

Understanding Naked Licensing of Trademarks

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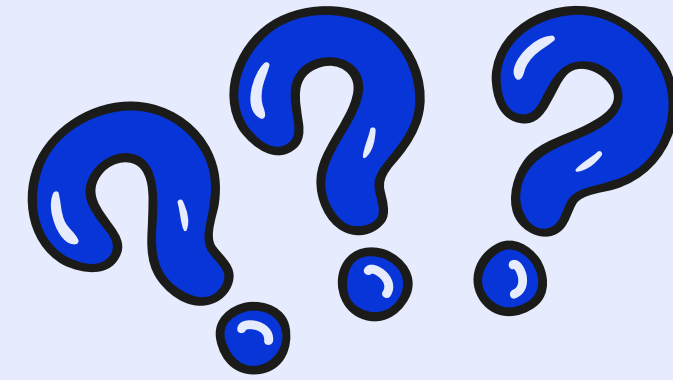
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Understanding Trademarks

- A Trademark is a kind of an Intellectual Property consisting of a recognisable symbol, design, or language that identifies and distinguishes items or services from a specific source.
- The owner of a Trademark could be an individual person, company, business, or any other legal entity.
- Trademarks in India are recognised and protected through the Trade Marks Act, 1999 and administered by the Office of the Controller General of Patents, Designs and Trade Marks.



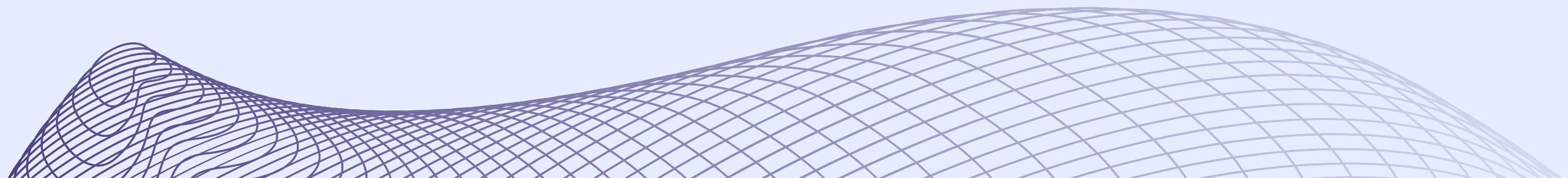
What is Naked Licensing?



