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Is Goodwill Synonymous with Reputation?

1. Introduction

The Georgian Parliament on 2 September 1997 adopted resolution 828-1s, according to which “All laws and normative acts adopted by the Georgian Parliament from 1 September 1998 shall be compatible with the standards and rules established by the European Union.”¹

On 22 April 1996, the Georgian parliament concluded the Partnership and Cooperation Agreement with the European Community.² Besides other important issues, this agreement deals with the protection of intellectual, industrial, and commercial property. Pursuant to Article 42 of the agreement, Georgia shall continue to improve the protection of intellectual, industrial, and commercial property rights in order to provide for a level of protection similar to that existing in the community, including effective means of enforcing such rights. In addition, Georgia shall accede to the multilateral conventions on intellectual, industrial, and commercial property rights.

This agreement was followed by the national programme on harmonisation of Georgian legislation with the legislation of the European Community. Then, 2006 saw the entry into force of an action plan³ forming part of the European neighbourhood policy. With this document Georgia is obliged to approximate its intellectual and industrial property rights to the requirements of the PCA and TRIPS agreements and ensure their effective implementation.

Today, Georgia is a signatory to many international conventions. The national parliament has gradually made Georgian legislation compatible with that of the wider community. But still there exist gaps in laws; some legal acts should have been altered. Georgian legislation contains some concepts that need comprehensive study.

As regards legislation in the field of intellectual property law, most is compatible with the directives and regulations of the European Community as well as with international conventions. However, problems arise concerning some terms and concepts included in Georgian laws, the content of which is explained neither in the legislation nor in Georgian juridical literature. For this reason, only through theoretical analyses and comparative study of international acts and foreign literature in the field of intellectual and industrial property law is it possible to determine what should, or could, have been mentioned in those terms and concepts.

¹ Resolution of Georgian Parliament № 828-1s, 2 September 1997. Available at http://embassy.mfa.gov.ge/index.php?lang_id=ENG&sec_id=65878&new_month=12&new_year=2008 or www.parliament.ge.

² Partnership and Cooperation Agreement between the European Communities and their Member States, of the one part, and Georgia, of the other part, 26 April 1996. – OJ L 205, 4.08.1999, p. 3.

³ EU/Georgia Action Plan. Available at http://ec.europa.eu/world/enp/pdf/action_plans/georgia_enp_ap_final_en.pdf.

One of those terms that is not clarified in Georgian legislation and needs to be studied is goodwill. This term is mentioned only in the Tax Code of Georgia. But definition of the concept of goodwill can be found neither in the Tax Code nor in other legal acts of Georgia.

Because so far it has not been distinctly explicated in Georgia what function goodwill serves, what its basic characteristics are, and what role it plays in competitive relationships, it is preferable to define, through scientific literature and case-law studies, the characteristics and functional meaning of this object.

On the basis of the present analysis of the Georgian legislation, this is the first attempt to define the place accorded to goodwill in the Georgian legal landscape and the extent of its protection in Georgia. It is a rather arduous task to study the nature of goodwill and set it out in an exhaustive manner; however, one can state that, as a rule, the concept is identified almost in an equality relationship with reputation.

Goodwill and reputation are indeed very tightly interconnected. ‘Goodwill’ and ‘reputation’ as legal terms are defined by the legislature and/or jurisprudence in the legal system within which they operate. Each country may give them different meanings. Georgia is no exception here. But the problem arises in relation to specification of the legal framework within which the meaning of those terms is explored.

As was mentioned above, goodwill and reputation are very often considered to be synonyms. Perhaps the reason for this is the following: these terms are reflected in different legal systems but are used in connection with the same objects of intellectual property, such as trademarks and geographical indications, and therefore it is quite difficult to give an exhaustive answer to the question of whether they are the same objects but with different names or instead differ from each other.

In order to address this question, it is necessary to examine whether and how the concepts of goodwill and reputation are reflected in different legal systems.

If one proceeds from the Georgian legislation, it is hard to conclude that goodwill and reputation are synonyms. That is the very reason this article focuses not only on study of goodwill but also on its distinction from reputation.

