

**ECONOMIC CONSEQUENCES OF THE USE OF A TRADE MARK
BY A NON-PROPRIETOR, BUT WITH THE TACIT CONSENT OF
THE PROPRIETOR. CASE STUDIES**

Raul Sorin FÂNTÂNĂ¹

”Emanuel” University – Oradea, Romania

Abstract

The increased complexity of the economic system through the emergence of new economic situations and instruments, the consequences on the property right over assets in general - and especially on intellectual property assets - in the insolvency procedure, the precarious knowledge of special laws and the risks of their misapplication in the field of intellectual property, have led to the occurrence of complex situations in commercial relationships or in the valuation of assets, or, more seriously, in the occurrence of ethical deeds with the aim of obtaining an unfair profit. The trademark is the intellectual property asset that accumulates the most peculiar situations of unfair competition, counterfeiting, mismanagement. The lack of a legal transfer of rights (assignment, license) between the trademark owner and its user invariably leads to situations where at least one of the parties is economically disadvantaged. Effective use of Group 20 accounts "Intangible assets" would avoid the unpleasant situations outlined above. The paper presents several cases taken from the case files in which it was necessary to carry out specialized expert reports, as well as some special evaluations of the market value of some trademarks in which the author was directly involved.

Keywords: intangible assets, trademark, transfer of rights, asset evaluation, expert report

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¹ Assistant professor / PhD MSc, Faculty of Management, E-mail: raul_fantana@yahoo.com

1. Introduction

A previous work (Fântână, 2015) presented a case study highlighting, among others, the results of an evaluation requested by a third party on some trademarks used by the respective third party without a contract but with the tacit permission of the holder the evaluation yielding no financial data.

Generally speaking, the tacit approval of the contents of a document is a form of administrative sanction on the one hand, and a simplified method to obtain the agreement or permission from the public administration authorities, on the other hand, when the authorities delay or even refuse to give an answer to the request of the applicant. (Botomei & Rusu, 2010).

The principle of the so called „non-intervention” was developed by the German doctrine with two branches: ”the tacit license” and ”the exhaustion of the exclusive right of the holder” (Eminescu, 1996), that can be found in both the directives of the European Union on the assets of the industrial property and copyright, and the harmonized Romanian legislation. According to this principle „the holder of a brand cannot deny those who acquired its products the right to use the brand attached to the respective products or to refer to it since the circulation of branded products assumes that the intermediaries will sell the products under the respective brands” (Eminescu, 1996). From the legal point of view, this theory can be defined as a *tacit license*.

The technical literature (Lowe, 2006) and the specialised dictionaries clearly differentiate between the tacit license of know-how and ”tacit knowledge”, which shall be construed as „the knowledge that is context-specific and deeply rooted in actions and skills. It is difficult to formalize, codify and therefore communicate to others”. Knowledge which is *tacit* or unidentified may only be transferable when embodied in individuals (Lowe & Taylor, 1998).

Since the assessment of these assets must be done in relation with the economic environment in which they operate and in close relation between the right holder and user, the modern procedures for the assessment of company assets include the qualified personnel (Smith & Parr, 2008).

According to the considerations above, is in its essence and according to the Law imposed upon the holder and awarded to the user.

2. Particular cases

A particular type of situations constantly occurring in the field of trademarks is represented by the registration of the trademark to the name of an individual without any permission to transfer the trademark usage right to the company: a) the owner of a company, say company “ALPHA” registered in its own name the combined trademark “ALPHA” (special fonts and graphics). In all the advertising materials, business cards, invoices, official documents the company name comes next to the trademark; b) the owner of a company, theoretically called “BETA”, hired a person who registered to its name and with the consent of the owner the combined trademark “BETA”. In all the advertising materials, business cards, invoices, official documents the company name comes next to the trademark.

In both cases, the owner sells the company to an interested third party promoting the wording “the company is soiled with all its tangible and intangible assets” in the contract.

Shortly after, upon full payment of the negotiated price, the former owner (a) namely the former employee, (b) the holders of the trademarks, notify the actual owner that it uses the trademark without any right, thus infringing the express provisions of the Law. The new proprietor is called to negotiate a trademark transfer agreement.

A few questions arise in the assessment of both the rights and the economic value of the trademark:

1. Which of the two intangible assets – the commercial name and the trademark takes precedence?

Comment: the two assets operate in an identical manner on the market and are presented in the same way from the point of view of advertising with the same effect on the targeted public (Spineanu-Matei, 2007; Spineanu-Matei, 2010); a company can operate no matter how long just with its commercial name – the registration of a trademark is not mandatory; the same way a company can operate only with its trademark/trademarks, the consumers having often a hard time to tell which is which. If the date of registration of the commercial name “ALPHA” is preceding the date of submission of the combined “ALPHA” designation, the company owner has the right to continue to use the commercial name benefitting from the registration priority right. Theoretically, at least, the trademark holder will have to assess the consequences of the fact that the new company owner has

the right to request: a) the fall from its rights for not using the trademark; b) the payment of damages by the former proprietor for having sold the company by presenting it on the market (through its façade, advertising panels, etc.) together with its trademark although the company was not the trademark holder and did not sign any license agreement.

