europe, previously Bahco Tools, managed to convince the court that some counterfeiters should be sentenced to prison for one year. The Managing Director of the counterfeiting company Nanjing City Aoxiong Hardware Tools were sentenced to imprisonment for one year and fines for the amount of 100 000 yuan. This is a special case as it was actually pursued by a criminal prosecutor, which is rather unusual. A substantial amount of counterfeit saw blades had been confiscated following an expensive and time-consuming investigation by SNA Europe’s lawyers. Such investigations also often require external auditors that can verify the value of the confiscated amount. The Technical Supervision Bureau and State Administration of Industry & Commerce may carry out the seizure of counterfeit property and impose fines. Although there are remedies of seizure, the administrative fines that may be imposed are of such low value that counterfeiters are not likely to be deterred.

6.4.7 - CIVIL AND CRIMINAL LAW (FILIPPINES)

A similar case occurred in the Philippines, where the right holder of the trademark Bahco, Kapman AB sued one of the largest distributors of tools in the Philippines, Herco Trading. The trademark was affixed to infringing copies of the tools of Kapman AB, namely saw blades and hammers. After a test analysis on the products, it was clear that the products were counterfeit whereupon a raid was carried out by the local police. The police confiscated a number of counterfeit tools and machines used for stamping the trademarks on the products and the packaging materials.

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151 Kina Affärer, No 1, Årgång 3, 12 January 2007.
152 Brandnews, No 2, 2010 at p.5.
Interesting to note is also that where a case of trademark infringement has been settled in favour of Sandvik in the Philippines, Sandvik’s external lawyers often recommend that it should be published in official newspapers to deter others. What effect would it have if we had the same practice in Sweden of publishing the infringement? Should it perhaps be included as a legal sanction for the right owner to have the infringement published where details of the infringer became public? It is worth considering and should be subject to further discussion in the right forum.

6.5 - SUMMARY RECOMMENDATION INTERNAL STRATEGIES

6.5.1 - CENTRALISING THE IPR

Sandvik registers its significant trademarks in the countries where it has production and/or marketing activities. In the case of counterfeiting, Sandvik is then in a better position to claim rights in the trademark. The challenge is of course to detect counterfeiting in time and nip it in the bud before goodwill starts leaking. Sandvik therefore decided to centralise its efforts and created an independent company to deal with the intellectual property rights of the Sandvik concern, Sandvik Intellectual Property AB. With one body keeping control of all registerable IPR, the control of the IPR has been improved. There are also benefits for the Sandvik concern in collecting IP specialists (patent engineers and IP lawyers) in one company. The competence is increased as they can draw on the experience of each other. This is particularly true for counterfeit matters involving both trademark infringement and patent infringement. The lawyer can deal with the legal procedural aspects whilst it could not be done without a patent engineer analysing the patent claims. The process of centralising the IPR and making full use of the IP specialist at hand is an ongoing process at Sandvik and is to be recommended to other industrial companies.

6.5.2 - WARNING LETTER

Where it is clear that a trademark infringement and/or unfair competition has taken place, a warning letter will be sent out to the alleged infringer. In many countries, the sender of the letter could be held liable in tort for sending warning letters lacking proper cause. The warning letter
should be justified and care must be taken not to include any unjustified threats. In England, the law provides that an aggrieved company may sue against unjustified and groundless threats of trademark infringement and the relief is injunction and/or damages. The court will analyse the initial impression that the unjustified threat made on the addressee. In the Fiskars case, Fiskars Abp sent a warning letter to Rediviva Oy’s distributor. The letter created the impression that there had undoubtedly been an infringement of Fiskars’ design right. Fiskars urged the distributor to cease all marketing of the “Finman” rake and there was a reminder of the responsibility to compensation. In a subsequent trial, it was confirmed that the Finman rake did not infringe on any design rights of Fiskars. The distributor incurred losses as it had terminated all marketing and selling of the Finman rake. Fiskars was held to have acted unfairly under the provisions of unfair competition. The Finnish court pointed out that it is not regarded as unfair competition to send a warning letter claiming IPR where it is subsequently declared that there was no IPR infringement. On the contrary, it is regarded as good business practice to first send a warning letter as long as it is made clear that the allegations are “in the opinion of” the right holder. However, when examining whether a letter contains unjustified threats the following points should be analysed:

- What is the purpose of the letter?
- Has there been use of untrue or misleading statements?
- Is the tone of the letter unjustifiably threatening?
- Has the letter been sent to a party with the intention to unfairly damage the business?
- Is there proportionality between the allegations of infringement and the probability of infringement?