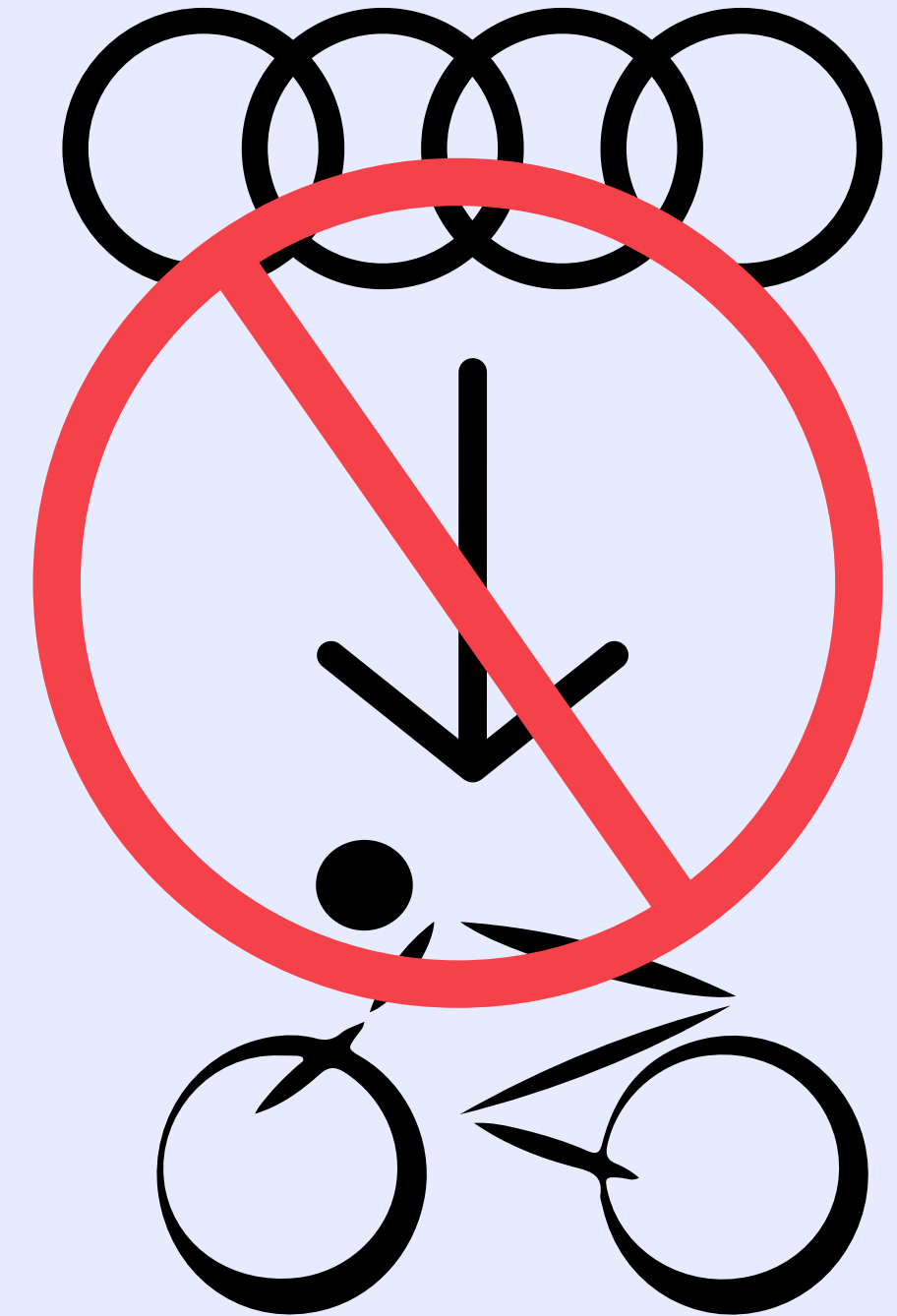


Background

- In today's globalised market, the introduction of new technology has resulted in new branding opportunities for businesses. Examples include the establishment of branded digital stores in the metaverse, the establishment of a brand's NFTs, and so on.
- Brand owners grant third parties a license to use their trademarks for the purpose of incorporation into digital works. Brand licensing also serves other well-established practices such as franchising agreements in which the franchisee adopts the franchisor's trademarks.
- Franchising or giving third party rights over Trademarks may give rise to what is called "Naked Licensing".

