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WIPO/TM/BEY/03/3
ORIGINAL: English
DATE: March 2003

REPUBLIC OF LEBANON

WORLD INTELLECTUAL PROPERTY ORGANIZATION

WIPO NATIONAL SEMINAR ON THE PROTECTION OF TRADEMARKS AND GEOGRAPHICAL INDICATIONS

organized by
the World Intellectual Property Organization (WIPO)

in cooperation with
the Government of the Republic of Lebanon

Beirut, March 17 to 19, 2003

ECONOMIC IMPORTANCE OF TRADEMARKS AND GEOGRAPHICAL INDICATIONS AND THEIR USE IN COMMERCE

Document prepared by the International Bureau of WIPO

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INTRODUCTION

1. The modern economy is characterized by globalization of markets and by an increasingly rapid appearance of new products and services. Apart from the growing importance of "creative-effort" related categories of intellectual property in the knowledge-intensive economy such as patents and copyright, the globalization of markets has given rise to an unprecedential importance of "entrepreneurial-effort" related intellectual property rights. While there is an ongoing and extensive discussion taking place as far as patents and copyright are concerned, somehow less attention is paid to trademarks and geographical indications, the two main categories among said "entrepreneurial-effort" related rights. A notable exception in this respect is the issue concerning the relation of trademarks - and to some extent also geographical indications- to domain names. However, this exception does not alter the general impression that the overall economic importance of trademarks and geographical indications is not exposed to the extent that these categories actually deserve.

2. The aim of this document is to make a brief exposition of economic importance of trademarks and geographical indications and their use in commerce in a modern, knowledge-driven market economy. It is worth to emphasize at the outset that **without** trademarks and other business identifiers (trade names, character merchandising etc.), patent and copyright protection would be of a relatively lesser economic value. The main reason is simple: when put on market, the competitive advantage of an industrial product with incorporated protected invention, or of an original copyrighted work can be recognized only through appropriate commercial identification, i.e. by means of a trademark, firm name, domain name, author's name or geographical indication. All these categories add an important share of market value.

3. The need to pay more attention to trademarks and geographical indications is further exemplified by the underproportionaly low utilization of them in developing countries. While the economic and social reasons for a low number of patents originating in these countries - relative to the numbers in advanced industrialized countries - are known, the same reasons may not be entirely applicable as far as trademarks and geographical indications are concerned. These rights do not necessarily depend so strongly upon existence of a demanding social infrastructure in science and technology, which has proved to play a significant role in protection of patents and other similar creativity-related rights. Legal protection of marks and geographical indications is also less expensive and thus relatively more affordable as patens. This is an important fact, because attractive trademarks can very often offset a possible lack of technology-based competitive advantage. And one should note that legal protection of geographical indications is suitable for many **existing** goods and products that originate in developing countries, yet lack of this type of protection inevitably leads to relatively lower prices on world markets.

1. BASIC NOTIONS OF TRADEMARKS AND GEOGRAPHICAL INDICATIONS

1.1 General

4. Trademarks and geographical indications belong to **industrial property**, which is one of the two major branches of intellectual property, the other branch being copyright and related rights. According to paragraph (2) of Article 1 of the Paris Convention for the Protection of Industrial Property ("Paris Convention"), "[T]he protection of industrial property has as its objects patents, utility models, industrial designs, trademarks, service marks, trade names, indications of source or appellations of origin, and the repression of unfair competition."

5. The terminology has changed somewhat since the Paris Convention was concluded as far back as in 1883. Although the Convention was revised several times since then, the terminology currently in use did not find its way into it. This is especially true for the two categories that we deal with here, that is trademarks and geographical indications. For this reason, brief notions of trademarks and geographical indications are given first in the paragraphs below. The description is kept to a bare minimum and is thus far from being sufficiently complete from the legal point of view. A more complete presentation of legal substantive and procedural aspects may be found in other WIPO publications, such as, for example, WIPO Intellectual Property Handbook (WIPO publ. No. 489).

