



Intellectual Property Information Sheet

Passing-Off

What is passing-off?

Passing-off is a common law action rather than a statutory cause of action and is used to prevent one party from using the goodwill associated with another party for their own benefit. Passing-off does not provide the owner of the goodwill with a monopoly in the mark or get-up, rather it protects the trader's business against what can essentially be described as "unfair competition"

The law of passing off is wide and also covers goodwill associated in slogans, visual images, domain names and other descriptive material.

There are three basic requirements to establish passing-off. The claimant must establish:-

1. that goodwill exists in his or her goods or services, in the area where infringement has taken place;
2. misrepresentation by the infringer to the public such that the public are or are likely to believe that the goods or services offered by the infringer are those of the claimant;
3. that he/she has suffered damage or the likelihood of damage occurring due to the infringer's misrepresentation.

1. Goodwill

Goodwill is the benefit and advantage of the good name and reputation of a business and although incorporeal it can be of considerable value. It is what brings in custom. The existence of goodwill may be shown through the business' advertising campaign, sales and other factors. However, each case depends on its own facts.

It must be established that goodwill exists in the place of infringement. The period of time in respect of which goodwill has existed within the area concerned is not a determining factor here, as only its presence is required to be proven.

Often the goodwill is restricted within the geographical area of the business of the infringed party. However, in respect of very large companies that have a vast amount of goodwill and reputation, it is often thought that the goodwill extends to places even where they do not have a shop or place of business. For example, a large company such as Virgin would

be considered to have goodwill extending throughout the whole of the UK if not the World, despite not having a place of business in each town/city.

Unfortunately, the goodwill associated with a smaller business is often resigned to the area of trade, which makes it difficult to establish passing off in respect of business' which are benefiting from a party's goodwill but perhaps trade in another city. Each case does depend on the business involved however.

In some circumstances a case may be brought on behalf of more than one party, i.e. a group of traders, and as such each party involved would require to have goodwill existing in the area of infringement.

2. Misrepresentation

Misrepresentation lies at the heart of passing-off. For misrepresentation to occur there requires to be an element of confusion arising in the minds of the public. Whether this misrepresentation is intentional or not is irrelevant. The Court merely looks at whether there is a likelihood of the public or a particular section of the public being misled into thinking that the goods or services concerned are the goods or services of the infringed party, when in fact they are not.

Misrepresentation must be at the point of sale. If the similarity only became evident after a product was purchased, the necessary misrepresentation to establish an action for passing-off would not be established.

The fact that wrongdoers may be unaware that they are misrepresenting is irrelevant.

The likelihood of confusion increases when the products involved are very similar, however the products do not need to be always in the same field of activity.

It should be noted that in some cases a brand name of a particular business will be used in comparative advertising, yet this does not amount to passing-off as the company is not attempting to misrepresent the public. Likewise, if the goodwill of a business is only

affected due to competition in the market, this is not passing-off as there is no misrepresentation.

3. Damage

Lastly, the infringed party must prove that they have incurred actual or reasonably foreseeable damage to the business due to the infringer's misrepresentation. This is generally difficult to prove and on a practical basis involves inspecting both parties' books.

Legal Remedies for a successful Passing-Off action

Once the three step test is successfully established, there are a number of legal remedies available to the infringed party. These are interdict, damages or an account of lost profit. It should be noted that the infringed party will not obtain all three remedies against the infringer and that they do not get the privilege of choosing which remedy they would like. This is of course, left to the Court's discretion.

1. Interdict

Interdict (or injunction in England) is a Court Order preventing the infringer from continuing to use the goodwill of the infringed party for the benefit of the infringer.

The Court will take into consideration the convenience to grant an interdict. It should be noted that the infringed party should challenge the infringer as soon as the infringed party becomes aware of the passing-off issues, as failing to do so may be seen as acquiescence by the Courts and may prevent such party from obtaining an interdict.

The remedy of interdict may also be available as an interim measure and can be used by the infringed party to restrain further dealings by the infringer pending a full trial.

2. Damages

In an award of damages, the infringer is ordered to pay financial compensation to the infringed party in respect of the passing-off. Damages must be proportionate to the actual damage caused. An infringed party would normally allege damage under two categories - firstly, loss of sales and secondly, damage to goodwill and reputation.

The issue of damages is very complex. However, the general purpose of this remedy is to put the pursuer back in the position they would have been had the wrongful act not occurred.

3. Accounting of Lost Profits

An account of lost profits is another monetary remedy and involves the infringer paying to the infringed party any financial profit gained by the infringer whilst passing-off or any lost profits incurred by the pursuer due to the passing-off.

It should be noted that this remedy and damages are mutually exclusive and both cannot be awarded together, as this would be a double remedy. However, an account of lost profits will not be awarded where there is no right to damages.

In practice, this remedy is rarely sought as it is very difficult to value the actual loss.

In both damages and an account of lost profits, the Court has the discretion to award interest on sums awarded between the date of infringement and the date of judgment. Notably, the Court always awards interest on these remedies between the date of judgment and the date of payment. The interest rate is a standard rate used by the Court and is often less than the commercial rate of interest.



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