In order to elucidate the existing similarities and differences between the two terms, it is expedient to clarify the notion — and the characteristics — of goodwill itself. This is the lens through which the substance of this object shall be studied and compared with reputation.

The article focuses on the definition of legal boundaries within which goodwill and reputation may be protected.

2. The notion of goodwill

‘Goodwill’ is an English term, and probably English lawyers were the first to take interest in its content. William Henry Browne mentioned in his work that English courts tried to clarify what was meant under this term.⁴

Griffiths carried on consideration of the question: “What is goodwill? It is a thing very easy to describe, very difficult to define. It is the benefit and advantage of the good name, reputation and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start.”⁵

A generally accepted definition of goodwill does not exist, though most opinions are very similar to each other. For example, in 1856, M.R. Romilly said: “There is a considerable difficulty in defining accurately what is included under this term goodwill. It seems to be that species of connection in trade which induces customers to deal with a particular firm”⁶ or, as Lord Eldon put it, “the probability that the old custom will resort to the old place”⁷.

According to Goyal, “[g]oodwill denotes the benefit arising from connection and reputation. It includes whatever adds value to a business by reason of situation, name and reputation, connection, introduction to old customers and agreed absence from computation, or any other things”⁸.

In view of the above-mentioned opinions, goodwill can be defined as a power of attraction gained by an enterprise. This is an outcome of the favourable attitude of the customers and their constant support. Besides, goodwill acts as a preface to future successful activities. Acquisition of goodwill might be the main purpose

⁴ See W. H. Browne. A treatise on the law of trade-marks and analogous subjects (firm names, business signs, goodwill, labels, etc.). 2nd ed. Boston 1985, p. 525.

⁵ A. W. Griffiths. Trade Mark Law and Practice. London 1930, p. 1.

⁶ M. R. Romily. *Weddeburn v. Weddeburn*, 1856. See: W. B. Browne (Note 4), p. 526.

⁷ *Lord Eldon*. *Crutwell v. Lye*. See: W. B. Browne (Note 4), p. 526.

⁸ P. C. Goyal. Goodwill — its treatment & valuation in direct tax proceeding. Allahabad 1982, p. 2.

of each enterprise while goodwill encompasses everything that conduces to the growth in value of the enterprise.

Goodwill is a property. It is an intangible asset and always has a particular value. According to its nature as a property, goodwill may be alienated. It is natural to raise the question of how an intangible thing can be transferred to another person. Goodwill may not be sold or transferred separately from the business with which it is associated or apart from trademarks, trade names, or other symbols that represent goodwill. A purchaser of goodwill obtains all of the privileges and benefits which the vendor had.

The owner of goodwill has a property right that can be protected by an action of passing-off. Passing-off is a tort and can be described as the common-law form of trademark protection. Business 'goodwill' is protected by passing-off and, whilst this may be associated with a particular name or mark used in the course of trade, this area of law is wider than trademark law in terms of the scope of marks, signs, materials, and other aspects of a trader's 'get-up' that can be protected.

In the opinion of Buckley, a proprietary right protected by an action of passing-off may be described in the following manner:

A man who engages in commercial activities may acquire a valuable reputation in respect of the goods in which he deals, or of the services which he performs, or of his business as an entity. The law regards such a reputation as an incorporeal piece of property, the integrity of which it is entitled to protect.⁹

He wished to confirm that the property right is not a right in the name, mark, or get-up itself but that it is a right in the reputation or goodwill, of which the name, mark, or get-up is the badge or vehicle. The words 'reputation' and 'goodwill' are often used interchangeably, but it is really in connection with goodwill that passing-off is applied. It is possible after all to have a reputation without goodwill.¹⁰

In the common law system, for a long while, a passing-off action required proof of local goodwill, not merely a reputation. The first case in which the court granted protection against passing-off to a foreigner who could prove reputation but no local goodwill was *Catersham Car Sales & Coachworks Ltd v. Birkin Cars (Pty) Ltd.*, which was heard in 1998.¹¹

As we can see, goodwill and reputation are not considered synonyms under common law. The courts tend to give broader protection to goodwill than to reputation. In the common law approach, when a business has a reputation, this does not mean that it also has goodwill. But reputation, in its turn, serves as one of the preconditions for the acquisition of goodwill.