1.2 Trademarks

6. Initially, the notion of trademarks referred to goods only, but not to services. This distinction explains a separate mentioning of trademarks and service marks in the Paris Convention. Nowadays, the term "trademark" is regularly understood to refer to both goods and services, i.e. to both trademarks and service marks in their original sense. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) of 1994, administered by the World Trade Organization (WTO) unambiguously defines, in Article 15.1, the trademark in such a broader sense: "Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark." World Intellectual Property Organization (WIPO) is frequently using the word "mark" as a term covering trademarks in its original meaning, as well as service marks. This is the case, for example, in the recent WIPO-administered Trademark Law Treaty of 1994, despite the fact that the title of the Treaty itself does not suggest so. In this document, both the term "marks" and "trademarks" will be used as synonyms in their broad interpretation, i.e. that they relate to both goods and/or services.

7. There is a vast choice of signs that may constitute a trademark: words, letters and numerals, (fancy) devices including drawings and symbols and also two-dimensional representations of goods, colored marks, three-dimensional signs, audible signs, and even distinctive smells (olfactory marks). However, as a general rule, trademarks must not be descriptive or deceptive. On the other hand, the core property of any sign that may be protected as a trademark is its distinctiveness. The sign must serve to distinguish goods or services of a given enterprise from those of other enterprises. Signs lacking distinctiveness are *a priori* excluded from protection, such as generic terms, descriptive signs, non-distinctive references to geographical origin, and the like. For example, the word "apple" is a generic word for an enterprise growing and selling apples and thus cannot be a trademark for this type of goods; however, this word may be used as a trademark for computers.

8. Lack of distinctiveness is a major, in some legislative acts termed as absolute, ground for refusal of registration of such a sign as a trademark. Another important absolute ground of refusal is if a sign is deceptive, i.e. that it is likely to deceive the public as to the nature, quality or any other characteristics of the goods or services, or their geographical origin. The third major absolute ground for refusal the registration of a trademark is if it is not capable of graphical reproduction, though this requirement must be interpreted very broadly. For example, in case of the already mentioned olfactory marks, the smell itself certainly cannot be graphically reproduced, yet the description of the type of smell and the sign of a mark as such can be. A real example of such olfactory mark is a registered Community Trade mark for a tennis ball with the smell of a freshly-cut grass.

9. In addition to absolute grounds for refusal, against which trademark applications are often, though not always, examined by many trademark offices, there are also relative grounds for refusal, which are seldom examined. The most prominent relative ground for refusal of a trademark application is, of course, the existence of an earlier trademark, which is the same, or confusingly similar to the later application filed by a third person. Clearly, the existence of an earlier trademark is a confirmation that the sign is distinctive, but of course it cannot be used by two competitors for the same or similar goods or services – this would lead to confusion on the market. However, the same sign may be used, in principle by two different enterprises, if the goods or services are sufficiently dissimilar and if some further requirements are met. For example, there should be no likelihood of confusion and/or association, i.e. that consumers would be confused or would in some way associate goods/services of one enterprise with another. There should also be no danger of what is termed as trademark dilution, by which it is meant that a trademark of one enterprise suffers loss in a goodwill associated with it just because the same trademark is used, albeit for dissimilar products. Likelihood of confusion and trademark dilution are phenomena normally related to well known marks, for which, therefore, the general rule of allowed use of a same trademark on dissimilar goods or services by different enterprises does not necessarily apply.

10. Trademarks are in most countries protected for 10 years, but protection may be renewed again and again for another 10 years. Thus, a trademark may remain protected indefinitely. In this respect does trademark protection significantly differ from patents and industrial designs, for which the term of protection cannot be renewed or prolonged (except in some specific cases of patent protection) after the expiry of maximal specified period of protection. However, most countries require that the mark must be *de facto* used, in order to maintain it registered. If a trademark is not used for a certain period of time, usually 5 years and in any case not less than three years, according to Article 19 of the TRIPS Agreement, then anyone may require that such a mark be no longer protected.