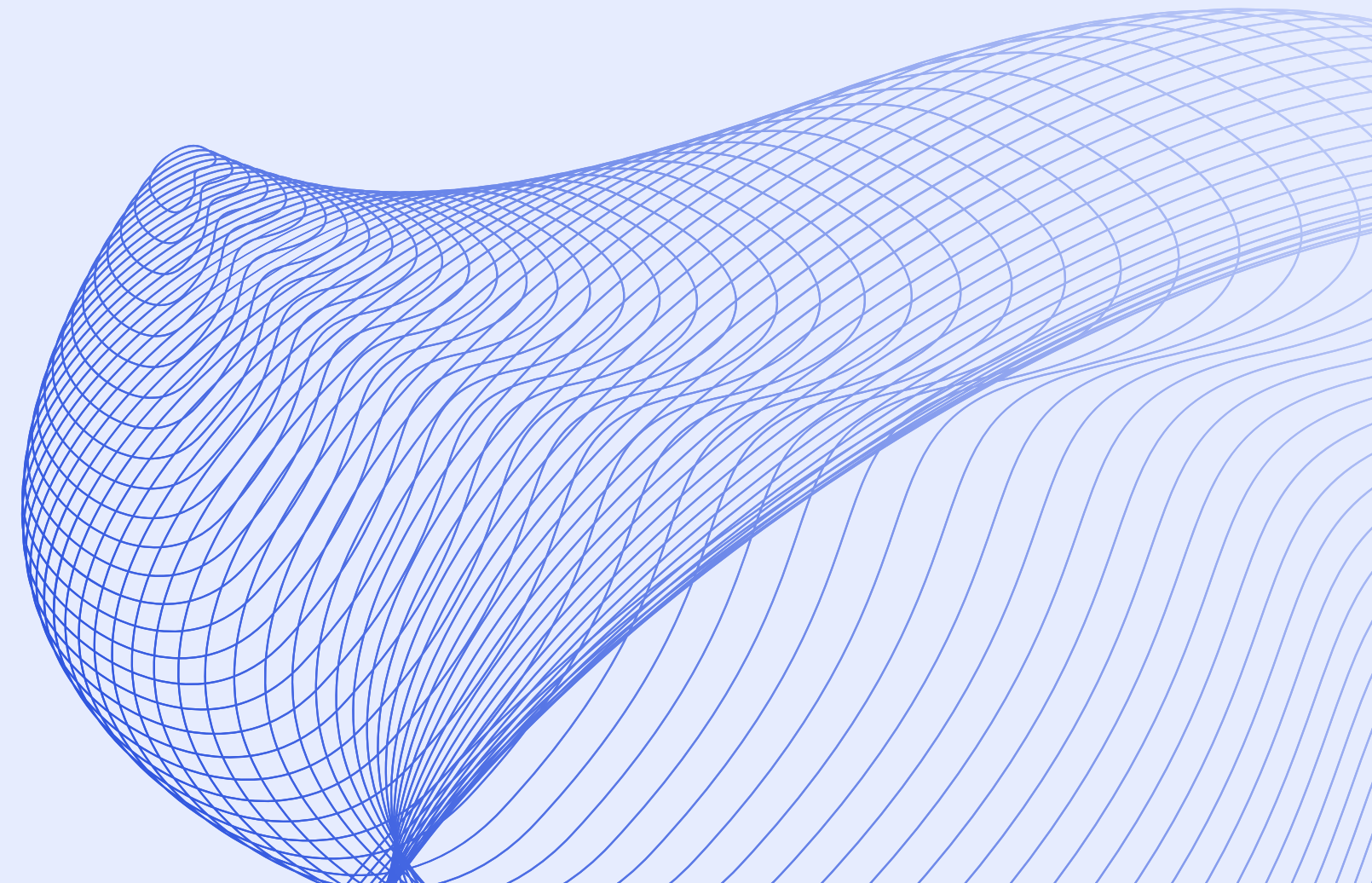


- For instance, adequate quality control measures are required when a third party is granted permission to use a trademark by its registered holder. Quality control measures ensure that the trademark is used in accordance with the registered proprietor's expectations. Without quality control methods, the licensee is allowed to use the brand anyway they see fit.
- Eg.- Audi has allowed a dealer to operate its Trademark logo, but the dealer is also selling cycles under the same brand. This is not just against the values of Audi but may also result in loss of the distinctive value of the Trademark.

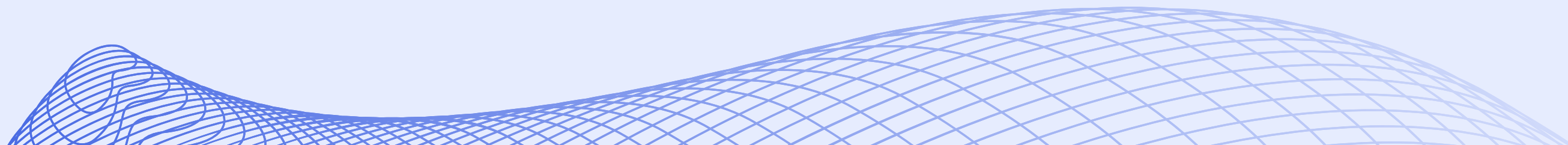


- Trademarks are widely regarded as source indications for all goods and services. They assist customers in identifying and distinguishing one product from another.
- When customers purchase a product with a specific mark, they have faith that the company meets the standards associated with the mark or brand.
- Eg.- When you purchase a bottle of Pepsi from any store in any place in India, you expect the same quality of product being offered regardless of the location or the kind of place you purchase the Pepsi bottle from.

Concept of Naked Licensing



- The issue of naked licensing arises when a trademark owner issues a license to a third party enabling use of their mark, but the licensee uses the mark in a manner inconsistent with the trademark owner's use. A naked license runs the danger of confusing the public about the origins of the mark, leading to consumers disassociating the mark from the Trademark owner. As a result, the mark may lose its distinctive value.
- The "Naked Licensing" theory was devised by US courts to protect customers who believe that when they purchase a product of a given brand, they will be assured a certain quality associated with the Trademark. To avoid consumer confusion, it is the Trademark owner's responsibility to exercise some control over the quality of the products offered by its licensee.