It is impossible to set out clearly the difference between the concepts of reputation and goodwill according to common law. The reason for this is that neither in the case law nor in the literature is the definition of reputation found. It is unclear what is implied by this term within the common law system. As for goodwill, we can conclude that it is a combination of the company's positive characteristics. Good name, reputation, experience, talent, affordable prices, stability, and an influential position in the market serve as the preconditions for acquiring those characteristics. It is one of the most valuable assets of a company, acquisition of which is difficult but loss of which is too easy.

3. Goodwill and reputation under Georgian legislation

In Article 12, paragraph 27 of the Georgian Tax Code¹², goodwill is said to be one of the types of intangible assets. The notion of intangible asset set forth in this code is the following: An intangible asset is a non-pecuniary asset without physical form that is used for production, supply of goods/services, leasing, and/or administrative purposes.

Despite the fact that Georgia is a signatory to the Paris Convention for the Protection of Industrial Property, and this convention contains some provisions concerning goodwill, Georgian legislation in the field of intellectual property law does not even mention it.

Only the law on monopolistic activity and competition, which is no longer in force, provided indirect protection of this object, as it used to protect those objects of intellectual property which are tightly connected with

⁹ *HP Bulmer Ltd. v. Bollinger SA*. See D. Bainbridge. Intellectual property. 4th edition. Financial Times Management. London, San Francisco, Kuala Lumpur, Johannesburg, First published in Great Britain 1999, p. 598.

¹⁰ *Ibid.*

¹¹ See R. Kelbrick. "Gaps" in time: When must a mark be well known? – IIC 2006/8, p. 921.

¹² Tax Code of Georgia, 22 December 2004. – Law-profile edition "Sakanomdeblo Matsne" (Legislative Newsletter), Part I, #31, 2004, Registration #692.

goodwill. Nowadays, this law has been amended by the law of free trade and competition which does not refer to goodwill at all.

The fact that goodwill is an intangible asset is evident from analysis of the Georgian legislation. Namely, commensurate with Article 152 of the Civil Code of Georgia^{*13}, intangible property is interpreted as meaning “the claims and rights which may be transferred from one person to another or are intended for yielding material profit for their owner, or entitling him to demand anything from the others”. Goodwill is indeed such an object whose owner can enjoy certain rights and have claims. Goodwill can be transferred; as noted above, it can be profitable for its owner, and the goodwill owner has a right to certain claims with respect to a third party.

Goodwill is characterised by all of the features that are typical of intangible property. As a result of its transfer, all privileges and benefits enjoyed by its alienator pass to the purchaser. The purchaser of goodwill may prohibit a third party from damaging goodwill or demand the imposition of liability on an infringer.

Reputation, in its turn, is a personal non-property right that is proved by Article 18 of the Civil Code of Georgia. This article refers to personal non-property rights and envisages the possibility of applying to the court in cases of violation of business reputation along with the protection of the right to a name, honour and dignity, the confidentiality of one’s personal life, and the inviolability of one’s person. The Civil Code of Georgia is aware of this concept as a “business reputation” and, accordingly, guarantees its protection.^{*14}

According to Article 27, paragraph 5 of said code, in the case of violation of the business reputation of a legal entity, the provisions of Article 18 of the code shall apply.^{*15}

The term ‘reputation’ is also contained in the laws on the protection of the objects of industrial property rights. Namely, this term is mentioned several times in the Law of Georgia on Trademarks (e.g., in Article 5’s paragraphs e and g).^{*16} Furthermore, reputation is repeatedly referred to in the Law of Georgia on Appellation of Origin and Geographical Indications of Goods^{*17}, as seen in Article 3’s paragraph 2, point b, and also Article 7’s paragraph 4, point i, etc. Further discussion of these issues is provided in paragraphs 4 and 5 of Article.

Insofar as reputation is a personal non-property right, it is indivisible as well; however, this cannot be said about goodwill.