11. In protecting a trademark, there is nothing similar to what is known as novelty requirement in patent law. In other words, certain sign may be used as a brand, i.e. as an unprotected mark, even for a long period, but the user of this brand has still, at every point in time, every right to file an application to protect it as a trademark. In fact, the use of a brand preceding trademark application for it is in many countries recognized as an advantage; if trademark application is filed by a person other than the user of the brand, then ownership in such an application or subsequent registration may be transferred to the first user.

1.3 Geographical Indications

12. The terminology traditionally applied in treaties in the field of geographical indications administered by WIPO distinguishes between “indications of source” and “appellations of origin.”

13. The term “indication of source” is used in Articles 1(2) and 10 of the Paris Convention. It is also used throughout the Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods of 1891 (“Madrid Agreement on Indications of Source”). There is no definition of “indication of source” in those two treaties, but Article 1(1) of the Madrid Agreement on Indications of Source clarifies what is meant by the term. That Article reads as follows:

> “All goods bearing a false or deceptive indication by which one of the countries to which this Agreement applies, or a place situated therein, is directly or indirectly

indicated as being the country or place of origin shall be seized on importation into any of the said countries."

> Consequently an indication of source can be defined as an indication referring to a country, or to a place in that country, as being the country or place of origin of a product. It is important that the indication of source relates to the geographical origin of a product and not to another kind of origin, for example, an enterprise that manufactures the product. This definition does not imply any special quality or characteristics of the product on which an indication of source is used. Examples of indications of source are the mention, on a product, the name of a country, or indications such as "made in…."

14. The term "appellation of origin" is defined in the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration, of 1958 ("Lisbon Agreement"). The Lisbon Agreement establishes an international system of protection for appellations of origin, which are already protected under the national law of one of the States party to that Agreement. Protection is subject to the international registration of that appellation of origin. Article 2(1) of the Lisbon Agreement defines the term "appellation of origin" as follows:

> "Appellation of origin" means the geographical name of a country, region, or locality, which serves to designate a product originating therein, the quality and characteristics of which are due exclusively or essentially to the geographical environment, including natural and human factors."

Under this definition, an appellation of origin can be regarded as a special kind of indication of source, because the product for which an appellation of origin is used must have quality and characteristics, which are due exclusively or essentially to its origin. Examples for protected appellations of origin are "Bordeaux" for wine, "Noix de Grenoble" for nuts, "Tequila" for spirit drinks, or "Jaffa" for oranges.[1]

15. The definition of "geographical indication" is given in the Agreement on Trade-Related Aspects of Intellectual Property Rights of 1994 ("TRIPS Agreement") in a section dealing with the protection of geographical indications (Part II, Section 3). Article 22.1 of the TRIPS Agreement provides the following definition:

> "Geographical indications are, for the purposes of this Agreement, indications which identify a good as originating in the territory of a Member [of the World Trade Organization], or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin."

This definition is apparently based on the definition of appellation of origin in Article 2 of the Lisbon Agreement. However, it deviates from Article 2 of the Lisbon Agreement in some respects. Article 21.1 of the TRIPS Agreement defines geographical indications as "*indications* which identify a good […]," whereas Article 2 of the Lisbon Agreement defines appellations of origin as "the *geographical name* of a country, region, or locality, which serves to designate a product […]."[2] Signs other than geographical names, for example a

[1]All of these examples are appellations of origin registered under the Lisbon Agreement.
[2]Emphasis added.

non-geographical name or an emblem, would not be covered by Article 2 of the Lisbon Agreement. However, they would fall into the category of signs that could constitute geographical indications under the TRIPS Agreement. Furthermore, the Lisbon Agreement requires that the quality and the characteristics of the product in question be due exclusively, or essentially, to the geographical environment, including natural and human factors. The TRIPS Agreement covers goods, which have a given quality, reputation or other characteristic that is essentially attributable to their geographical origin. It is generally understood that goods, which have "merely" a certain reputation, but not a specific quality being due to their place of origin, are not covered by the definition of appellation of origin as provided by the Lisbon Agreement.

