

# Evaluation of Well-Know Trademarks and Trademarks with Reputation in Enforcement Procedures

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## Evaluation of Well-Know Trademarks and Trademarks with Reputation in Enforcement Procedures

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### SUMMARY

Well-known trademarks and trademarks with reputation possess higher market value than that of all other trademarks, owing to their enhanced distinctiveness and established reputation. As property rights, trademark rights may serve to secure the obligations of their holders towards creditors. Amendments to Bulgarian Code of Civil Procedure expressly provide for the possibility of enforcement over such right and determine the applicable procedures.

Well-known trademarks enjoy protection without the need for their registration, however, in such cases, enforcement is not possible without registration under the general trademark regime. Another problem is the assessment of the value of well-known trademarks and trademarks with a reputation in

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the enforcement proceedings. The article examines the specifics of well-known trademarks and trademarks with reputation in relation to the determination of their value and analyses the problems that arise in the enforcement procedures.

#### KEYWORDS

Enforcement; Industrial Property Rights; Well-Known Trademarks; Trademarks with Reputation  
JEL code: O34

#### INTERNATIONAL AND EU RULES FOR THE PROTECTION OF THE WELL-KNOWN TRADEMARKS AND THE TRADEMARKS WITH REPUTATION

The international and EU rules harmonise the protection of well-known trademarks and trademarks with reputation in Bulgaria. Two major international legislative acts regulate well-known trademarks – the Paris Convention for the Protection of Industrial Property<sup>2</sup> and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).<sup>3</sup> Under the Paris Convention for the Protection of Industrial Property, Article *6bis* (1), where a trademark is well-known in a territory for certain goods (even if it is unregistered), an application to register a trademark which constitutes a reproduction, an imitation, or a translation, liable to create confusion with the well-known trademark, for identical or similar goods, must be refused. Furthermore, the use of a new trademark should be prohibited. Article 16(3) of the TRIPS states that in relation to registered marks, Art. *6bis* should apply to dissimilar goods or services, provided that use of the later mark indicates a connection to the owner of the well-known mark and that the interests of the owner of the well-

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<sup>2</sup> The Paris Convention for the Protection of Industrial Property, adopted in 1883, applies to industrial property in the widest sense, including patents, trademarks, industrial designs, utility models, service marks, trade names, geographical indications and the repression of unfair competition. [https://www.wipo.int/treaties/en/ip/paris/summary\\_paris.html](https://www.wipo.int/treaties/en/ip/paris/summary_paris.html).

<sup>3</sup> Trade-Related Aspects of Intellectual Property Rights. 1994, The WTO Agreement on the TRIPS is the most comprehensive multilateral agreement on intellectual property (IP). It plays a significant role in helping trade in knowledge and creativity, in resolving trade disputes over IP, and in assuring WTO members the latitude to achieve their domestic policy objectives. It frames the IP system in terms of innovation, technology transfer, and public welfare. The Agreement is a legal recognition of the significance of links between IP and trade and the need for a balanced IP system. [https://www.wto.org/english/tratop\\_e/trips\\_e/trips\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/trips_e.htm).

known marks are likely to be damaged. According to advocate general Jacobs,<sup>4</sup> international regulations recognize special safeguards for well-known trademarks. Under Article 6*bis* of the Paris Convention, widely recognized marks are protected against unauthorized copying, imitation, or translation that could create confusion with identical or similar products. Article 16 (3) of the TRIPS Agreement extends this protection to unrelated goods or services if their use suggests a link to the trademark owner and could negatively affect their interests. The overall purpose of these provisions is to prevent misuse or exploitation of well-known marks, including in jurisdictions where they have not yet been officially registered. Each of these principles has been implemented in EU law, both in the First Trademarks Directive (89/104/EEC)<sup>5</sup> and in the Community Trademark (CTM) Regulation (40/94).<sup>6</sup> Article 4(2)(d) of the directive and Art. 8(2)(c) of the regulation deal with conflicting earlier rights in the context of oppositions and invalidations. Under each of them an “earlier right” includes a “well-known trademark” in the sense of Art. 6*bis*. Thus, an earlier well-known trademark, whether registered or not, may oppose the registration of a later mark in the same manner as an earlier registered mark. Articles 4(3), 4(4)(a) and 5(2) of the Directive and Art. 8(5) and 9(1)(c) of the regulation provide the extended protection under Art. 16(3) of the TRIPS. This safeguard also covers trademarks “with a reputation“, preventing use or registration of similar marks for dissimilar goods or services. This applies where use of the later mark, without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the earlier reputable mark. Articles 4(4)(a) and 5(2) of the directive are permissive, rather than mandatory, however, effectually all member states introduce the extended protection. Article 4(3) of the directive (providing that a CTM with a reputation may oppose the registration of a later national mark for non-similar goods and/or services) is mandatory. EU legislation does not address the requirement of Articles 6*bis* of Paris Convention, allowing a well-known unregistered mark. The Directive is concerned with unregistered rights only to the extent that such rights are relevant to the system of registered rights while the regulation deals only with the registration and enforcement of CTMs.