Because of the non-material character of reputation, it is impossible to assess the value of reputation. By contrast, the existence of goodwill is inconceivable without the estimation of value. It is an enterprise asset and, as a rule, is reflected in the balance sheet figures. Moreover, various types of methods are used to calculate goodwill. The term ‘goodwill’ is sometimes used to denote the entire body of incorporeal assets of an enterprise. In a narrower sense, goodwill is a total sum of only intangible characteristics that attract future customers.^{*18}

Goodwill as used in accounting entries differs in nature from the concept that is used in legal relationships. Such ‘legal goodwill’ usually means the value that exists in consideration of tangible assets.^{*19}

The above discussion demonstrates that it would not be correct to identify the meanings of goodwill and reputation according to Georgian legislation. On the basis of its property type, goodwill is admitted not only as a legal but also as an economic category. As to reputation, its material estimation can be done only in cases where, for instance, the court imposes payment of compensation in cases of damage to reputation. Furthermore, the amount of compensation is determined by the court. Reputation itself has no value.

¹³ Civil Code of Georgia, 26 June 1997. – Law profile official edition of the Parliament of Georgia “Saparlameto Utskebani” (Parliamentary News), #31, 1997. Registration #786; Sakanonmdeblo Matsne, #42, 2006, Registration #3967.

¹⁴ *Ibid.*

¹⁵ *Ibid.*

¹⁶ Law of Georgia on Trademarks, 5 February 1999. – Sakanonmdeblo Matsne, Part I, #1, 2006, Registration #2380.

¹⁷ Law of Georgia on “Appellation of Origin and Geographical Indications of Goods”, 22 June 1999. – Sakanonmdeblo Matsne, #25 (32), 1999, Registration #2108.

¹⁸ See S. P. Pratt. Cost of Capital. Estimation and Application. New York: John Wiley & Sons, Inc. 1998, p. 46.

¹⁹ See M. J. Mard, J. R. Hitcher, S. D. Hyden, M. L. Zyla. Valuation for Financial Reporting: Intangible Assets, Goodwill, and Impairment Analysis, SFAS 141 and 142. New York 2002, p. 16.

4. The meaning of goodwill and reputation in regard of geographical indications under Georgian legislation

Differentiation between the meanings of goodwill and reputation is particularly important for the regulation of relationships related to the objects of industrial property protection, such as an appellation of origin and geographical indication. The study of the nature and the distinguishing features of these objects greatly simplifies recognition of the difference between goodwill and reputation.

The special requirements for geographical indications were set out by the Agreement on Trade-Related Aspects of Intellectual Property Rights²⁰ (TRIPS). This very agreement made the term 'geographical indication' an internationally applicable one. Formerly, the phrase was used only in special literature. The Paris Convention, for example, is not aware of the mentioned term.

'Geographical indication' is used as a summary term in reference to two objects, such as the indication of source and appellation of origin envisaged by the Paris Convention. It is worth mentioning that, in line with the Law of Georgia on Appellations of Origin and Geographical Indications of Goods, the geographical indication (or location) does not merely maintain the meaning of appellation of origin, but it appears to be another independent object of protection. As to the indication of source, it is not mentioned in the Georgian legislation.²¹

The Georgian Law on Appellations of Origin and Geographical Indications of Goods determines 'geographical indication' to be defined as follows:

Geographical indication is a name or any other symbol designating a geographical place, and is used for the description of goods:

- a) That originated in that geographical area;
- b) The specific quality, reputation, or other characteristics of which are attributable to that geographical area;
- c) Production, processing, or preparation of which takes place in the defined geographical area.

As to the 'appellation of origin', it is defined as a name referring to the modern or historical name of a geographical location or region or, in exceptional cases, of a country (together referred to hereinafter as 'geographical area'), used for the designation of goods:

- a) That originated within the given geographical area;
- b) The specific quality and features of which are essentially or exclusively due to a particular geographical environment and human factors; and
- c) Production, processing, and preparation of which take place within the specified geographical area.

The comparison of the meanings of appellation of origin and geographical indications has shown that, in the case of geographical indication, the demand concerning the characteristics of goods or indication of origin of goods is relatively weak. It would be sufficient for a specific quality of the product, reputation, or any other feature to be related to the geographical place. This opinion was expressed by certain scientists²² who have referred to the international regulation on the protection of the place of origin, such as the Lisbon Agreement for the Protection of Appellations of Origin and Their International Registration²³ and the TRIPS agreement.