One interesting point that was discussed in the case is that it is of importance whether the sender of the warning letter has a leading marketing position. It is then more likely that the addressee will perceive the letter as serious.

155 OtillbFörfL och SkL 5:1 in Finland.
6.5.3 - UNDERTAKING

In practice, counterfeit infringement is most frequently settled by way of written settlements and it is recommended that the infringer signs an undertaking including inter alia:

- acknowledgement of scope of actual infringement;
- prohibition against future infringement;
- a fixed sum of liquidated damages in the event of breach of the settlement agreement;
- stipulation of compensation for infringement; and
- obligation to destroy the goods subject of the infringement.

If the right owner has reasons to doubt that the undertaking will be adhered to by the infringer, it is recommendable to pursue the claim by having the goods destroyed by an order under the Infringing Goods Regulation and/or initiating litigation.

6.5.4 - AWARENESS AND PACKAGING

Finding the counterfeit goods can be like searching for a needle in a haystack. It is imperative that the company has in place a satisfactory customer awareness program coupled with additional measures such as holographic packaging. In 2006, SKF had initiated raids through the Delhi police where material seized were worth over Rs.12 million. The police arrested a number of people dealing in counterfeit bearings of the SKF Brand. In a press release, the Managing Director of SKF Bearings India Ltd emphasized the importance of working closely with their authorised distributors and stockists to ensure that customers only received genuine goods. SKF testifies that it proactively seeks to promote customer awareness through certain “customer awareness programs” and by way of holographic packaging.\(^\text{156}\)

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VII - CONCLUSION

Moving business to countries like China and India is a natural choice for many multinational industrial companies. However, considerations for matters of IPR risk being neglected in the urge of setting up the business as quickly as possible. The legal culture in China, India and Pakistan is in many aspects totally different to what we are used to in the Western countries. In-house IP-lawyers have less control over the procedures and legal framework and are more dependent on less conventional methods and find ourselves in the hands of “private investigators”. Through recommendation and thorough research, a reliable network of agents can subsequently be set up. Industrial companies can assist each other in this task. By centralising the IPR it will enable the company to exercise control over the IPR. Clear directions can be filtered out in the organisation, which prevents the loss of the company’s IPR in the out-sourcing process.

Trademark infringement underpins the whole strategy for fighting back counterfeiters. With strong well maintained trademarks, the claim for trademark infringement is more likely to succeed. By phasing out the use of ANB as trademarks and instead building good “umbrella” trademarks, as suggested in this Thesis, industrial companies have more ammunition against counterfeiters. The ANB will then only be used as an indication of the type of steel under the main product line.

As to court procedures, it would seem wise to change the procedural rules in Sweden and allow for right owners to be allowed to bring proceedings in one court for both trademark infringement and unfair competition. The right holder will then be in a stronger position and will not be forced to choose one action over the other. Although, in practice one has to carefully consider the strongest grounds, it would certainly strengthen the case to be able to include claims of both trademark infringement and unfair competition.

It would seem that there is a call for harmonising a legal definition of goodwill and the elaboration of goodwill awards in litigation. This would provide more certainty in counterfeit trademark infringement cases connected with loss of goodwill. Could this be done through WIPO
in the WIPO Standing Committee on Trademarks as suggested by Professor Bojan Pretnar? Or would it be more favourable to start “at home” by changing the legislation concerning European trademark law? Further, counterfeiting is a wide spread problem and we ought to be creative in thinking of solutions on how to put a halt to it. One such creative solution could be to follow a suggestion by Professor Marianne Levin to add a further sanction to have the trademark infringement published.