Therefore, the member states assume the regulation of unregistered well-known trademarks. The lack of uniform legislation on this unresolved issue leads to a particularly complex approach when it is necessary to assess and calculate the value of a well-known trademark and a trademark with reputation. So, a well-known trademark denotes a trademark with a certain degree of recognition within the relevant sector of society, regardless of whether it is

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<sup>4</sup> Speech, 26.11.1998, Case C-375/97 of the court of the European Union.

<sup>5</sup> First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trademarks, No longer in force, Date of end of validity: 27/11/2008.

<sup>6</sup> Council Regulation (EC) No 40/94 of 20 December 1993 on the Community Trademark, No longer in force, Date of end of validity: 12/04/2009.

registered. A well-known mark gives legal grounds to prohibit and oppose the registration of a trademark in respect of identical or similar goods or services. The trademarks with reputations are registered for a certain type of goods and services. However, due to their great reputation, these marks are associated with the distinctiveness of their quality, and it is necessary to extend protection for these marks to dissimilar, unregistered goods and services that users may link to their holders. This enables their owners to protect not only goods and services for which the mark is registered, but also unrelated goods and services that fall outside the registered classification.<sup>7</sup>

#### DETERMINING THE MARKET VALUE OF WELL-KNOWN TRADEMARKS AND TRADEMARKS WITH REPUTATION

The value of a trademark does not depend on its registration, but on the market realisation of the goods and services, the reputation built by it, the established commercial channels for market distribution, the relevant license and franchise agreements, etc. As a result, a complex assessment of diverse circumstances determines the value of the trademark. It is even more complex to determine the value of well-known trademarks where there are multiple market variables at any given time. This is due to the specific characteristics of the well-known trademarks, whose value may exceed the combined worth of all other assets of the enterprise.

There are different approaches to calculating the value of trademarks. Philipp Sandner notes that incorporating trademarks into a company's market value is relatively straightforward, although, in principle, two approaches exist for their inclusion. The first one is when the trademarks can be treated as a distinct class of assets, similar to knowledge assets. In this approach, an additional term representing the value of trademarks is added to the market value equation. This method has already been applied in studies by Bosworth and Rogers, as well as by Greenhalgh and Rogers.<sup>8</sup> Second possibility, „the trademarks may be incorporated in the multiplicative factor  $qit$ <sup>9</sup> since they

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<sup>7</sup> The Nice Classification (NCL), established by the Nice Agreement, 1957, constitutes an international system for classification of goods and services for the purposes of trademarks registration. The Nice Union publishes a new edition every five years, and, since 2013, issues an updated version of each edition annually, see <https://ncl.pub.wipo.int/enfr/>

<sup>8</sup> C. Greenhalgh, M. Rogers. *Innovation, Intellectual Property, and Economic Growth*, Princeton, Princeton University Press, 2010.