With regard to a geographical indication, the subject of protection is the goodwill of a specific name or symbol.

Only certain property rights aimed at the protection of goodwill are attached to the subject, which uses the geographical indication. Copyrighting does not take place at all, even if the country symbol (e.g., the Eiffel Tower or the Statue of Liberty) is used as a mark.

Unlike trademarks, the property related to geographical indications is for collective use, since its goodwill is not created by one person. In the case of trademarks, the subject of protection is goodwill, whilst in the case of a geographical indication it is a specific geographical place or symbol. The name and symbol identifying some product are just those elements that accrue goodwill. It should be mentioned that without reference to

²⁰ The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) Annex 1C to the Agreement Established the World Trade Organization adopted on 15 April 1994. Available at www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm.

²¹ See T. Taliashvili. Certain Issues of Legal Protection of Geographical Indications. – Samartali 2000, #6–7, p. 77.

²² See Protection of Geographical Indications in France and European Community, by Jacques Audier, WIPO Regional Seminar on Trademarks and Geographical Indications, Tbilisi, 28–29 October 1996; N. Liberis. Appellation of Origin and Geographical Indications. – Georgian Legal Review, 1st–2nd quarters in 2001, pp. 90–97.

²³ The Lisbon Agreement for the Protection of Appellations of Origin and their International Registration, 1958. Available at www.wipo.int/lisbon/en/legal_texts/lisbon_agreement.htm.

some specific product, this name or symbol will remain only a geographical indication and will never acquire goodwill.

As to the appellation of origin, the Lisbon Agreement for the Protection of Appellations of Origin and Their International Registration underscores that an appellation of origin means the geographical name of a country, region, or locality. In addition, it must serve to designate a product originating therein, the quality, and the characteristics. Furthermore, a qualitative connection between the product and the place of origin must exist. Namely, the quality of a product and its characteristics must be especially and substantially conditioned by geographical environment; unless this requirement is satisfied, the name will be considered simply an indication of origin and would not be protected in the form of appellation of origin.^{*24}

Therefore, we can conclude that, while protecting appellation of origin, the subject of protection is not the name or symbol that marked a given product but the reputation of the place the goods originated from or to which they have a particular connection.

Generally, the names of places attract customers with their good reputation instead of goodwill. Reputation appears to be the subject of protection, not goodwill. A territory cannot own goodwill, since the latter is created after a while by means of the use of certain marks by a specific person. Reputation of a territory may belong to any acting subject or a resident of the given place.

We cannot pass by Article 11, paragraph a of the Law on Appellations of Origin and Geographical Indications of Goods, which establishes prohibitions against “any direct or indirect commercial use of an appellation of origin or geographical indication registered in respect to the goods not covered by the registration, insofar as those goods are similar to the ones registered under that name or insofar as using the name exploits the reputation of the protected name”.^{*25}

This article requires specific amendment, namely that “appellation of origin or reputation of geographical indication” should be replaced by “reputation of appellation of origin and goodwill of geographical indication”.

Judging from the above-mentioned, one readily concludes that the meanings of goodwill and reputation should not be identified with each other. Goodwill is a priority or benefit, which can be acquired by an enterprise or its product, or any means of identification (in the above-mentioned case, geographical indication) as a result of entrepreneurship. As to reputation, we can discuss the concept as a priority, which comes from the specific characteristics of the particular place. While acquisition of goodwill is impossible without taking measures leading to success in the market, the reputation of a certain place emanates from that very place. It is impossible to identify goodwill with reputation when the case concerns a specific geographical place. This place may definitely have a good reputation, but goodwill can be acquired by the enterprise and its means of identification and not by the place.

That the given place enjoys a good reputation results from the significant features of the place concerned, as well as from natural or human-related factors existing in the mentioned territory, instead of the activities performed by some enterprise. The above should not be interpreted as implying that the activity of a particular enterprise has no meaning for this territory. To the contrary, it is impossible to demonstrate the positive characteristics of the geographical place just through the use of its special features in industrial and commercial fields. Parting its turn, the geographical place owning a good reputation supports those enterprises' acquisition of goodwill that operate in this territory.