Legal Framework



- The Trademarks Act of 1999 ("Act") acknowledges that a person other than the registered holder of a trademark may use the trademark if such use is authorised. While the word "naked licencing" is not explicitly stated in the Act, it does contain requirements that can be interpreted as quality control procedures.
- As per Section 49 of the Act a registered user is any entity that has been granted permission by the registered proprietor to use the trademarks. Section 49(1)(b)(i) requires the insertion of an affidavit outlining the relationship between the registered proprietor and the proposed registered user, including specifics demonstrating the registered proprietor's "degree of control" over the use of products or services. Furthermore, Section 50(1)(d) of the Act states that a person's registration as a registered user may be cancelled if they fail to comply with the conditions outlined in the trademark licencing agreement regarding the quality of goods and services for which the trademark is being used.

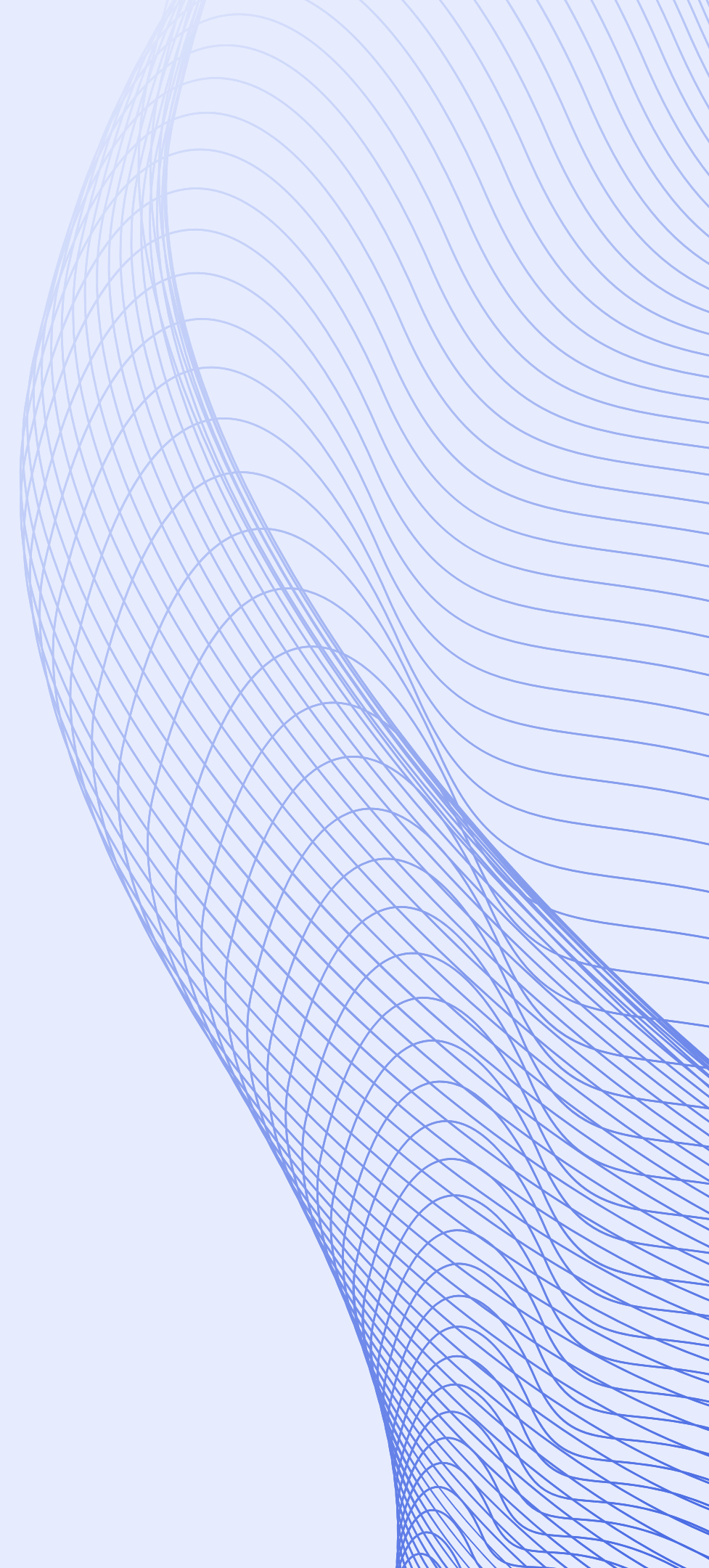
- Even for unregistered trademarks, the Act states that "permitted use" of a trademark by a person other than a registered user or a registered proprietor is only possible with the consent of and in accordance with the conditions and limitations such registered user or proprietor may put forward.