16. If the definitions of indication of source, appellation of origin and geographical indication are compared with each other, the following can be observed. Indication of source is the broadest term. It comprises both geographical indication and appellation of origin. Indications of source only require that the product on which the indication of source is used originate in a certain geographical area (Made in…). Thus, there are indications of source, which seem not to be covered by the definition of geographical indication under the TRIPS Agreement, namely indications of source whose use on products does not imply a particular quality, reputation or characteristic of those products. Geographical indications are more broadly defined than appellations of origin. In other words, all appellations of origin are geographical indications, but some geographical indications are not appellations of origin.

17. For the purpose of the present document, the term geographical indication will be used in the sense of Article 22.1 of the TRIPS Agreement, covering geographical indication (within the meaning of Article 22.1 of the TRIPS Agreement) and appellation of origin. However, it must be borne in mind that the terms "indication of source," "appellation of origin" and "geographical indication" are used in different international legal instruments. Rights and obligations flowing from those instruments, exist only in relation to the category of "geographical indication" to which the instrument in question refers. Therefore, it may not always be possible to speak broadly of "geographical indications"; rather, a distinction must be made within the context of the international agreement that is under consideration.

2. THE PRINCIPAL ECONOMIC RATIONALE OF TRADEMARKS AND GEOGRAPHICAL INDICATIONS

18. The basic economic function of trademarks and geographical indications is to protect the **goodwill** of products to which they relate. There is no agreed definition of goodwill, at least in international trademark law. On the other hand, much is said about the goodwill especially in US jurisprudence. For the purposes of this document, the following definition is convenient and useful: goodwill is *"[T]endency or likelihood of a consumer to repurchase goods or services based upon the name or source of goods and services."*[3] Although goodwill is not the same as, say, invention or a copyrighted work, it is equally intangible and thus posseses the same public-good property – it may be used on any number of related goods or services. Therefore, an unauthorized exploitation of a trademark's goodwill is *from economic point of view always feasible*. It is then no wonder that unauthorized use of a trademark has been recognized as a *legal issue* for quite some time and is nowadays known in law as **counterfeiting**. The TRIPS Agreement defines counterfeiting, in footnote to Article 51, in the

[3] Stim, Richard, Intellectual Property: Patents, Trademarks, and Copyrights, West Publishing, Albany etc. 1994, p. 636.

following way: *“”[C]ounterfeit 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;”*.

19. There is, however, an additional economic impact of trademarks and geographical indications. By the virtue of their basic function of distinguishing goods or services of one enterprise from same or similar goods or services of other enterprises, trademarks are the main building block of what is termed as **market identity**. The notion of market identity can be best explained by a simple analogy. We can say that trademarks play the same role in identification of goods or services as personal names play in identification of individuals. Similar reasoning applies to geographical indications, though they relate to a group of enterprises and not only to one of them. In our little analogy, we could say that geographical indications play the same role as citizenship. Without much elaboration, we may see that market identity significantly contributes to encouragement of inventive and other creative activity. After all, a product based on a highly valuable invention can succeed on the market only if the product itself is recognized to be innovative – but this recognition can be achieved only with the assistance of branding, i.e. with trademarks and/or geographical indications. In other words, the success based on inventive activity depends on success of market identity, whereas the reverse does not necessarily hold.