5. The connection of goodwill with trademarks

An analysis of goodwill would not be complete without discussion of the issue of the relationship between goodwill and trademarks. Trademarks, whether registered or not, symbolise goodwill.

A trademark is a name or symbol used to denote the commercial origin of a product. Moreover, a distinctive mark embodies the goodwill of the trader, which enables the trader's enterprise to draw customers. This capacity of an enterprise is based on its commercial status established through carrying on business and using the trademark for particular goods and services.

In essence, it is the goodwill that gives value to the trademarks. In the common law system, goodwill therefore plays a significant role in the context of protection of a given symbol. It is commonly held that when a trademark owner seeks protection for his mark, the property to be protected is not the mark but the goodwill behind it, of which it is but a symbol.^{*26}

²⁴ *Ibid.*

²⁵ See G. Gugeshashvili. Goodwill in accordance with the Georgian Legislation. – Samartali 2000, #6–7. p. 103.

²⁶ H. D. Nims. The Law of unfair competition and trade marks with chapters on goodwill, trade secrets..., New York 1947, p. 81.

It follows that in common law a trademark cannot exist without goodwill standing behind it. As was said above, this basically applies irrespective of whether the trademark is registered. When this approach is compared to what was discussed in the first paragraph of this article, it may be concluded that some contradictions concerning the notion and character of goodwill exist even in the common law system. Goodwill is frequently defined as a priority or benefit arising from market connections and good reputation. If the acquisition of goodwill is possible only by means of good relations with third parties and advantageous commercial status of the business in the market, then how can it be assumed that every trademark has goodwill? Is it possible for a mark to have goodwill at the very beginning of its use? If the customers are not satisfied with the activities of a particular business, may the trademark used by that business nevertheless have goodwill? Is it not necessary for a mark to gain popularity or at least to be known by a particular group of people in order to acquire goodwill? An answer needs to be given to these and many other questions.

If every mark has or may have goodwill irrespective of its popularity and reputation, then the concept of goodwill in the meaning of a benefit or priority arising from all the positive characteristics that a business and its trademark have seems to be called into question, though the nature of goodwill does seem to be most adequately reflected by that concept.

The questions posed above can only be answered after reflection on the issue of a trademark's value.

It is obvious that, as soon as a trademark is registered and/or used for particular goods or services, it has a value. This value may be called the 'general value' of the trademark. Obviously, a trademark's value may fluctuate over time. A trademark's general value is indivisible from the mark. As long as a trademark is in use, its general value also remains in existence.

Is goodwill synonymous with the general value of a trademark? On the basis of the opinion that every trademark has goodwill, the answer would be positive. However, taking into account all the characteristics of goodwill, one finds it hard to conclude that goodwill is nothing more than the general value of a trademark.

Goodwill is an extraordinary or specific value that a mark may have only in cases where it has popularity, is known, and has the support of customers. That is why goodwill should not be identified with the general value of a trademark. Every trademark may have a general value, but it does not necessarily have goodwill.

From the beginning of its use, a trademark symbolises its own general value; then, if it acquires those positive characteristics that are necessary for the acquisition of goodwill, it undergoes transformation into a symbol of goodwill. In this regard, it may be concluded that a trademark is a sign picked out with the hope that it will symbolise goodwill.

Protection of trademarks is not dependent on goodwill in the continental European system of law. Moreover, the law of the European Community says nothing about goodwill.

In order to define the legal framework for protection of goodwill and reputation, it is of great importance to clarify whether the term 'reputation' as mentioned in EU law is equal in meaning to the term 'goodwill' as used in common law.

Because the present article is focused on analysis of Georgian legislation, where conceptual differences exist between goodwill and reputation, it is necessary to determine whether the meanings of these terms are identical to those used in EU and common law.

The phrase "trade mark having a reputation" was first used in the trademark-related directive that was passed by the Council of the European Union on 21 December 1988.²⁷ This directive authorises the member states to broaden, at their own discretion, the scope of protection of those trademarks that have a reputation.

