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Trade mark licensing and the need for control

In this issue:

Key Points -

- **Trade mark licensing requires the owner to control the licensee's use of the mark**
- **Previous cases have required only minimal control**
- **Potential to control the licensee's use may be sufficient**

A recent decision of the Federal Court of Australia has considered the meaning of "control" in the context of trade mark licensing.

Historical perspective

In many ways, trade marks are very different to other forms of intellectual property. On the one hand, they are a property right and can be sold and licensed. However, they also play an important role in consumer protection, by helping to ensure that buyers are not deceived in relation to the origin of the products and services they acquire.

Australian law has long recognised that trade mark law involves balancing the competing interests of traders and the public. This balance has changed significantly over the years, as reflected in changing laws governing the licensing and assignment of trade marks.

Historically, trade mark licensing was not permitted at all. Trade marks are traditionally considered to be a "badge of origin", and it was thought that separating the "badge" from the "origin" via licensing was necessarily deceptive. As the law developed, licensing came to be permitted provided that the trade mark owner retained a sufficient connection with the products sold by the licensee.

The current law

The current position in Australia is that use of a trade mark by a licensee constitutes "authorised use", provided the mark is used under the control of the trade mark owner.

"Authorised use" of a mark is deemed to be use by the trade mark owner, and so can be relied upon to defeat a non-use cancellation action.

The term "control" is not defined in the Trade Marks Act. But the Act gives two examples of "control", being the exercise of quality control over the licensee's products or services, and the exercise of financial control over the licensee's relevant trading activities.

The facts

Skyy Spirits LLC v Lodestar Anstalt [2015] FCA 509 (26 May 2015) involved a licence to use the mark WILD GEESE in relation to wine. The licence terms were unusual – the licence was exclusive and perpetual, and was granted for nominal consideration of only one dollar. The licence agreement was signed in settlement of an ownership dispute. Reading between the lines, it seems that the trade mark owner granted favourable licence terms in return for obtaining ownership of the mark, as part of a strategy to bolster the trade mark owner's position against the makers of WILD GEESE bourbon.

The licence agreement provided that the licensee's wine must be of sufficient quality to obtain continuing export approval from the Australian Wine and Brandy Corporation and that the licensee would provide the trade mark owner with samples of its wine upon request. On one occasion, the trade mark owner did in fact request samples, which were provided by the licensee.

However the judge found that the trade mark owner did not, in fact, exercise any actual control over the licensee in relation to how it used WILD GEESE, or the quality of the licensee's wine. His Honour considered that the licence agreement was intended to provide the appearance of control in a theoretical and formalistic sense, but no actual or meaningful control.

The issue

Was this "theoretical" control sufficient to render the licensee's use of WILD GEESE "authorised use". If it was not, the WILD GEESE registration was at risk of cancellation for non-use.

The judge considered that "authorised use" requires the exercise of actual

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control, not the potential for control, stating: "If I say that the police are controlling the traffic I do not mean that they are sitting in a nearby coffee shop reading the paper but able to step out on to the road at any moment and control the traffic if they choose".

However previous Australian cases that have touched upon the meaning of "control" have set the bar very low. His Honour felt constrained by the doctrine of precedent to follow those decisions, and reluctantly concluded that the potential for the trade mark owner to exercise control was sufficient to render the licensee's use of the mark "authorised use".

Comments

Typically it is in a trade mark owner's commercial interest to exercise rigorous control over a licensee – the mark might be the trade mark owner's most valuable asset, and will be zealously controlled against misuse or damage. However, as the Skyy Spirits case illustrates, this is not always the case, and it is not unusual for brand owners to enter into licensing arrangements with minimal or no control requirements.

It remains to be seen whether His Honour's approach will be adopted by higher courts. However the current Australian position is at odds with the approach adopted in many other countries – notably the USA and its doctrine of "naked licensing" – and reflects the traditional role of a trade mark as a badge of origin.

In the meantime, it would be prudent for trade mark owners to be aware of this potentially shifting approach towards more rigorous "control" requirements for trade mark licensing in Australia.

