



## **TRANSFER OF GOODWILL VIS-À-VIS OWNERSHIP CHANGES AND RIGHT TRANSFERS OF A TRADEMARK**

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### **ABSTRACT**

*Imagine that you order a Farmhouse Pizza from Dominos, the pizza tastes different than its usual taste, you then see a label on the store's door and hear a person announcing that a new owner has acquired the Dominos trademark and altered the quality and taste of the existing products and also a new category of pizza has been added which is sweet in taste. Now imagine that Woodland is acquired by Toyota Motor Corporation and under this brand name it has started manufacturing four-wheeler vehicles and it will not continue to make their well-known leather shoes. These examples show how, as a result of assignment of a trademark, an assignee may decide to alter the components or technical specifications of the goods identifiable by a trademark. Such alterations to the product quality and kind of the products are likely to mislead the consumers. In the past, trademark assignments were not encouraged by the law. It also became lucrative for certain trademark owners to permit third parties to create and promote their products while they retained control over the same due to the growth of modern industry and commerce. The welfare of the customers and the avoidance of consumer fraud, in which items are misrepresented as coming from one source when they really come from another, are important considerations when trademark licences are granted.<sup>1</sup>*

**Key Words:** Trademark, Goodwill, Assignment, Transmission, Licensing

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<sup>1</sup> Kunal Ambasta, Trademark Licensing and Trafficking in Trademarks: Does the Law Promote It, 4 INDIAN J. INTELL. PROP. L. 65 (2011)



### WHAT IS GOODWILL?

A customer's willingness to repeatedly use a product or service is Goodwill of that brand with which the products or services is associated. "Lord Macnaghten, in case of *Commissioner of Inland Revenue v. Muller & Co's Margarine Ltd.*<sup>2</sup>" describes Goodwill as:

"It is something that is extremely simple to define yet very complex to convey. It is the advantage and benefit of a company's excellent name, reputation, and connections. Customers are attracted by its attractiveness. It is the one factor that sets an established, long-running company apart from one that is just getting off the ground. A company's reputation must come from a certain location or source. No matter how far-reaching or spread its effect may be, goodwill is useless unless it has the power of attraction to draw customers back to the source from which it originates."

### WHAT IS TRADEMARK?

Simply said, trademarks allow goods and services to be associated with their manufacturer or supplier. Due to its associations with quality and customer expectations, it gains significant value.<sup>3</sup>

Trademarks can be a name, a phrase that has been created, a number, a logo, a colour, a combination of these, or even the texture or form of the goods. Trademarks help to protect both the interests of consumers and companies because they enable customers to connect a product with the quality promised by its trader and because they provide the trader the power to stop rivals from using his mark and gaining money from imitation. In India, trademarks are protected under "The Trademarks Act, 1999, which" defines them in Section 2 (zb). The Trademarks and Merchandise Act of 1958 was superseded by the Trademarks Act of 1999 in order to be in compliance with TRIPS and the WTO. This act lays forth the legal prerequisites that must be met in order for the registrar to register a mark. The chosen mark needs to be able to:

- being graphically portrayed,
- differentiating the products or services of one business from those of other businesses, being used or planned to be used as a mark in connection with products or services to

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<sup>2</sup> Himanshu Sharma, Ronak Karanpuria, Role of Goodwill in Transfer of Trademark, 30 April 2014 <https://www.mondaq.com/india/trademark/310330/role-of-goodwill-in-transfer-of-trademark>

<sup>3</sup> Francis, Geejo, Law of Trademarks in India, May 23, 2011 SSRN: <https://ssrn.com/abstract=1850364> or <http://dx.doi.org/10.2139/ssrn.1850364>



enote or suggest a link in the course of commerce between the commodities or services, and

- The mark may be used by someone, whether or not that person is identified.

All these are required by the act.<sup>4</sup>

A trademark that identifies a particular commodity, service, or corporate brand is inextricably linked to a company's goodwill; without goodwill, a trademark cannot maintain its value or distinctiveness.<sup>5</sup> A trademark can be made up of the company name alone, a logo, or a “combined mark” that combines the two elements. A consumer's decision to buy a product or not is likely influenced by his or her impression of the product at the time of product identification. If the consumer's perception is favourable, the trademark has come to represent the mark's owner's goodwill to promote continuous use of the item or service.