Case Laws

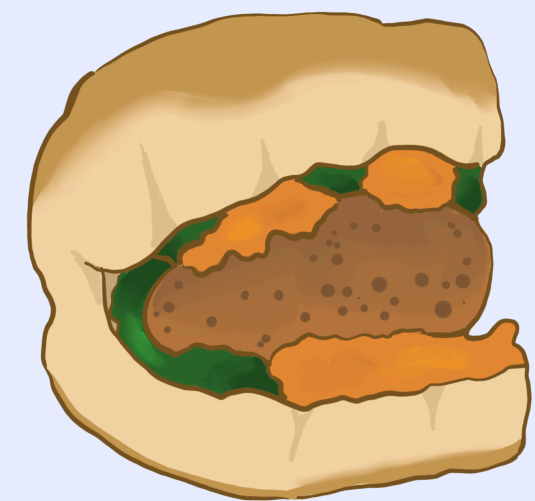
- The various courts in India recognise quality control as a part of maintaining the distinct character of a mark based on the aforementioned requirements. Eg- in *Double Coin Holdings Ltd. and Anr Vs Trans Tyres (India) Pvt. Ltd. and Anr.* the Delhi High Court observed that the presumption under the law is that the ownership of a Trademark is vested with the manufacturer, hence the burden of disproving this presumption is on the distributor.
- In *Gujarat Bottling Co Ltd v. Coca Cola Co.* the Supreme Court observed that "it is permissible for the registered proprietor of a trade mark to permit a person to use his registered trade mark... provided that (i) the licencing does not result in causing confusion or deception among the public; (ii) it does not destroy the distinctiveness of the trade mark; and (iii) a connection in the course of trade consistent with the definition of trade mark continues to exist between the goods and the proprietor of the mark..." As a result, the licensor must maintain a competitive advantage in terms of quality control procedures. A trademark can die due to inconsistent quality of products.

Consequences of Naked Licensing



- On the understanding of "degree of control" as mentioned earlier, since the same is not provided under the Act, it can be interpreted through legal precedence.
- The primary issue of Naked Licensing is the possible loss of distinctiveness of the Trademark. Delhi High Court in the case of *Rob Mathys India Pvt. Ltd. v. Synthes Ag Chu* it was held that "*Lack of adequate control or lessening of control over a period of time would be fatal to the distinctiveness of a trade mark.*" The court also went on to explain that a lack of proper degree of control or a loss of control over the mark would be detrimental to the distinctiveness of a Trademark.
- The loss of distinctiveness is a grounds for seeking a cancellation of Trademark as stated under section 57 of the Act, wherein one of the conditions provided is that Trademark is wrongly remaining on the register, hence cancellation can be sought on the condition that the mark is devoid of any distinctive character and hence, cannot remain registered as per Section 9 of the Act.

- Another major issue with Naked Licensing is that overtime it may result in the dissociation of a Brands Mark from its original values.
- Eg.- A brand like McDonalds which has provided license to a lot of franchisees across the world is famous for its distinct style of Burgers and Fries. Now if an Indian operator is to start selling Vada Pav along with those Burgers, not only will it result in the loss of distinctiveness of the product but it will also create a new image in the heads of consumers which in the end may result in dissociation of the Brands Mark from its original aim and values.