3. COMMERCIAL ASPECTS OF TRADEMARKS

3.1 Traditional Business Objective

20. In discussing possible basic alternatives of business objectives, it may be useful to recall the fundamental rights conferred by legal protection. Although the subject matter of protection is of course different for each and every category of intellectual property, the fundamental right conferred by protection is essentially the same for all of them: “*One characteristic shared by all types of intellectual property to date is that rights granted are essentially negative: they are rights to stop others doing certain things – rights in other words to stop pirates, counterfeiters, imitators and even in some cases third parties who have independently reached the same ideas, from exploiting them without the licence of the rightowner.*”[4]

21. It lies at hand to translate the negative nature of conferred rights into the main strategic business objective in a rather straightforward manner. This is traditional and dominating view as far as virtually all intellectual property rights are concerned. Simply put, an owner of a trademark needs to monitor their competitors and whenever he notices that someone has committed an act of unauthorized use of his trademark, then he immediately reacts and makes any attempt, in accordance with legal means available, to stop the alleged unauthorized use of his rights. Available legal means for undertaking such acts are predominantly legal acts concerning the **enforcement** of intellectual property rights in general, and of trademarks in particular. Trademarks are very vulnerable category of intellectual property, because unauthorized use – infringement – is more than easy. One just labels “false” products with a trademark which has a valuable goodwill of a successful product. Not surprisingly, well-known marks are most exposed to counterfeiting.

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[4] Cornish, William R., Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights, Fourth Edition, Sweet & Maxwell, London 1999, p. 6.

22. However consistent the main business objective of prevention of unauthorized use may be under the negative nature of rights conferred by protection, it is also true that many small and medium-sized companies (SMEs) cannot, or at least in a very limited manner, incorporate it into their overall business strategy. Namely, the crucial underlying activity in performing the desired objective is careful monitoring of competitors. This exercise is in a modern world with global markets a demanding affair, in terms of financial resources and skilled personnel both for monitoring itself and for initiating legally demanding enforcement procedures. SMEs almost by definition do not dispose with, and even cannot afford such an overhead burden within their overall size. Conversely, firms that can afford to carry out such activities must then be sufficiently large, but then they cannot be counted to belong to SMEs.

23. This a serious problem, which well explains why SMEs do not dispose with so many trademarks (or even patents for that matter) as they should, relative to the overall share of SMEs in national economies in the vast majority of countries in the world. However, somehow different business objectives that are far more appropriate for SMEs, may significantly change this, at first sight not very favorable picture.

3.2 Business Objectives of Small- and Medium-Sized Enterprises

24. The world is literally flooded with trademarks and globalization of world markets implies that even locally operating SMEs are, directly or indirectly, exposed to this globalization. After all, the Internet is effectively unifying the world into one single borderless market, what gives a tremendous chance to every company, regardless how small it is, to be present on it.[5] In this context, the notion of a locally operating SME becomes elusive, and this fact is of direct relevance for a proper formulation of business policy in respect of intellectual property in general, and of trademarks in particular.

25. If the traditional business objective of using legal protection of trademarks primarily to stop counterfeiting was found inappropriate for SMEs, then one has to look just to the other side of the coin. Ignoring intentional counterfeiting, which is a criminal act, there is always a chance that a SME **unintentionally** infringes a trademark of a third party. Bearing in mind tens of thousands of trademarks in use all over the world, it is immediately clear that such a risk is far from being negligible. However, even an unintentional infringement is eventually recognized as infringement; perhaps the consequences are a bit milder compared to a willful act of counterfeiting, yet they may still seriously affect, even endanger the very existence, of a SME found as an “unauthorized user” of someone’s else trademark.

26. Such a situation then calls for a great care. In this sense, the objective of **avoiding the risk of infringement of third parties’ trademarks** may be defined as the most relevant and suitable business objective for a vast majority of SMEs.

27. The obvious question, of course, is how this objective can be best achieved. Without much elaboration, the most efficient way to assess the risk of possible infringement is simply to apply for respective trademarks in all relevant markets. If trademarks are eventually registered, then the owner may be pretty sure that the risk of infringement is minimal, and he is *bona fide* on the marketplace. Applications and registrations of respective rights thus serve as a test of the risk, rather than a tool intended to be used against others, though sooner or

[5] See, for example, Eduardo da Costa, Global E-Commerce Strategies for Small business, The MIT Press, Cambridge, Massachussets 2001.

later the traditional objective may become applicable as well, at least in the domicile market of a SME.