The right to transfer, sell, licence, assign, or otherwise dispose of an asset, including a trademark or brand, belongs to the owner of the asset. It is important to remember that trademark owners are still regarded the legitimate owners of their marks even if they do not have trademark registrations, and even unregistered trademarks can be transferred or assigned.<sup>6</sup>

## **OWNERSHIP CHANGES AND RIGHT TRANSFERS**

“Members may determine conditions on the licencing and assignment of trademarks, it being understood that the compulsory licencing of trademarks shall not be permitted and that the owner of a registered trademark shall have the right to assign the trademark with or without the transfer of the business to which the trademark belongs” states “Article 21 of the TRIPS Agreement.”<sup>7</sup>

## **ASSIGNMENT**

According to Section 2(1)(b) of the Trade Marks Act of 1999, an assignment is a transfer of ownership made in writing by the parties involved.<sup>8</sup> The transferring party (assignor) transfers ownership rights, title, and interest in a trademark or service mark to the receiving

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<sup>4</sup> ibid

<sup>5</sup> Nex Trend Legal, Goodwill, <https://www.nextrendlegal.com/trademarks/goodwill/>

<sup>6</sup> Pradhya Deshmukh, Trademark assignment in India: with reference to transmission and assignment agreements, December 3, 2020 <https://blog.ipleaders.in/trademark-assignment-india-reference-transmissionassignment-agreements/>

<sup>7</sup> Agreement on Trade Related Aspects of Intellectual Property Rights, Article 21 (1995)

<sup>8</sup> Section 2(1)(b), The Trade Marks Act, (1999)



party (assignee). Any portion or all of the products and services for which the mark is registered may be assigned. The following documentation is necessary for trademark assignment: -

1. "Original signed or notarised Assignment Deed."
2. "Original signed and notarised Affidavit of No Legal Proceedings stating that there are no legal proceedings pending in respect of the trademarks and assignment."
3. "A simply signed Power of Attorney of the assignee."

An assignment is distinct from a license, which only grants consent to use a trademark without any transfer of ownership rights.

### **TRANSMISSION**

According to Section 2 (1) (zc) of the Act, "transmission by operation of law devolution on the personal representative of a dead person and any other manner of transfer, not being assignment" are considered to be "transmissions".<sup>9</sup>

Section(s) 37 to 45 of Chapter V of the Trademark Act, 1999 provide a detailed description of the format and steps involved in trademark assignment and transfer in India.

According to Section 38, registered trademarks may be fully or partially assigned, with or without the business's goodwill. On Form 23 or 24 of the Trade Marks, all transmissions and assignments must be registered with the Registrar of Trade Marks. (Trademarks Rule, 2002, Rule 68).

Unregistered trademarks may also be given or transferred under Section 39 of this Act, with or without the goodwill of the firm in question. This Act has provided statutory credence to the contemporary idea that the goodwill of a business and the trade mark are distinct components by enabling the transfer of unregistered trademarks without goodwill of a firm.

### **ASSIGNMENT WITH GOODWILL**

"In the case of an assignment including goodwill, the assignor's absolute rights are transferred, i.e., all the rights and values connected with the trademark that grant the transferee unrestricted power to manage, sell, improve, alter the structure of, or discontinue providing services for, such items. In essence, the transferor is replaced by the transferee in

<sup>9</sup> Section 2(1) (zc), The Trade Marks Act, 1999



terms of power, control, and rights. Additionally, following the assignment, the transferor is fully forbidden from using the trademark in connection with any goods or services.<sup>10</sup>

### **ASSIGNMENT WITHOUT GOODWILL**

In case when trademark is assigned without goodwill, the rights of the assignee is restricted when the assignor limits the rights of the assignee and forbids him from using the trademark or service mark that the assignor already uses. As a result, the assignee does not receive any of the goodwill associated with the brand in relation to the products that are already being sold under that trademark. So long as it doesn't give rise to additional "rights in the same goods or services or if they are" connected to one another, it is permissible for the transferee to use the trademark for the specific goods and services specified in the agreement.<sup>11</sup> Contrary to many countries, such as the United States, where the transfer of a mark without goodwill is completely prohibited, it is permitted in India.