2. How was the trademark taken over by a company which has used before the sale (transfer) of the company to the new owner?

Comment: the trademark was used by the company owner without having signed any contract; the use by another entity/person than the holder does not represent, under the Law, actual use of the trademark (see Case File No. 43337/3/2014, of the Court of Law of Bucharest, 5th Section – Civil Matters, together with Case File No. 43483/3/2014 of the Court of Law of Bucharest 3rd Section – Civil Matters and with Case File No.43481/3/2014 of the Court of Bucharest 6th Section – Civil Matters).

3. For what purpose, how and who signed and paid for the advertising contracts? Was the contract entered for promoting the graphic image (i.e.; the trademark as it was registered) or the commercial name? Are these expenses highlighted as Intangible Assets in the books of the company –?

Comment: when advertising the company for sale, the owner showed the prospective customer several advertising contracts for the promotion of the “ALPHA” trademark, hence of its graphic image as it was registered; The contracts were signed and sealed by the company owner; in fact, the said contracts, have misled the client with reference to the real holder of the trademark.

4. By using the respective trademark does the trademark holder legally unfold production, services rendering or commercial activities?

Comment: In fact, neither natural person holder of the trademarks (ALPHA and BETA) unfolds any activity being either the employee of the company owner or the very owner of the company (Fântână, 2015);

5. What is the trading value and how is the trademark value assessed? Can the assessment be made?

Comment: It is obvious that in such situations we are no longer dealing with a license imposed on the holder by the Law and awarded to the user. In fact, an arrangement is made between the trademark holder and the

user with the sole purpose to obtain additional undeserved income from the duped third party.

The specialized literature contains an impressive number of examples referring to the conflict between a commercial name and a trademark: a) decisions of the Romanian Courts of Law (Spineanu-Matei 2007; Spineanu-Matei, 2010) (Ciutacu, 2005) (Lazăr, 1999) ; b) decisions of the international Courts of Law (Spence, 2007); c) expert reports attached to finalized case files (Fântână, 2010); d) intangible asset assessment methods (Stan & Anghel, 1998) (Smith & Parr, 2008) (ANEVAR, 2016). However, there are no limits to the inventiveness of the humans when it comes to finding new ways to unfair competition, to violate the rights, to commit fraud, etc. in the field of intellectual property.

As a consequence, each expert report in this field compels the expert to have more complex and wider knowledge of applied Law, engineering, economic engineering, micro-macro economy, financial risk management (Horobeț, 2005), risk management in intellectual property (Fântână, 2016).

From the point of view of the trading value, the most accurate methods are those which work with accurate data. Or, the only reliable recordings are those in the company books. These must be construed so as to establish the evolution of the company over the last 4 to 5 years in order to allow economical forecasts for (at least) the following 4 to 5 years taking into account the micro-economic elements of economic (especially), social, political risk.

The most frequently used method is that of the Discounted Cash Flow (DCF) (Stan & Anghel, 1998) (Smith & Parr, 2008) (ANEVAR, 2016).

Notwithstanding, this method as well as other methods are not applicable to the cases presented here for the following reasons: (i) either the trademark is not entered in the company records as intangible asset and hence it is not recorded as such in the company books the trademark existing just as a patrimony element of the holder who makes no use of it while not giving usage right to any third party without a duly signed contract; ii) or expenses are accounted for the promotion of an asset which is not identified in the company patrimony; thus, the respective illegal expenses lead to the diminishing of the tax on profit. Such an action falls under the tax evasion law and is punishable accordingly.

3. Conclusions

This paper highlights the fact that for a fair assessment of a company's patrimony (in this case it is a part of the intellectual patrimony), before assessing the economic space and the specific risks, as well as before the calculations regarding the profitability of the firm, it is necessary to obtain accurate data about the company and about its real traded patrimony.

The process of evaluating a firm and the negotiation process demonstrate that trading a firm - and more so with an intangible asset - does not follow the marketing mix theory. There are additional elements of ethics that cannot be quantified.

Trademarks constitute the intellectual property asset that accumulates the most peculiar situations of unfair competition, counterfeiting (Căpățină, O., 1993; Căpățină, O., 1994a; Căpățină, O., 1994b) and mismanagement. The registration of blocking trademarks is one of the most common actions for an incorrect market holding, with destructive economical effects on the respective specific market (Fântână, 2011). The cancellations of these trademarks are the subject of several cases on the dockets of the Romanian courts.

Another subject of the destructive economical effects is the lack of legal transfer of rights (assignment, license) between the trademark owner and the user, fact which, invariably, leads to situations where at least one of the parties is economically disadvantaged. The effective use of Group 20 accounts - "Intangible assets" - should avoid the unpleasant situations outlined above.

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