Steps to prevent Naked Licensing



1

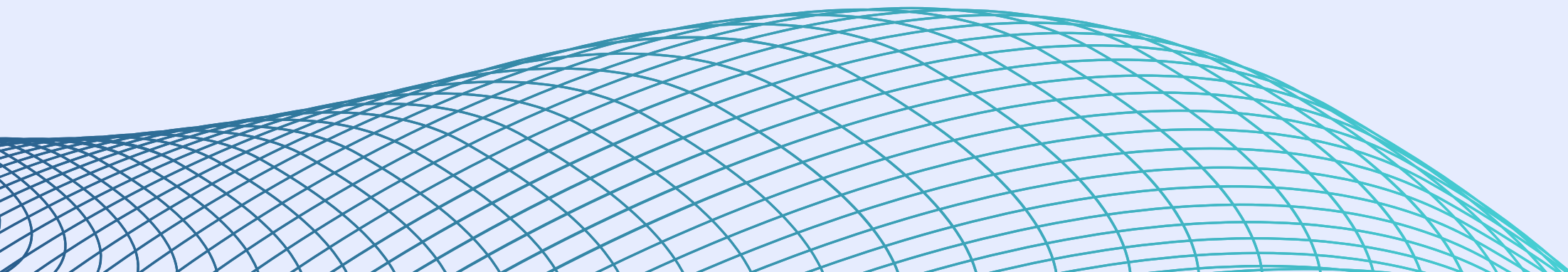
Approving third party use of Trademarks only for the products which are identical to the ones offered by the mark holder and are in line with the brand value and image associated with such Trademark.

2

Applying strict quality control measures in relation to the quality of the products being offered under the mark, such as termination of third party rights, destroying faulty products, etc.

3

Curbing any unauthorized morphing, editing, modification and alteration of Trademark



4

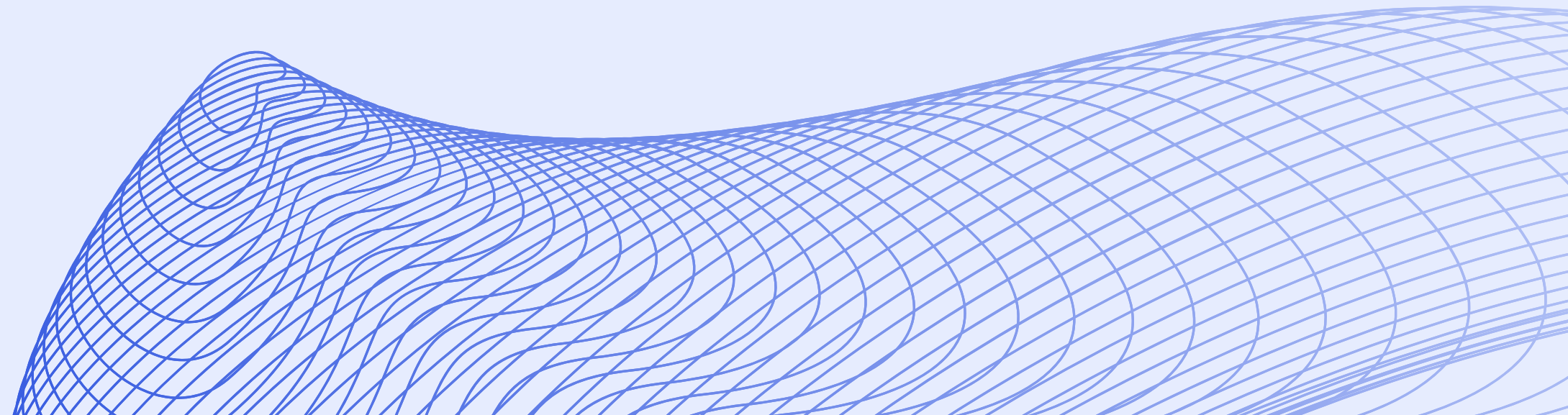
Auditing/inspecting/verifying the use of Trademark and the quality of the products offered under the Trademark on regular intervals.

5

Restriction on adoption of the same/similar marks by the licensee during the subsistence of the license and after expiry.

6

Limited time period on use of Trademarks by third parties. And periodic review of usage of the mark by licensee.



Conclusion

The owner of a trademark has the sole right to use the mark in connection with products and services. At the same time, the trademark owner should monitor his trademark and ensure that the licensee is providing goods and services in accordance with the quality standards he has established. As a result, the owner of a trademark is the trademark's watchdog. However, the job of the proprietor is not to assure high standard of the products, but to ensure that they are of consistent quality, as the touchstone of trademark law is to ensure consistency in meeting customer expectations for the brand.

Thank You

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