28. Now, imagine the opposite outcome, i.e. that an application for a trademark is rejected for whatever reason. Of course, the applicant gets from the trademark office a precise explanation of grounds leading to rejection of registration. This means that the applicant obtains precisely the most relevant information he needs for further action. This is why filing of trademark applications by SMEs is deemed to be the most appropriate way in pursuing the said objective of avoiding possible risk of unintentional infringement. In addition, the costs of filing trademark applications are incomparably lower than costs of, say patents, and may be normally borne by many SMEs without great difficulty.

29. Although the business objective for SMEs as recommended here is the mirror picture of the traditional objective, it is nonetheless interesting to note that in both cases one has to behave identically – in pursuing either of the two objectives, trademarks applications must be filed.

3.3 The Role of Trademarks in Technology Transfer

30. Whenever commercial transfer of technology, most usually in a form of license agreements, takes place, then discussion evolves mainly around the role of patents. However, it can be shown that trademarks, within their function of establishing market identity, play a major role in the licensing process. To this end, a distinction must first be made between two generic forms of such transactions.

31. If a certain technology is transferred together with the licensor's trademark, then we have more than the transfer of technology – the market identity of the licensoor is transferred as well. When such licensed products are launched on market, consumers will actually recognize them as the **licensor's products,** for obvious reasons. This, however, also means that licensees producing such products remain anonymous, because they do not dispose with their own market identity.

32. The situation is of course completely different if a licensee puts the licensed products on the market under his own trademark, and possibly also changes its appearance. Then he establishes his own market identity and consumers then unambiguously recognize him as the seller of that particular product. The subject matter of license agreement then clearly relates only to the transfer of technology, as it does not involve the license of the licensor's trademark and/or industrial design.

33. On this basis, the following distinction between two generic forms of technology transfer can be made. First, whenever only technology is transferred, without the licensor's trademark, then we can speak about the **transfer of industrial knowledge.** It is this knowledge which has been acquired by the licensee with the aim of raising his own competitiveness. However, when a licensee acquires both the license for technology and for licensor's trademark, then we have the second form of technology transfer, which can be conveniently called the **transfer of production.** The reason for choosing this denomination is simple: since the licensed product has already been produced and sold elsewhere by the licensor, the license agreement of this type just opens up a new production site for the product that bears the same trademark. In other words, customers normally cannot notice the difference between the licensor's and licensee's product.

34. The distinction between the transfer of industrial knowledge and the transfer of production is important, because the following important question is immediately raised in this respect: Which of the two forms is more appropriate? This question can be also turned around into a form of a statement what the principal business objective for licensees is, or ought to be. Simply put, the principal business objective for licensees is to choose the appropriate generic form of transferred technology.

35. While it is normal that any company that is not engaging in blunt counterfeiting will offer its self-developed product under its own trademark, a licensee is quite often motivated to ask the licensor for the latter's trademark license as well. In the short run, the use of licensor's trademark is certainly beneficial as it enables the licensee to achieve relatively better market performance as compared to the situation when only his own trademark is applied. However, the consequences are rather unfavorable in the long run, because the licensee does not dispose with its own market identity. Roughly speaking, he simply does not exist for consumers who are buying the products bearing the licensor's trademark, despite the fact that he is producing them. Absence of market identity is the consequence of the following important distinction between products as such and the brands (i.e. trademarks) associated with them: *"The distinction between brand and product is fundamental. Products are what the company makes; what the customer buys is a brand."* [6]

36. It is then clear that trademarks, and to some extent also industrial designs, are in the forefront in choosing the right form of technology transfer, as they determine either the right or the wrong type of market identity of licensees. This conclusion is in sharp contrast to the widespread opinion that patents are the category of intellectual property requiring the most attention in the licensing business. Using a metaphor from literature, we could say that a trademark license might be like the pact made by Goethe's Faust, whereby one sells one's soul for a short period of joy in life followed by eternal hell. Fortunately, this frightening statement does not hold universally. Much depends upon the ownership of the parties involved.