<sup>9</sup>  $qit$  is a current valuation coefficient of the company's assets at a specific time captures factors that affect the valuation multiplicatively.  $Qit$  is a current valuation coefficient, presented by Hirsch and Seaks in 1993.  $Qit$  includes an individual disturbance,  $qit$ , and variables accounting for valuation effects regarding time  $t$ , country  $k$ , and industry  $l$ .

may affect or influence market structures,<sup>10</sup> Griliches incorporates in qit company's monopoly position and its risk profile structures.<sup>11</sup>

In this regard, Hirsch and Seakes emphasise the measures of market structures. The implementation of a simplistic method such as store goods for determination of the value of a well-known trademark leads to the risk of serious depreciation. They possess independent value, distinct from the goods and services for which they stand, because they constitute goods in their own nature. Goods that do not have a material embodiment, i.e., they are neither movable nor immovable property, as defined by the amendment of the Bulgarian Code of Civil Procedure (CCP) from 2017<sup>12</sup>. According to the theory of economics, this is a dynamic value. It is the same for trademarks with reputation and unregistered trademarks. That is, a trademark may be valued at 10 000 at a given moment, yet within a week it may experience a dramatic change, as a result of increased reputation generated through global digital networks. According to Glass and Saggi<sup>13</sup> „a trademark that has a great deal of goodwill associated with it may draw a great deal of customer loyalty, but this is not a monopoly situation.“ They note that when a valuable reputation accompanies the use of a mark, the salability of products or services associated with it increases significantly „By providing in our legal system the means to enforce broad trademark rights, we guarantee our rights not to be misled and cheated by the unrealistic price of a trademark.“ Enforcement of trademark rights is just as much in the interest of the obligee as it is in those who own the rights being enforced.<sup>14</sup> This confirms the conclusion of Economides:

„Those who fail to see this important truth should be sentenced to live in a totally generic world of plain brown wrappers, using no brand name products or services. Brown packages that do not bring profit.“<sup>15</sup>

The value of a trademark is rooted in its ability to positively influence consumers and their purchasing decisions. This capability of a trademark is also

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<sup>10</sup> Z. Griliches. Market Value, R&D, and Patents. *Economics Letters*, 7, 2 (1981), pp. 183 – 187, [https://doi.org/10.1016/0165-1765\(87\)90114-5](https://doi.org/10.1016/0165-1765(87)90114-5)

<sup>11</sup> B. Hirsch, T. G. Seaks. Functional Form in Regression Models of Tobin's q. *The Review of Economics and Statistics*, 75, 2 (1993), pp. 381 – 385, [online] <https://ideas.repec.org/a/tpr/restat/v75y1993i2p381-85.html> [access 05.10.2024].

<sup>12</sup> Art. 518a. (New – SG No. 86 of 2017) allows enforcement proceedings to be directed against certain intellectual property rights, which may be sold by a bailiff through a public auction following the same procedure used for immovable property, with the starting price determined under the relevant articles of the Code.

<sup>13</sup> A. J. Glass, K. Saggi. Intellectual property rights and foreign direct investment. *Journal of International Economics*. 56, 2 (2002), pp. 387 – 410.

<sup>14</sup> Glass, Saggi (2002), *ibid.*

<sup>15</sup> N. Economides, The Economics of Trademarks. *Trademark Reporter*, 78 (1988), pp. 523 – 539.

known as goodwill according to Phillips<sup>16</sup> and Smith<sup>17</sup>. The development of indicators reflecting trademark value rests on the assumption that more valuable trademarks are treated differently by their owners and their rivals than less valuable trademarks.

The International Organisation for Standardisation (ISO) adopts the standard ISO 10668 for the assessment of the economic value of the brands.<sup>18</sup> It offers a methodology for evaluating both registered and unregistered trademarks, employing three approaches: the income approach, the cost approach and the market approach. Each of them includes different methods of evaluation. The standard requires that the valuation should take account of the legal protection of the sign and thus makes a distinction between trademarks and other brands with no protection by the legislation. It is important to note that trademark protection encompasses not only registered brands but also unregistered that enjoy some legal protection, for example under the Common Law. It requires respect for legal rights in all territories where the brand generates significant cash flow. ISO 10668 integrates behavioural, financial and legal analysis into a single, coherent approach to brand evaluation.<sup>19</sup> This method can be applied effectively when determining the value of well-known trademarks and trademarks with reputation.