### **RESTRICTIONS ON ASSIGNMENT AND TRANSMISSION**

In order to prevent the establishment of various exclusive rights in the favour of different parties, which can be misleading or confusing, Sections 40 and 41 set specific limits on assignment and transmission. However, if the items are intended to be marketed in multiple markets while taking into account the limitation imposed, such an assignment would not be held to be illegal (either within India or for exports).<sup>12</sup>

### **REGISTRATION OF ASSIGNMENT**

According to Section 42 of the Act, certain prerequisites must be met before an assignment can be made that isn't related to the goodwill of the business, like getting the Registrar's approval and publishing the assignment advertisement in accordance with his or her instructions after adhering to the right procedures.

According to Section 43 of the Act, certification trademarks cannot be assigned or transmitted without the Registrar's approval.

### **LICENSING**

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<sup>10</sup> Himanshu Sharma, Ronak Karanpuria, Role of Goodwill in Transfer of Trademark, 30 April 2014 <https://www.mondaq.com/india/trademark/310330/role-of-goodwill-in-transfer-of-trademark>

<sup>11</sup> ibid

<sup>12</sup> Preeti Mehta, the Trade Marks Act, 1999 - India Conforms to TRIPS, 2 INT'L J. Franchising L. 15 (2004)





According to the Trade Marks Act of 1999<sup>13</sup>, registered third parties as well as unregistered third parties that have a formal agreement with the trademark holder for that reason are able to licence registered trademarks in India.<sup>14</sup> The trademark may be deleted from the register if licences are improperly applied to items that are unrelated to those of the proprietor. The Act does not specifically address the matter of licencing an unregistered trademark, although it has been determined that such licencing is legal under common law.<sup>15</sup> No rights exist for an unregistered licensee to bring a suit for trademark infringement. A registered licensee is allowed this privilege.<sup>16</sup>

In the Gujarat Bottling case, it was determined that an unregistered licensee could lawfully use the trademark if they met the three requirements of not misleading the public, keeping the brand's uniqueness, and maintaining a relationship between the owner and the goods bearing the mark.<sup>17</sup>

### **OBLIGATIONS ON A REGISTERED LICENSEE**

The registered licensee's registered user entry may be deleted or changed by the registrar in accordance with Section 50. The Act lays down the criteria for such cancellation or modification. The trademark itself may be expunged from the register of trademarks under Sections 57 and 58, among other reasons, for violating any of the requirements for its admission.<sup>18</sup>

### **CONCLUSION**

The "information transmission model" is the foundation of trademark law today. According to this paradigm, the purpose of trademark law is to prohibit other parties from using identical marks to trick or mislead customers. Trademarks are seen as tools for transmitting information to the market. The examples provided above in this article demonstrate how a mark that has been assigned to the assignee without any limitations on the use of associated rights is likely to lead to consumer misunderstanding. When a trademark with goodwill is assigned, the transferor is not permitted to exercise any related rights, which might result in the assignee misusing the brand and any associated goodwill. In the event of a lack of quality control and management by the trademark owner, the current laws would only withdraw the trademark from the registration and derecognize it. Because anybody can use a trademark

<sup>13</sup> Section 47, The Trade Marks Act, 1999

<sup>14</sup> Section 2(1)(r), The Trade Marks Act, 1999

<sup>15</sup> Narayanan, Trade Marks and Passing Off p.424, (Kolkata; Eastern Law House, 6th ed., 2004)

<sup>16</sup> Sections 52, 53 and Explanation I to Section 54, The Trade Marks Act, 1999

<sup>17</sup> *ibid*

<sup>18</sup> Kunal Ambasta, Trademark Licensing and Trafficking in Trademarks: Does the Law Promote It, 4 INDIAN J. INTELL. PROP. L. 65 (2011)



once it is deregistered and the public is exposed to unrestricted passing off, the existing legal framework is insufficient. As a result, the former owner suffers a significant loss when his trademark and the rights attached to it are lost. “The only way to solve this issue is to” inform the public that the trademark will shortly expire. The regulatory agencies should make sure there are more of these remedies available so that the rights of the owner and the interests of the general public are balanced. It would be unrealistic and erroneous to believe that buyers only recognise the source of the items, not the quality, given how widely trademark usage has spread. The consumer associates the reputation of the trademark connected to the item or service with the quality of that good or service. As a result, the choice to transfer goodwill along with ownership and rights is crucial to the future of that brand.

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