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Protecting a Plant Variety in Australia beyond PBR

Key Points -

- **Commercial agreements have a significant role in the protection and commercialisation of a new plant variety.**
- **The Australian patent system and trade mark registration system can also play a part in the protection of a new plant variety in addition to the Australian Plant Breeder's Rights regime.**

An overseas breeder/owner of a new plant variety with an eye on Australia as a location for cultivation of the plant variety and as a market for commercial sales of that variety may protect this intellectual asset using the Australian Plant Breeder's Rights (PBR) regime. The plant variety may also be eligible for protection under the Australian Patent System if the plant variety meets the patentable invention criteria and the name to be used for the promotion and sale of the plant variety may be protected as a registered trade mark.

However there are many other aspects to the management of the new plant variety and the IP that are not always transparent. For an overseas breeder/owner these may include:

An Importation and Custodian Agreement which sets out and regulates the way in which the plant material of the new variety is handled when brought into Australia and managed following release from quarantine. Such an agreement should cover ownership of the plant material and PBR's and the rights and responsibilities of any appointed custodian of the plant material. The agreement should also deal with the storage, maintenance and security of the plant material in Australia including the nomination of a Genetics Resource Centre (a requirement to obtain PBR in Australia).

The Appointment of a Qualified Person (QP) in Australia: A QP typically has an agricultural or horticultural background and is skilled in designing and overseeing growing trials that may be required in Australia to demonstrate the distinctiveness, uniformity and stability of the new plant variety. The QP also prepares the description of the new plant variety which is a requirement for obtaining PBR's in Australia. An agreement should be used to formalise the appointment of the QP, the agreed scope of works of the QP as well as setting out confidentiality obligations and regulations around access to the plant material when on trial.

A Multiplication and Propagation Services Agreement typically appoints a commercial nursery to multiply and propagate the plant material in Australia. Similarly, such an agreement should cover ownership of the plant material, quality specifications for the propagated material and requirements for labelling the plant material as well as the handling and destruction of plant material under specified circumstances. The agreement will also include commercial terms around the number/volume of plants propagated and other commercial performance criteria.

A Growing Services Agreement appoints a third party on an exclusive or non-exclusive basis to grow and wholesale the plant material. This type of agreement will include product specifications, packaging and labelling requirements for commercial sale, a license to use any registered trade mark, criteria for destruction of product if not to specification, conditions around the sale of product (price, volume, territory, royalties) and commercial performance criteria.

It is the combination of these various agreements and the formal PBR's that allow the overseas breeder/owner of a new plant variety to control and manage its assets for commercialisation in Australia.

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Geographic Indications and their Implications

Key Points -

- **Understand the interplay between GIs, trade mark law and consumer law locally and overseas.**
- **Don't assume you have the freedom to do as you wish with a GI just because it is from overseas.**
- **Align your marketing strategy for both local and overseas markets, acknowledging the complex interplay between GIs, trade marks, consumer law and international obligations.**

Heard in restaurants across the country:

Diner: 'Can I have a glass of Australian Champagne please?

Sommelier: 'I'm sorry, but do you mean a glass of Australian sparkling wine?'

This diner is clearly unaware of Geographic Indications (GIs)!

A GI is a name that may be protected under various national laws and international treaties if a given quality, reputation or other characteristic of the good is essentially attributable to its geographic origin. It is an intellectual property right in a placename where there is a particular association with the goods (typically agricultural products and foods) that originate in specific geographic locations.

Australia's wine industry has a GI scheme in place. The Australian Register of Geographic Indications lists Australian and agreed European wine GIs, as well as traditional expressions used in the wine and spirit industries.

Australia does not yet have a system for the registration of other GIs, such as foods and handicrafts. But as a signatory to the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Australia is required to provide minimum alternative legal protection mechanisms. Currently this obligation is fulfilled via consumer law, mandatory food standards and the trade marks system.