#### ENFORCEMENT AGAINST TRADEMARK RIGHTS UNDER THE BULGARIAN CODE OF CIVIL PROCEDURE

Enforcement proceedings may be initiated on the basis of an effective court decision, an arbitration award, or another enforceable act upon a writ of execution issued on the basis of that act. Enforcement can be divided into two main types: universal enforcement, which is most often related to commercial insolvency of companies and covers all receivables of all creditors, and individual enforcement.<sup>20</sup> The law provides for different methods of enforcement depending on the object concerned, including against movable and immovable assets, and monetary claims of the debtor. In the absence of voluntary compliance, the creditor may commence individual enforcement proceedings.

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<sup>16</sup> R. Phillips. *Stakeholder Theory and Organizational Ethics*. San Francisco, Berrett-Koehler, 2003.

<sup>17</sup> N. O. Smith, I. Maclean, F. A. Miller, S. R. Carruthers. *Crops for Industry and Energy in Europe*. Brussels, European Commission, Directorate General XII E-2, Agro-Industrial Research Unit, 1997.

<sup>18</sup> ISO 10668:2010 Brand valuation – Requirements for monetary brand valuation.

<sup>19</sup> R. Moro-Visconti. The Valuation of Trademarks and Digital Branding. *SSRN* (8 Mar 2020), [online] <https://ssrn.com/abstract=3534037> or <http://dx.doi.org/10.2139/ssrn.3534037> [access 05.10.2024], p. 5.

<sup>20</sup> Ж. Сталев. *Българско гражданско процесуално право*. 8-мо изд. София, Сиела, 2006, с. 721.

Under Art. 426 (1) of the CCP, the enforcement agent shall start the enforcement upon an application of the interested party. According to the second paragraph, the creditor may specify the method of enforcement in the application or indicate simultaneously several means of execution, where it proves necessary to satisfy the claim. The creditor files a written application with the competent enforcement agent and indicates the means of enforcement, depending on the nature of the right owed. The measures of enforcement include seizure of movable property, foreclosure of immovable property, inventory and valuation of immovable property, public sale of immovable property, attachment of the debtor's bank accounts, seizure of motor vehicles, taking possession, forced seizure of movable property, execution on shares in a commercial company, enforcement of the obligation to handover a child, execution against matrimonial property.

The amendments of 2017 supplement the CCP with a new Art. 518a<sup>21</sup> that provides special rules for the enforcement against industrial property rights. This means, the enforcement may be against rights of a trademark, patent, utility model, industrial design, integrated circuit topology and certificate of plant variety and animal breed. The enforcement agent conducts the sale of these rights under the rules for sale of immovable property with initial price pursuant Art. 468 and 485. In the first case, the law refers the price of a movable object according to similar products in a store or in a commercial market, and in the second case, according to the special rule for immovable property. In both cases the determination of the price of trademarks does not consider their economic value as intangible assets. This legislative decision appears rather unconventional because trademarks, by their legal nature, are intangible. They serve as distinctive signs to indicate goods and services and the owner may reproduce those countless times within the commercial activity. Their owner exercises the absolute right to possess, use, and dispose of them, and may also prohibit third parties from using them.

They do not qualify as movable property, even though the subjective right they enjoy shares certain similarities to the subjective right of ownership. Notwithstanding the movable property consists of tangible objects, while intangible objects, even embedded in tangible medium, do not belong to this category.<sup>22</sup> Objects of industrial property also fall outside receivables and securities, since securities represent rights through physical documents.<sup>23</sup>

Considering those differences and the specific legal nature of the trademarks, treating them as movable or immovable property, may be problematic. The assessment of a trademark's value requires specialized knowledge and valuation expertise tailored to the characteristics of the object itself. But it is even more challenging to apply these rules to well-known trademarks and

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<sup>21</sup> *State Gazette*, 86 (27.10.2017).

<sup>22</sup> П. Венедиков. *Ново вещно право*. София, Сиби, 1995, с. 17 и сл.

<sup>23</sup> О. Герджиков. *Коментар на търговския закон. Кн. III. Т. I*. София, Софи-Р, 1998, с. 813.

trademarks with reputation. The draft law of 2017<sup>24</sup> motives specify that “the change is due to a gap in the legal system and especially for reputable trademarks”. It is important for the implementation of the enforcement procedure to underline the necessity to have an already registered trademark in the state register, thus leaving non-registered trademarks outside the scope of the law. However, on the other hand, the Paris Convention, Art. 6*bis*, requires their protection.