4. COMMERCIAL ASPECTS OF GEOGRAPHICAL INDICATIONS

4.1 The Relationship between Trademarks and Geographical Indications

37. Geographical indications by their very nature cannot be subject matter of licensing. Technology and know-how for producing Champagne or Cognac may be, in principle, transferred to a person producing sparkling wine or brandy outside the region of Champagne or Cognac, but the right to label the licensed product to be champagne or cognac of course cannot be transferred as well. This is the reason why in reality such a license is very unlikely. However, the point here is that even if such a transaction takes place, it cannot comprise the license for use of licensor's geographical indication. On the other hand, a person entitled to use a geographical indication obviously does not need a license for it even if such a person obtains the know-how from another person in the region also entitled to use of the same geographical indication.

38. On the other hand, the economic function of geographical indications is much the same as that of trademarks. First, there exist related goodwill. Second, they establish and protect market identity, by distinguishing the goods bearing a geographical indication from same or similar goods of a different geographical origin, though this distinctiveness is on a collective rather than on individual level. This fact, however, does not mean that geographical

[6] Jean-Noel Kapferer, , Strategic Brand Management, Kogan Page, London 1992, p. 9.

indications are not private rights, like all other categories of intellectual property. Rather, they are used collectively by several private persons engaged into production of goods bearing geographical indication. From the legal point of view, geographical indications share many properties with trademarks, such as distinctiveness, non-deceptiveness, and unlimited duration of protection.

39. The fact that geographical indications perform same economic functions as trademarks naturally raises the question of the economic relationship between the two types of protection. Is it necessary to have both geographical indications and trademarks, or either one of the two categories is sufficient?

40. The answer to this question is somewhat more complex as it may initially look like, because different combinations may lead to different situations. In any case, the practice has shown that both trademarks and geographical indications may well support and thus complement each other. Champagne or Cognac are good illustration for such a complementary relationship. There are many well known, even famous, marks related to the Champagne wine or Cognac brandy. It may be even argued that many trademarks became well known precisely on the basis of the goodwill created by the relevant geographical indication. In other words, geographical indications and related trademarks are both sources of goodwill, which is then – all else equal – greater, relative to a situation where only one of the two sources exists. The only difference is that all trademark owners, including of course owners of well-known marks, collectively benefit from the goodwill created by geographical indication, though not all of them in the same scope. Owners of normal, less known trademarks benefit, in relative terms, more from the goodwill of geographical indication than those who own well-known trademarks.

41. This means that the more well known is a certain trademark, the lesser is the direct economic relevance of related geographical indication. However, this is not an issue of concern as long as well-known marks belong to persons entitled to use the related geographical indication as well. After all, it does not matter, which portion of overall goodwill and reputation is associated either with the geographical indication or a trademark. In addition, it is almost impossible to quantify the contribution of either of two categories under consideration. But it should not be forgotten that the goodwill, whatever its scope may be, of each and every trademark is inseparably linked with the (goodwill of) underlying geographical indication.

42. The situation is significantly different whenever products are not protected by means of geographical indications. Such products initially have no “geographical” market identity and are *a priori* deprived of benefiting from the goodwill associated with geographical indications. Unless producers do not dispose with their own valuable trademarks, then their products are sold just under the lowest possible price, which is very close to marginal cost, as the economic theory predicts for homogeneous, i.e. undifferentiated, products. This fact alone clearly speaks in favor of paying attention to protection of geographical indications.