Building distinctive trademarks is time-consuming and expensive and it is therefore of paramount importance that the protection against trademark infringement is prioritised. The sanctions against trademark infringement in counterfeit matters should contain a preventative function as well as a reparative function. The civil and criminal sanctions need to be severe enough to deter counterfeiting and the monetary compensation ought to adequately compensate the total damages incurred by the trademark owner of the genuine trademark. As we have seen, the lack of legal definition of goodwill, leads to diffuse conceptions of the real loss of goodwill. In Sweden, it is expected that a new Act on trademarks will be implemented by summer 2011. In a report, by the trademark Committee of the Swedish government (the “Report”) the global developments in the modern trademark is emphasised. The Report states that the development is characterised by an increased pace in productivity and shortened life cycles for certain products. The packaging requirements are changing and affecting the trademark in that it must have a uniform name and logo. Companies are also placing more focus on the need for protection of the company name as a trademark as opposed to the trademarks denoting particular products.

The Report further acknowledges comments made by Professor Marianne Levin that the economic and cultural importance of trademarks becomes more significant. As the trademark can be regarded as the company’s invested value in the form of an image, the report (referring to Marianne Levin’s comments) states that it is also therefore important to protect such expressions for the commercial value and the goodwill. It is also stressed in the Report that it should be

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157 Professor Dr. Bojan Pretnar, NIR, No.6, p.2004 at p.515.
160 Supra at p.19.
clarified the criteria to be assessed in cases of trademark infringement. In particular, it is recommended that the following criteria should be assessed:\footnote{161}{Supra at p.27.}

- The damage to the reputation of the trademark (goodwill)
- The right owners lost sales
- The profit that the infringer has made as a result of the infringement
- The right owner’s interest in that infringement does not occur

With the globalisation and the increased use of the Internet, the goodwill of the trademark can more rapidly be destroyed than before the “revolution” of the Internet. Such aspects ought to be taken into consideration when assessing goodwill. By expanding the functions of a trademark to include the “advertising function”, it has also been shown that the value of investment is piercing the veil of the traditional notions of functions as simple indications of origins.\footnote{162}{See further discussion by Nina Barzey, “A way of life”, NIR No 4 at p.324, 2010.}

However, it is apparent that there is ambivalence about whether or not to fully accept the investment and advertising function into the realms of legal protection for trademark owners. The reluctance may be explained by a difference in opinions about the whole concept of marketing and advertising. If we were to accept the advertising function as a formal legal argument, have we then relinquished our powers to the “manipulative” business of suggestive marketing and advertising? The fact is, consumers are and will always be highly influenced by advertising practices and as such the advertising function of a trademark ought to be protected to reflect reality. How consumers perceive trademarks is at the root of the assessment of whether a trademark is reputed. It could therefore be said that it is of paramount importance that the advertising function of a trademark is recognised. According to Professor Max Oker-Blom, there are good economical reasons for expanding the protection to cover the investment and communication function.\footnote{163}{“Särtryck ur Tidskrift, utgiven av Juridiska Föreningen i Finland”, issue 1/2008, Associate Professor Max Oker-Blom, page 47.} It is to ensure that a reputed trademark is not diluted or taken advantage of and this in turn benefits the consumers who buy an image and not just the product.
Nina Barzey, Master Thesis, European Intellectual Property Law

The traditional legal thinking has had to give way to the brand thinking and as such mirrors the substantial investments pumped into building a brand.

Brand management is not only a “buzzword” but should now be used like a “mantra” in any organisation that takes pride in maintaining its trademarks. The word “brand” of course includes so much more than the trademark. It includes how the company communicates its trademarks in any form of commercial advertising with the intention of creating an image that the customers associate with the trademark. Like the old saying, beauty is in the eyes of the beholder, it could be argued that the notion of goodwill lies in the eyes of the customer. We are at a cross-roads of seeing a trademark as a simple indication of commercial origin or seeing it as powerful trademark capable of signalling reputation and quality.