The second paragraph of Art. 518a CCP specifies that to secure the claim of the creditor, the enforcement agent may impose a garnishment on the debtor's right to the object. The agent must record this in the state register kept for the relevant object, which, in this case, is the State Register of Trademarks. According to the following paragraph of the provision, this registered lien has effect for to the owner of the object or the holder of an exclusive licence from the date of receipt of the notice of the imposition of the lien, and for the third parties – from the date of registration in the State Register of Marks. According to Art. 452 (1) of the CCP, any dispositions of the seized property or claim made by the debtor after the seizure remains null and void to the execution creditor and the joint creditors, unless the third-party transferee may invoke Art. 78 of the Property Law, which should not be applicable in this case because it refers to movable property. Accordingly, when the price is determined under Art. 468 and 485 of the Code and a sale occurs, the transaction enters the State Register at the request of the purchaser or the agent, accompanied by a certified copy of the enforceable award. The new holder receives a certificate. In relation to publication and its effect towards third parties, the sale takes effect from the date of its entry in the State Register of Trademarks, unless a special law provides that the effect of the transfer of rights becomes applicable from the date of the publication.

The last paragraph of Art. 518a stipulates that, in cases of enforcement on objects of industrial property, the rules of Art. 23 of the Trademarks and Geographical Indications Act<sup>25</sup> apply accordingly. The above norm regulates the transfer of trademarks. Under Art. 442 of the CCP,<sup>26</sup> the claimant may direct the enforcement against any property or receivables of the debtor. The Obligations and Contracts Act<sup>27</sup> provides that all the debtors' property serves as a general security for the creditors.

Despite that, in the case of a well-known trademark that has no registration in the state register, the enforcement method prescribed in the CCP is not possible. Thus, in case the debtor has no other property apart from a well-

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<sup>24</sup> Motives for a proposal to amend the Code of Civil Procedure published on the official website of the National Assembly, 19.07.2017.

<sup>25</sup> Trademarks and Geographical Indications Act, Prom. SG. 98/13 Dec 2019, amend. and suppl. SG. 92/27 Oct 2020.

<sup>26</sup> Code of Civil Procedure, SG No. 59/2007, amend. and suppl. SG 67/9 Aug 2024.

<sup>27</sup> Law on Obligations and Contracts, Corr. SG. 2/3 Jan 1950, amend. SG. 35/27 April 2021.

known unregistered trademark, the creditor's ability to collect his receivables is significantly impaired.

## CONCLUSIONS

The enforcement proceedings for industrial property under CCP make it impossible to determine the real value of industrial property objects in some cases. This creates a risk to harm the rights and the interests of the creditors. In this respect, the enforcement agent may also find it difficult to comply with the law to apply security measures that remain proportionate to the amount of the debt.

When a trademark is registered, the proceedings under the CCP require imposition of interim measures parallel to the procedure before the Patent Office. The Patent Office, however, has no authority to act when the trademark has no registration. Without registration or pending application, it is practically impossible to determine the real value of a trademark.

Once proceedings for enforcement against registered trademark begin, the debtor loses the right to dispose of the claim or the property, whether movable or immovable, from the moment of receipt of the summons for voluntary enforcement. In contrast, when a trademark is well-known but unregistered, the debtor will continue to use it, because no authority imposes legal remedy against the possession of the object of industrial property.

If the trademark covers goods, but remains unregistered, the proceedings cannot affect the trademark itself, since the enforcement can only target the goods bearing that trademark, as well as the machinery or premises for their production, although they are separate property rights. In the case of an unregistered trademark for services, the creditor can seek enforcement only against any receivables for the services provided, if any, but again, not against the trademark itself. In both cases, the debtor may keep using the trademark, with the creditor unable to collect the debt by an enforcement against the trademark itself.

In summary, the legal regulation under the CCP governing enforcement against trademarks reveals two main shortcomings. First, the law treats the objects of industrial property in the same manner as movable and immovable property, without recognising their specific nature. Secondly, the procedures provide no mechanism for enforcement against well-known trademarks that have no registration, although they may significantly exceed the value of registered trademarks. Legislators may address both issues, adopting alternative *sui generis* valuation approaches for trademarks in enforcement proceedings, such as those under ISO 10668:2010 Brand valuation.

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