Protection for GIs relating to food products is most commonly addressed through the Australian trade marks system. For example, recognised GIs, such as Grana Padano (for cheese originating in the Italian Pianura Padana valley region), are often protected by collective and/or certification trade mark registrations managed by regional companies or collectives

How does this affect local food and wine manufacturers?

Unfortunately the answer is not straightforward. It is an offence in Australia, and many overseas jurisdictions, to use a registered GI or a registered trade mark without authorisation, or to pass your product off as something it is not. If a product is incorrectly labelled there can be significant penalties, as well as the potential damage to your own brand and reputation. Helpfully, Wine Australia has a comprehensive compliance guide and labelling integrity program, detailing the requirements for local sale, export and the use of GIs on wines and spirits. For other food products, however, due diligence is key:

- before you commit to a new local product label, make sure you are fully aware of the competition and conduct trade mark and GI searches in Australia; and
- before exporting your product, you should undertake foreign searches – not merely for trade marks, but also GIs and traditional expressions, and any other national requirements, including those that might be subject to agreements between trading partners.

For example, exporting a blue cheese product to France under the brand name 'Rob's Aussie Stilton' would be prohibited because 'STILTON' is a recognised GI in Europe. Less obviously, exporting a cheese labelled 'Feta' to South Korea or Peru would be prohibited because both countries have reciprocal GI rights agreements with Europe, where 'FETA' is a recognised GI.

The complexities of the international arrangements make GIs a minefield for the unwary. Before you launch your new product, whether in Australia or overseas, it is important to do your due diligence and to seek appropriate input from your professional advisors.

By John Golding

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Peculiarities of the Indian IP system – Australian exporters beware!

Key Points -

- **Similarities exist between the Indian IP system and that in Australia.**
- **Australian businesses need to be aware of the peculiarities that exist in the Indian IP system.**

The top three destinations for Australian exporters in the next two years will be (1) China, (2) USA and (3) India. Let's explore the IP regime of the third most relevant export market, India.

Like Australia, India inherited its IP laws and systems from the UK. Australian businesses, who have dealt with the Australian IP system, will find similarities with the Indian IP regime. For example, India has a common law court system to enforce IP rights, and its IP databases are online and open for public inspection.

However there are some peculiarities in the Indian IP system, of which Australian exporters should be aware:

Patents

- The Indian Patent Office (IPO) requires patentees to confirm whether the invention has been 'worked' in India. Put simply, the invention needs to be commercialised in India by way of manufacturing, selling, licensing, etc. to avoid the risk of a third party seeking a compulsory license. If the invention is not worked in India, the patent may become vulnerable to a compulsory license on the basis that the patentee should not use an unworked patent to simply block the market.
- Certain inventions are explicitly excluded from being patented. Some examples of non-patentable inventions are:
  - a mathematical or business method or a computer programme per se or algorithms – note: not all software related inventions are excluded from being patented;
  - a substance obtained by a mere admixture resulting only in the aggregation of the properties of the components or a process for producing such substance – e.g. mixture of salt and dye in water which results in salty coloured water;
  - a method of agriculture or horticulture – e.g. method of growing plants.
- Unlike the innovation patent in Australia, India does not have a second tier patent.

Trade marks

- India practices the 'first-to-use' rule for establishing trade mark rights. This helps curtail the problem of 'trade mark squatting'.
- Like Australia, a trade mark registration becomes vulnerable to cancellation due to non-use 5 years from registration.
- India is a party to the international trade mark application system (Madrid Protocol). Australian businesses looking at using the Madrid Protocol can designate India.

Other forms of IP protection

Like Australia, India also provides protection for designs, copyright and plant varieties. In addition, it is also possible for groups/associations to register a geographical indication to protect products synonymous with a particular country/region of origin.

Conclusion

The Indian IP regime has several commonalities with the Australian IP regime, and the costs of obtaining and enforcing IP rights in India are relatively low. However, it is important for Australian businesses to be aware of the peculiarities of the Indian IP regime. Australian exporters should consider a 'belt and braces' approach i.e. multiple ways of IP protection, when seeking IP protection in India.

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