According to Article 4, paragraph 3 of said directive: "A trade mark shall furthermore not be registered or, if registered, shall be liable to be declared invalid if it is identical with, or similar to an earlier Community trade mark within the meaning of paragraph 2 and is to be, or has been, registered for goods or services which are not similar to those for which the earlier Community trade mark is registered, where the earlier Community trade mark has a reputation in the Community and where the use of the later trade mark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier Community trade mark."

Within the meaning of the directive, 'earlier mark' means a trademark that, on the date of application for registration of the trademark or, where appropriate, of the priority claimed in respect of the application for registration of the trademark, is well known in a Member State, in the sense in which the concept of being well-known is used in Article 6^{bis} of the Paris Convention.²⁸

Scientists and courts attempt to explain the meaning of a trademark's repute. For example, one author says that a mark's "repute is a psychological factor, the full extent of which cannot be precisely quantified. The

²⁷ First Council Directive of 21 December 1988 to approximate the laws of the member states relating to trade marks (89/104 EEC). Available at wipo.int/clea/docs_new/pdf/en/eu/eu014en.pdf.

²⁸ *Ibid.*, Article 4 (3).

strength of a mark's repute depends upon the scope of the possible image transfer. An already existing image transfer, i.e., the economical exploitation of a mark for use on different goods and services can be taken as an indication of strong repute.²⁹

In the 'DIMPLE' decision, the court held that a mark receives a special repute when its reputation is so outstanding that its economically reasonable exploitation is also possible for other goods and services.³⁰

Yet what is implied in the concept of reputation under European Union law? This question was addressed by the European Court of Justice on 14 September 1999 in the case *General Motors Corporation v. Yplon SA*.

According to the decision of the court: "Article 5 (2) of the first Council Directive (89/104/EEC) of 21 December 1988 to approximate the laws of the Member States relating to Trade Marks is to be interpreted as meaning that, in order to enjoy protection extending protection to non-similar products and services, a registered trade mark must be known by a significant part of the public concerned by the products or services which it covers."

In the European Commission's submission, the idea of a trademark with a reputation should be understood as meaning a trademark having a reputation with the public concerned. This is something that is clearly distinguished from a 'well-known' mark as referred to in Article 6^{bis} of the Paris Convention.

In so far as Article 5 (2) of the directive protects trademarks registered for non-similar products and services, its first condition implies a certain degree of knowledge of the earlier mark among the public. The degree of knowledge requested must be considered to be reached when the earlier mark is known by a significant proportion of the public concerned with the products and services covered by that trademark.

When examining whether this condition is fulfilled, the national court must take into consideration all the relevant facts of the case — in particular, the market share held by the trademark; the intensity, geographical extent, and duration of its use; and the size of the investment made by the undertaking in promoting it.

Territorially, the condition is fulfilled when, in the terms of Article 5 (2) of the directive, the trademark has a reputation "in the member state".

If the national court decides that the condition as to the existence of a reputation is fulfilled, as regards both the public concerned and the territory in question, it must then go on to examine the second condition laid down in Article 5 (2) of the directive, which is that the earlier trademark must be detrimentally affected without due cause. Here it should be observed that the stronger the earlier mark's distinctive character and reputation, the easier it will be to accept that detriment has been caused to it.³¹

The mark's reputation is a precondition for granting extended protection. Trademarks that have not acquired reputation cannot be protected against use on non-similar goods and services.

It should be noted that at present extended protection of non-competing goods or services is afforded also to "famous" and "well-known" marks. For example, Article 16 (3) of the TRIPS agreement makes it mandatory to grant in certain cases extended protection to marks that are well known in the sense of Article 6^{bis} of the Paris Convention.³²

One thing is clear: famous and well-known marks always have a reputation. The differences between famous, well-known marks and marks having a reputation are not discussed in this article, since, as one author has pointed out, "strict differentiation is not possible as these concepts are relative".³³

It is not hard to guess that in EU law reputation plays the most important role in the case of trademark protection. The trademark's reputation — not goodwill — is the decisive factor for granting extended protection.

