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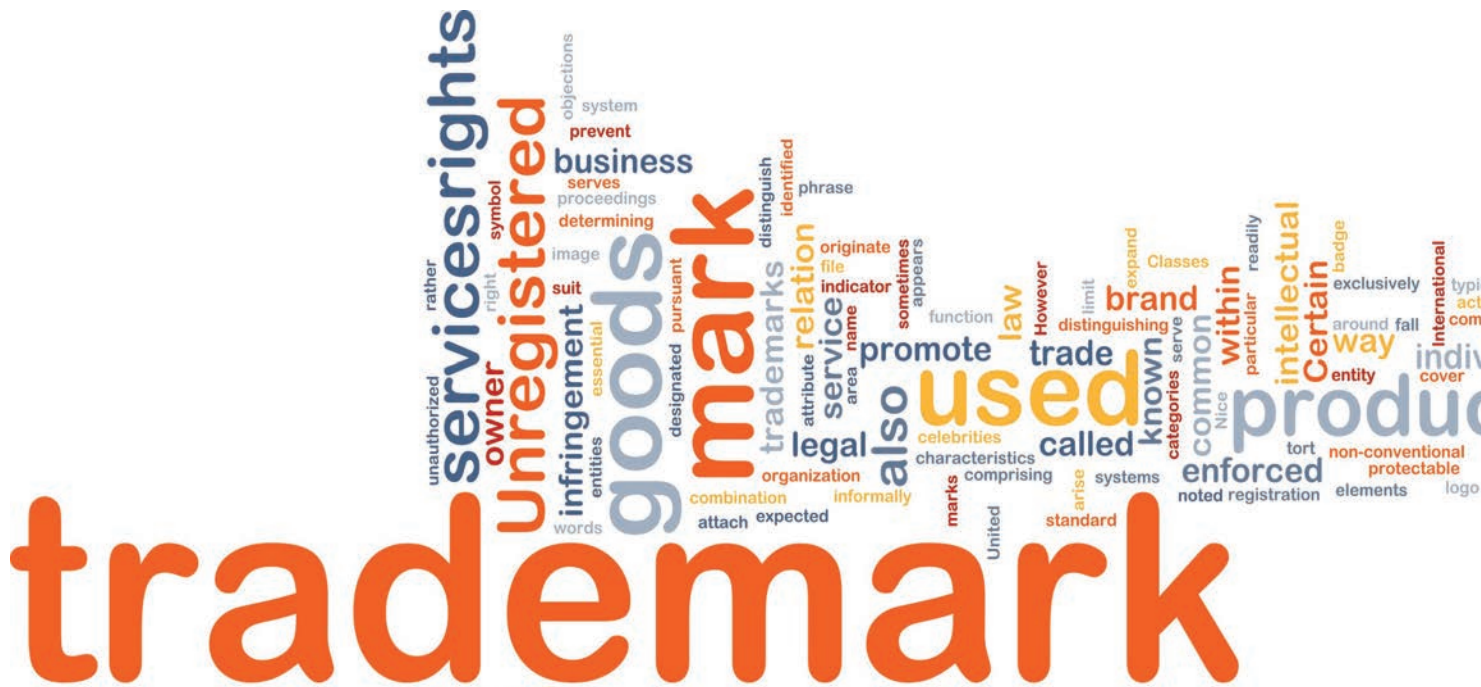
Sublicensing Trademarks in India

Ameete Datta & Suvarna Mandal

Prior to the enactment of the Trade Marks Act, 1999, brand licensing activity was hobbled since the Trade & Merchandise Marks Act, 1958 (“Old Act”) did not recognise licenses which were not recorded/

registered with the Registrar of Trade Marks under the old Act’s “registered user” provisions. As India liberalised in the mid 1990’s and markets globalised, Indian courts stepped in to recognise “common law” licenses i.e. licenses which were not recorded, holding that such license arrangements indeed accrued to the benefit

of the owner of the trademark and consequently the owner could claim such licensed use to be “use” of the trademark as required under Indian law. This would then allow the owner of a registered Trade Mark to fend off cancellation or rectification actions against the trademark on the ground of “non-use” of the mark in question.



Happily, the Trade Marks Act, 1999 which came into effect on September 15th, 2003, enlarged the scope of “permitted use” to include registered user agreements as well as common law licenses. Unfortunately, the Trade Marks Act, 1999 remains silent on sub-licensing despite the fact that merchandising of brands the world over proceeds largely under sub-licenses and not via licenses issued directly, granted by the owner of the brand. This has led to the question as to whether the Trade Marks Act, 1999 (“the Act”) intended to or covers “sub-licenses” within the definition of permitted user.

One argument in relation to sublicensing urges that, the lack of explicit recognition of sub-licensing under the Act would mean that sub-licensing per se is not allowed under Indian law and use of a trademark under such an arrangement would not inure to the benefit of the owner of the trademark. This argument seems to be based on the premise that for unregistered license agreements or what is referred to popularly as “common law licenses”, the “consent of such registered proprietor in a written agreement” is required. Further, the argument proceeds that since in a sub-

license there will be no privity between the proprietor and the sub-licensee, there is no ‘consent’ and consequently this would not ‘fit’ within the definitional criteria of permitted use. While there is no requirement, under the Act to identify the proprietor of a trademark, a representation that a mark emanates from ‘one business source’ is indeed implicit in the Act. Consequently, use by a sub-licensee of a trademark would not in such case inure to the benefit of the proprietor/owner of the said trademark as being “use” by the proprietor/owner of the trademark in question.

