

Licensing

This sheet is intended as an introduction to the special considerations that apply in the licensing of brands or trade marks. Trade mark licensing can take many forms, and is often one aspect of a wider commercial activity such as franchising, character merchandising or product licensing.

One of the most important considerations when setting up any arrangement which involves the use of a trade mark by someone other than the trade mark owner, is to ensure that neither the value nor the validity of the trade mark is jeopardised by the arrangement. This sheet looks briefly at the dangers, and how they can be avoided.

For further advice, or for our sheet on Technology Licensing, please contact us.

Special considerations in trade mark licensing

Unlike other forms of intellectual property, trade mark rights in most countries can arise from, and can be destroyed by, the use that is made of the trade mark. A trade mark owner who allows anyone else to use his trade mark must therefore take special care to ensure that his trade mark rights are not diminished by the arrangement. In particular, the trade mark owner should ensure that the licensing arrangement does not jeopardise:

- the value of the trade mark
- the security of the trade mark registration
- his exclusive ownership of the trade mark rights

Protecting the value of the trade mark

The value of a trade mark is dependent upon its reputation in the market place. The trade mark owner will therefore need some control over the nature and quality of the goods or services on which the licensee is permitted to use the trade mark. This is best achieved by including quality control provisions in a written trade mark licence agreement.

These quality control provisions may, for example, provide specifications for the goods upon which the licensee is permitted to use the trade mark, and may require the licensee to supply samples of the goods to the trade mark owner.

Security of the trade mark registration

If the trade mark that is being licensed is registered in all or some of the countries covered by the licence, care must be taken to comply with the trade mark laws of those countries. Most countries provide for a trade mark registration to be revoked if its owner uses the trade mark, or allows it to be used, in certain ways.

Common grounds for revocation are that the trade mark has become misleading, or generic for goods of a certain type (such as escalator or gramophone), or that for a certain period of time (usually five years) the trade mark has not been used by the trade mark owner or by a licensee.

In some countries, it is only use by the trade mark owner or by a registered licensee that counts, so special care must be taken to comply with local requirements if the trade mark will only be used by the licensee, and not by the trade mark owner as well.

In a very few countries, trade mark licensing is not allowed at all, and so the very act of permitting someone else to use the trade mark may make any registration of the trade mark in that country liable to be revoked.

Ownership of the trade mark

As mentioned earlier, in many countries trade mark rights can be acquired through using the trade mark. The trade mark owner will therefore want to ensure that the trade mark licence agreement is carefully drafted, so as to prevent the licensee from acquiring rights in the trade mark and possibly even challenging the licensor's ownership of the trade mark.

This can arise where the trade mark owner permits someone else to use their trade mark in a country where it is not already registered in the name of the trade mark owner.

It is particularly a danger where:

- the licensee or user of the trade mark is local and is known to local traders or consumers, and
- the trade mark owner is foreign and is not known locally, and
- no obvious connection is made between the trade mark and the trade mark owner.

This danger can be avoided by registering the trade mark in each country in the name of the trade mark owner, before permitting anyone else to use it in that country; it is also advisable to register the trade mark licence in many countries.

A trade mark owner may also require the licensee to acknowledge in writing that all rights arising out of the licensee's use of the trade mark will belong to the trade mark owner, and to state on the licensee's goods or in connection with the licensee's services that the trade mark is owned by the trade mark owner and is used by the licensee under licence.

Product liability

By permitting his trade mark to be used in connection with the goods or services of the licensee, the trade mark owner is holding himself out as having a connection with those goods or services.

In some countries (including the UK) and in certain circumstances, this could be sufficient to make the trade mark owner liable for damage or injury caused by defects in the licensee's goods. In order to avoid this, the trade mark owner may require the licensee to state that it is the producer and to give its own name and address, on all goods which it sells under the trade mark.

The trade mark owner may also require the licensee to indemnify him against any claims or losses that he might incur as a result of the licensee's use of the trade mark.

Infringement

The trade mark owner and the licensee will need to agree upon what action is to be taken by either of them in the event of the trade mark being infringed by a third party, and who will bear the costs of such action.

Competition law

Many countries and regions (such as the European Union (EU)) have competition or antitrust laws which may prohibit certain terms which the trade mark owner and the licensee would like to include in their licence agreement. For example, the parties cannot agree:

- to prevent the import into one country of the EU of goods put on the market in another country of the EU by the trade mark owner or with the trade mark owner's consent, or
- to fix the prices at which the licensee may sell goods under the licence, or
- that the licensee must purchase products from the trade mark owner, except where this is necessary to maintain the nature and quality of the goods sold under the trade mark.

Breach of competition law can cause the trade mark licence agreement to be unenforceable, and can make the parties liable to fines.

Whenever a proposed licence agreement includes terms which could have an effect on competition or on trade between countries, it is worth taking advice on whether there are competition law issues to be considered.

Royalties

There are no standard royalty rates in trade mark licensing, as the value of the licence in each case will depend very much upon the reputation of the trade mark in question. The licensee will need to decide how much value the use of the trade mark will add to its business, over and above the profit which it could make without using the trade mark.

The value of the trade mark may lie in its increasing the market value of goods and services upon which it is used, or in increasing the licensee's share of the market, or in enabling the licensee to break into a new market.

In considering the value of the trade mark, the licensee will need to take many factors into account, including:

- the level of market recognition of the trade mark
- how long the trade mark has been established
- whether it is time or fashion sensitive
- whether its use might be extended to other goods or to other countries
- whether the licensee will need to spend substantial sums on marketing.

Registration of licences

In some countries, it is compulsory to register a trade mark licence against the registration of the trade mark on the national Register of Trade Marks. In other countries, it is not possible to register a trade mark licence. Most countries (including the UK) fall somewhere in between; that is to say, it is possible but not compulsory to register the licence, and there are some advantages to the licensee, and sometimes also to the licensor, in doing so. We can advise on this, on a country by country basis.

In the UK, there are the following benefits for the licensee in registering a licence:

- registration secures the licensee's rights under the licence against any third party to whom the trade mark owner may later assign the trade mark, or purport to grant an exclusive licence under the trade mark;
- registration of the licence gives the licensee (unless the licence provides otherwise) the right to call upon the trade mark owner to take action to prevent others infringing the trade mark, and the right to bring infringement proceedings in its own name if the trade mark owner fails to do so;
- losses suffered or likely to be suffered by the licensee (as opposed to the trade mark owner) will only be taken into account in infringement proceedings if the licence has been registered.

In some circumstances, such as where the trade mark owner and the licensee are within the same group of companies, these provisions concerning infringement proceedings will make it advantageous to the trade mark owner, as well as to the licensee, to register the licence at the Trade Marks Registry.

This information is simplified and must not be taken as a definitive statement of the law or practice. For more information on Mewburn Ellis LLP and other intellectual property matters, please contact us or visit our website at www.mewburn.com.

Mewburn Ellis LLP is a Limited Liability Partnership registered in England (no. OC306749). Registered Office at York House, 23 Kingsway, London WC2B 6HP

LONDON
York House
23 Kingsway
London WC2B 6HP
Tel: 020 7240 4405
Fax: 020 7240 9339

BRISTOL
22-24 Queen Square
Bristol
BS1 4ND
Tel: 0117 945 1234
Fax: 0117 926 5692

MANCHESTER
Bridgewater House
Whitworth Street
Manchester M1 6LT
Tel: 0161 247 7722
Fax: 0161 247 7766

CAMBRIDGE
Newnham House
Cambridge Business Park
Cambridge CB4 0WZ
Tel: 01223 420383
Fax: 01223 423792