43. But the story does not end here. If there is no protection of geographical indications, then owners of trademarks, under which such products may be eventually offered to consumers, may not be necessarily domiciled in regions of origin of respective products. Two well-known examples of this kind of trademarks are Lipton for tea and Chiquita for bananas. The trademark Lipton is owned by a company based in U.K. and the trademark Chiquita is owned by a company based in U.S.A. Yet tea does not grow in U.K. and bananas do not grow in U.S.A. On the other hand, the two trademarks enjoy a very high reputation and goodwill

worldwide, because the respective products – tea and bananas – are of a very high quality. But this quality can certainly be attributed to the region where these products originate. Apart from some exceptions, such as indication Darjeeling for a tea, most of the products sold under the two trademarks are not protected through geographical indications in the countries of their origin. Being this the case, then "geographical" goodwill does not exist as such, only the goodwill of respective trademarks.

44. Consequently, all economic benefits flow solely to owners of trademarks. As already explained, this is not a problematic situation as long as trademark owners are domiciled in the respective geographical region or regions. As explained above, this is regularly the case if protection of geographical indications exists. In the opposite case, however, owners of respective trademarks may not necessarily be domiciled in the regions of origin of products. If so, then "true" producers, in principle, seldom enjoy - and even cannot claim - any share in benefits arising out of "geographical" goodwill, because it is not legally recognized.

4.2 The Case of Developing Countries

45. The above analysis is highly relevant for all those countries, which do dispose with products eligible for protection by geographical indications. The vast majority of such products are agricultural products, foodstuffs, wines and spirits. It goes almost without saying that developing countries and also countries in transition are the major geographical source for most of such products which are sold worldwide – coffee, tea, cacao, rice, bananas, coconuts, mango, papaya, tapioca, spices, flowers, alcoholic and nonalcoholic local drinks…. However, protection of geographical indications has been seldom applied to the extent available in many of those countries. By implication, economic benefits possibly gained on this basis have not been realized, or at least not to the appropriate extent.

46. It is important to emphasize that possible economic gains of protection of geographical indications require much more than enactment of relevant legislation. An operational infrastructure must be established, such as associations of persons entitled to use geographical indications, quality supervising institutions, enforcement authorities controlling possible misuse of geographical indications either by persons not entitled to use them or by persons who may be entitled but do not use it in accordance to prescribed rules, etc. Most importantly, geographical indications must be properly advertised much in the same way as this being the case with trademarks. Without advertising, the goodwill could hardly be established. Recall the above definition of the goodwill, which says that goodwill is tendency or likelihood of a consumer to repurchase goods or services. Therefore, consumers must be properly informed, and the only practical way to do this is with advertising.

47. Apart from making available sufficient funds for establishing the relevant infrastructure, which may well require enormous amounts, another issue must be considered in respect of advertising of geographical indications. It makes little sense for any single producer to advertise respective geographical indication individually. Because a geographical indication is a collective right, its advertising affects the demand of the whole industry concerned. Therefore, the benefit of an increased demand arising out of advertising is small for an individual producer and/or seller relative to the overall benefit for the industry as whole.[7] This

[7] Cf. Scherer, Frederick M. and Ross, David, Industrial Market Structure and Economic Performance, Houghton Mifflin Company, boston 1990, p. 593/4.

implies that forces must be put together by all beneficiaries of a geographical indication in order to be advertised, and this is far from easy task in practice.

48. Despite all these complexities, the above analysis strongly suggests that establishment of efficient and workable protection of geographical indications ought to be a task of priority for a great majority of developing countries for a number of reasons, which can be summarized as follows. First, such a protection creates market identity and, if properly advertised, a goodwill, which eventually leads to higher price of products, relative to the situation when they are offered as anonymous goods. Second, protection of geographical indications opens the way for local producers to establish their own trademarks and to conduct their commerce under their own market identity. This is the second source of goodwill, the effect of which is added to the goodwill generated by protected geographical indication alone. Thirdly, and perhaps most importantly, protection of geographical indications is related to the **existing wealth**. In this particular respect, the situation is evidently significantly different when compared to, say, patents. Consequently, establishment of a workable system of protection of geographical indications, however complex this task may be, must still be viewed to be less complex in comparison with building-up industrial sector with sufficiently developed scientific and innovative base that could exploit the benefits of patent protection.

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