As German scientist Annette Kur says: "[I]t is precisely a trademark's 'reputation' beyond its distinguishing function upon which its commercial exploitability beyond the scope of similarity of goods is bounded; therefore, the heightened risk through acts undertaken by third parties is also based upon this."³⁴

According to the decision of the European Court of Justice and also the definitions of reputation and goodwill established by certain legal scientists, the following conclusion should be drawn: the term 'reputation' as used in the legislation of the European Union has the same meaning as the term 'goodwill'. Reputation encompasses all the characteristics that goodwill should have in common law; i.e., reputation is an indicator of the trademark's extraordinary value. Reputation, unlike goodwill, is not an intangible asset. But still in EU law it plays the same role and has the same functions as goodwill has in the case of trademark protection.

²⁹ M. Franzosi. *European Community Trade Mark, Commentary to the European Community Regulation*. The Hague, Netherlands 1997, p. 217.

³⁰ Bundesgerichtshof, *Gewerblicher Rechtsschutz und Urheberrecht* 1985, 550, 552.

³¹ *General Motors Corporation v. Yplon SA*, C-375/97, European Court of Justice, 14.09.1999 (1) Available at www.curia.europa.eu/juris/cgi-bin/gettext.pl.

³² See A. Kur. *Harmonization of trademark law in Europe — an overview*. – IIC 1997/1, p. 3.

³³ F. Mostert. *Famous and well-known marks*. Butterworth, printed and bound in Great Britain 1997, p. 20.

³⁴ A. Kur. *Well-Known Marks, Highly Renowned Marks and Marks Having a (High) Reputation What's It All About?* – IIC 1992/2, p. 227.

As regards the Georgian legislation, it should be noted that, the wording 'goodwill of a trademark' is not applied in the Georgian Law on Trade Marks. Article 5 (z) of this act grants extended protection to those trademarks that have a good reputation. This article actually corresponds to the directive of the European Union; only the word 'good' is added in the Georgian law. Nevertheless, it would be better to use the wording 'trademark having goodwill' instead of referring to a trademark 'having a good reputation'. The reason is not a desire to give the priority to goodwill but the definition of reputation, given in the Civil Code of Georgia, that indicates that this is a personal non-property right.

Because of the personal nature of reputation, it is impossible for a trademark to have a reputation. Because of its non-property nature, reputation has no value. By contrast, as was mentioned above, a trademark always has a value. Hence, the concept of reputation used in the Civil Code of Georgia is not suitable for use in relation to trademarks.

The concept of goodwill but not of the reputation given in Georgian legislation corresponds to the EU concept of reputation. In the case of the amendment that was discussed above, the Georgian law on trademarks will continue to correspond to EU law. The reason for this is that in EU law goodwill and reputation are synonymous. Hence, the wording 'trademark having goodwill' will not lead to uncertainties and extended protection will be granted to trademarks despite the absence of the term 'reputation'.

6. Conclusions

Analysis of the nature and characteristics of goodwill and reputation enables us to conclude that it is impossible to give a direct answer to the question of whether goodwill and reputation are synonyms. While in one system they operate as identical concepts (e.g., in the continental European system of law), in another the definitions of goodwill and reputation are not equal to each other. Even in countries belonging to the same legal family, goodwill and reputation may have different meanings. Consequently, the legal boundaries of the protection of goodwill and reputation differ from one legal system to another. When in common law broader protection is granted to goodwill, it is not easy to compass the legal boundaries of goodwill protection in EU law, as the term 'goodwill' is not mentioned there. Only through analysis of the content of goodwill may it be presumed that goodwill might have the same legal boundaries of protection under EU law as reputation has.

As to Georgian legislation, despite the fact that Georgia is a country with a continental European system of law, the concepts of reputation and goodwill are not equivalent to each other here. Moreover, the concept of reputation under Georgian legislation does not correspond to that of the relevant EU law. As regards goodwill, it has the same meaning as in common law.

It should be given particular stress with respect to the protection of goodwill and reputation in Georgia that the current legislation enables an owner of a trademark to protect a mark from use on non-similar goods and services in cases where the mark has a good reputation. By contrast, the concept of reputation given in the Civil Code of Georgia is not suited to use with regard to trademarks. It would be preferable to use the term 'goodwill' instead of 'good reputation' in the Law on Trade Marks to express the extraordinary value of a trademark.