The higher the advertising function, the greater the fall of the goodwill of a trademark will be. Toyota experienced fall of its TOYOTA trademark this year (2010) when a number of its vehicles had to be withdrawn from the market due to faulty accelerator pedals. Some 38000 cars had to be recalled in Sweden but apart from that the problem was minimal and the faulty instruments could easily be replaced. Very few people had been affected by the problem. Subsequently, damning reports hit the market that there were some faulty ABS brakes on the Prius model of Toyota. Despite being able to correct the problems within a short period of time from the discovery of the faults, the news about Toyota travelled fast and the damage to the trademark Toyota was devastating. Toyota spends a fortune on marketing and advertising to instil in the minds of consumers that the Toyota car is reliable and of good quality. The advertising function was compromised and sales went down. Out of the ten most popular car models in January to August this year (2010), there were only three car models that retreated. The car industry had had an upswing with better financial times. However, Toyota had not. To illustrate the sales in Sweden in 2009 before the damage reports and after:

Sales 2009: position on the market: YARIS 10th; AVENSIS 11th; PRIUS 23th; AURIS 25th; AYGO 29th.

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Sales 2010 position on the market until August: YARIS 14th; AVENSIS 15th; PRIUS 35th; AURIS 21th; AYGO 34th.

In 2008, the Toyota trademark was the sixth most popular car and valued at 34 billion dollars. In this year’s list (2010) it has dropped down to number 11 and valued at 26 billion dollars.\textsuperscript{165} It is of course difficult to speculate as to what was the single most important reason for the fall. However, it would appear that the timing of the sales figures indicate that damage had been done to the goodwill.

The current rather vague concept of the value of goodwill may be about to change. Due to the great differences in evaluating goodwill, the Swedish Standards Institute (SIS), has produced a new standard in calculating the value of trademarks, ISO 10668.\textsuperscript{166} This new standard is now ready to be used by companies and analytics. Jan Treffnner, chair person in the working group for this ISO (“International Organization for Standardization”) standard, states that the aim in developing this standard is to emphasise on what actually creates value in companies.\textsuperscript{167} Those companies that own valuable trademarks are today unable to show increases and decreases in the value. The Managing Director at SIS, estimates that this standard will in 1-3 years be a common method for evaluating the value of trademarks.\textsuperscript{168} The result of the document produced for this ISO standard is a 16 page document containing several methods for evaluation that suit different situations. Whilst we are in the infant stages of this new development in Sweden towards appreciating value of goodwill, it is highly likely that the effects of this new ISO will influence the perception of goodwill amongst companies, legal practitioners and general analytics. This may bring more certainty into how companies calculate their loss of goodwill in counterfeiting cases. Will the courts be affected by this new development of evaluating goodwill? Well, if the claimants can show good founded arguments for damage to goodwill based on this new ISO, there may very well be a change in the awards for loss of goodwill. However, this does not mean that the awards will necessarily increase in some cases, but rather that the awards will be based on solid arguments backed up with facts, which of course creates more certainty.

\textsuperscript{165} Supra Brandnews.
\textsuperscript{166} Fredrik Olsson, Dagens Juridik, “Ny Standard för värdering av varumärken”, 7 December 2010.
\textsuperscript{167} Ibid.
\textsuperscript{168} Ibid.
Whilst there appears to be good reasons to work on a unified legal definition of goodwill, it is not so obvious that goodwill damage should be assessed in relation to third party use. Due to the vagueness of any existing calculation to establish damage, it could be a way forward to simply introduce punitive awards in the case of goodwill damage in the European legal system. These new rules would then of course be implemented in all the member states.

Marianne Levin observes that financial considerations are moulding an economic trend which has meant that there is an increasing willingness to accept that investments as such give a right to legal protection.\(^{169}\) This will presumably have a knock-on effect of a wider protection for right owners in cases of counterfeiting. As regards the timing of this paradigm shift, it is questionable whether the national courts are going to adapt its paradigm on goodwill and afford it greater focus within the next few years. The slow development of a unified interpretation on goodwill may be explained by a recognised need to be careful in allowing excessive protection to right owners to the detriment of natural competitive market forces. Hence, those who are for increased protection of goodwill, are best advised to employ their most patient side and take comfort in the old saying that “all good things come to those who wait”. Because in my opinion, the change will come.

\(^{169}\) Supra, The Report, at p. 147.
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