The aspect of licensed use accruing to the benefit of the proprietor/owner of the trademark is important since a registered trademark may be struck off the register/cancelled upon non-compliance with the statutory criteria requiring use of a registered trademark. On the other hand, in the case of an unregistered trademark (without a license agreement or consent),

goodwill in such case will not accrue to the owner of an unregistered trademark equally, adversely affecting the ability of the owner to protect the trademark.

An opposite view holds that while sub-licensing is not explicitly recognized or defined under the Act, it is per se not prohibited and rather the ability to sub-license a trademark can be read into the Act by reference to various provisions in the Act. The argument also proceeds to urge that “consent” cannot be interpreted narrowly and may be inferred from or contained in the license agreement itself (which accords the authority to sub-license further to the licensee).

What is clear, as stated above, is that a license (which is not a registered user agreement) under the Act requires the “consent of such registered proprietor in a written agreement”. The Act also clarifies that both, a license registered under the Act (i.e. “Registered User” and a ‘Common Law License’, namely, a license or ‘permitted use’ document which is not registered under the Act) will allow a proprietor of a trademark to benefit from such licensed use by claiming the licensed use as being deemed use by the proprietor himself.

In assessing this question, it is also pertinent to look at Section 49 (1) (b) and Section 50 (1) (d) of the Trademark Act, 1999 which specifically assert that control by the proprietor of the goods and services and the quality of the same should not be compromised. The primary function of a trademark or a brand is that it should clearly indicate the source of the product and a license that does not maintain this link with the business source of the mark will rendered invalid as this use will not be beneficial to the owner. This association between the proprietor and the business can be retained and protected when the proprietor exercises a structure in the sub-license agreement wherein the quality of the goods/services is maintained, and the absence of the same will lead to the application for registering a ‘registered user agreement’ being disallowed.

One argument in relation to sublicensing urges that, the lack of explicit recognition of sub-licensing under the Act would mean that sub-licensing per se is not allowed under Indian law and use of a trademark under such an arrangement would not inure to the benefit of the owner of the trademark.





by (a) consent by the proprietor of the trademark in a written agreement and (b) inclusion and assertion of control/'quality control' mechanisms. For instance, Section 49 (1) (b) (which refers to 'control') and Section 50 (1) (d) of the Act (which refers to 'quality control'), both point to the ability and requirement of the Proprietor of a trademark to exercise control / quality control over licensed use of a trademark by a registered user. Absence of control provisions will certainly result in an application for registering a 'registered user agreement' being disallowed. Equally, a lack of enforcement of quality control guidelines can potentially expose a trademark registration to rectification/ cancellation under Section 57 of the Act. Even otherwise, de-hors the statutory position, it is the owner of a trademark who bears the burden of ensuring the inclusion and enforcement of control or quality control over licensed use of a trademark (registered or unregistered). Control may also be exercised by way of operational and financial and / or audit control over the activities of a licensee.

While the theories of 'naked licensing' or 'bare licensing' etc., are undoubtedly more western in origin (and even more so diluted as the years have passed) than rooted in Indian law or jurisprudence, it must be remembered that Indian trademark law has and continues to borrow principles from English and American courts and incorporate them into Indian law as required. Further, it appears that the English Courts, while ostensibly discarding the bare licensing notion, do continue to hold that "uncontrolled licensing" can result in a credible challenge against a trademark. Even in India the fact that the term "trafficking" used in the old Act was deleted from the Trade Marks Act, 1999 leads to the assumption that the legislature intended to allow trademarks to be used as a "commodity".

Therefore, it cannot be said that a trademark licensed sans control or quality control mechanisms is beyond the pale of challenge since it is also clear that any

Unfortunately, the Trade Marks Act, 1999 remains silent on sub-licensing despite the fact that merchandising of brands the world over proceeds largely under sub-licenses and not via licenses issued directly, granted by the owner of the brand.

Correspondingly, under Section 57 of the Act if the enforcement of quality control guidelines is not met with then there is a chance that the trademark registration may be rectified or cancelled.

Since the central function of a trademark is to be a "source identifier", the use of a

trademark under a 'license' which does not maintain or fails to maintain a connection between the proprietor of a mark or a business source and the trademark itself will not be estimated as 'use' accruing to the benefit of the owner of the mark.

This "connection" is maintained inter alia



trademark not serving an adequate source indication function, which situation could be urged on the basis of a lack of (or for that matter of adequacy of) control mechanisms or indeed also lack of enforcement of control mechanisms between a licensor and licensee, will be open to challenge. Consequently, since, the ownership of the proprietor/owner over a given trademark can indeed be called into question/challenge in such circumstance, inclusion of quality control mechanisms and ability to enforce the control mechanisms is a *sin-qua-non* of any license arrangement.

Of-course there is no clearly defined “lower limit” to determine adequacy or inadequacy of control or quality control which will be seen on a case to case basis. What is however important is that (a) quality control mechanisms are included (b) the Licensor also be accorded or appropriate for itself visible enforcement mechanisms including against sub-licensees appointed by the Licensee.

Consequently, while sub-licensing can be resorted to any sub-license arrangement, it

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must be subject to confirmation by the proprietor of the Trademark. Such confirmation can, in event of a challenge, be the basis of unequivocal demonstration/evidence that the “consent” of the proprietor of a given trademark has indeed been secured for such transaction.

Clearly, the interests (and obligation) to maintain this ‘security’ against a potential

adverse determination against a trademark are that of the owner of the trademark (as it is the owner who will suffer the ultimate consequence). Consequently when engaging in sublicensing it will be critical to ensure the following elements are included in any such arrangement:

- (a) consent of the proprietor of the trademark confirming his acceptance to sub-license the mark,
- (b) control mechanisms to preserve the quality of the product and integrity of the brand licensed. [w](#)

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