



Brand licensing

This booklet has been prepared for general information and does not constitute legal advice. It is not an exhaustive statement of the law. For advice in applying this general information to your specific circumstances please contact Stephen Sidkin at Fox Williams LLP.

Brand Licensing

Introduction

A licence agreement gives one person a temporary right to commercially exploit another person's intellectual property (IP) right. In brand licensing, the most common IP right which is licensed is a trade mark but you may also need to consider licensing relevant copyright, designs and goodwill.

This guide summarises the legal issues you need to be aware of when licensing a brand. It highlights some key negotiating points, the most pertinent issues to consider and provides practical guidance on commercial questions such as choosing the right partner for your licence agreement.

Not every point in this booklet will be relevant in all circumstances, nor is the checklist an exhaustive list of all matters that may apply in a particular case. In other words, this booklet is not a substitute for specialist legal advice on a specific transaction or on the drafting of a licence itself.

What is a Brand?

A brand's trade mark (e.g. their name or logo) provides an indication as to the origin of the goods or services to which it has been applied. In essence, a trade mark states "I made this". It distinguishes the goods or services of the trader from those of its competitors and rivals. From the point of view of the consumer, trade marks can be seen as an assurance of the identity and authenticity of a product. Depending on the reputation of the brand, a brand can indicate the exclusivity or quality of a product, its durability, its value for money, and so on.

The Importance of Brands

In the modern marketplace, the importance of brands can barely be overstated. Globalisation and the proliferation of mass produced competing goods mean that manufacturers and retailers are increasingly reliant on the brand loyalty of consumers. Intellectual property can add substantially, potentially as much as 80%, to the value of a business.

Registered Trade Marks

There is no requirement in English law for trading names or logos to be registered as trade marks. However, registration has many advantages. It provides notice to other businesses of the registered proprietor's interest in the mark, and therefore acts as a deterrent against infringement. Proceedings brought against an infringer of a registered trade mark are straightforward when compared with an action against someone for infringing an unregistered trade mark (known as "passing off").

The choice of a trade mark is primarily a commercial decision, but it is important to ensure that the choice is governed by the legal restrictions on what can and cannot be registered as a trade mark. For example a trade mark cannot be descriptive (e.g. SHOP for shops) and devoid of distinctive character. In most cases, registered trade marks consist of words, numerals and graphic designs (e.g. logos). It is also possible to register colours, music, sounds and smells (although proving they are distinctive and indicate the origin of particular goods and services can be problematic).

Further, the trade mark cannot be identical or confusingly similar to an earlier trade mark (including a business with goodwill in the name or image but no registered trade mark).

Assign or License?

It is possible to assign or license a trade mark. In an assignment the owners sells their trade mark completely. A licence is more like taking a lease of the right. In other words, it grants someone the right to exploit the owner's trade mark in a particular way, in a particular location and for a set period of time.

Brand owners can use licensing arrangements to break into new markets. This applies equally to product markets and geographic markets. By way of example, a European clothes manufacturer could use a licensing arrangement to break into the American sunglasses market. If the arrangement is a success, the effect will be to strengthen the global value of the brand.

Trade mark licensing is particularly prevalent within the fashion industry, where it is common for brand owners to license the rights to produce various goods to manufacturers. In 2016, Mulberry announced a new licensing deal for its ready to wear and footwear collections with Onward Luxury Group, which has significant experience in manufacturing and distributing fashion-luxury brand products. For the 2015 Rugby World Cup, a global master license for official merchandise was granted to Elite Sports Properties.

Choosing a Licensee

The prospective licensor (i.e. the trade mark owner) needs to consider carefully the suitability of any prospective licensee, analysing the attributes of a licensee which will make the licensing arrangement a success. Depending on the product or service in question, this can include a strong financial position (for example for capital expenditure, perhaps in plant and machinery) and an established and reliable distribution system.

A licensor will often want to see evidence of a proven track record in the manufacture, promotion, distribution and sale of comparable goods.

It is important for a licensor to have trust and confidence in a licensee. Trade mark licence arrangements will often require a significant degree of co-operation between the parties throughout the term of their relationship. It will also be imperative that the licensee does not act in a manner which could damage the overall value of the brand. This issue will be considered further below.

Choosing a Licensor

A prospective trade mark licensee will have their own agenda. Above all, they will require confidence in the commercial potential of the brand in the territory in which they operate. This will be particularly important where the licensee is providing a commitment to make minimum royalty payments.

The Licence: Legal and Practical Issues

Exclusive / sole / non-exclusive

The licensee may be appointed on an exclusive, sole or non-exclusive basis. An exclusive licence authorises the licensee to exploit the mark in the territory to the exclusion of all others, including the licensor, and therefore the licensee is (in theory at least) protected from competition. A sole licensee is granted a more limited protection from competition: the licensor himself reserves the right to compete with their licensee in the territory, but they promise not to appoint any other licensees. A non-exclusive licensee is not offered any protection from competition whatsoever and the licensor remains free to appoint other licensees in the territory.

Exclusive licences in particular can create competition law concerns. Nevertheless, exclusive licences are common in practice.

Territory

It is possible to grant a global licence in respect of a trade mark. However, it is much more common to grant licences country by country or otherwise in respect of a certain territory, such as Benelux or the European Union (bearing in mind that the extent of these territories could change in the future following political events which would not have been foreseen at the time of signing the contract).

Activities to be covered by the licence

A licence may be granted in respect of the full range of commercial activities (manufacture, promotion, distribution and retail). Alternatively it is possible to grant one party a licence to manufacture the product, another to distribute it, and others to sell it to the consumer. The permutations are considerable, although there may be competition issues to consider.

Royalties

The royalties clause will often involve protracted negotiations. As a general rule, the greater the degree of exclusivity, the greater the royalty rate. The licensor may attempt to impose minimum royalty rates on the licensee. These guarantee a minimum return for the licensor and at the same time should incentivise the licensee.

The issue of royalties is in many respects a commercial one. However, from a legal perspective it will be crucial that the clause is carefully drafted so that it works well in practice. It is not sufficient for the clause to barely state the rate of royalty. Numerous other practical points should be considered, for example:

1. What is the method and currency of payment?
2. When is payment due?
3. How is it calculated?

In respect of the last question, this will often be by reference to the net sale price, in which case this term must be clearly defined.

Usage and quality control

The value and importance of brands has already been discussed. A successful licensing arrangement will tend to increase the value of the owner's brand. However, there is also substantial scope for a licensee to damage the value of the brand. For this reason, it is of fundamental importance for the licensor that the licence contains suitable provisions on usage and quality control. This is not just a concern for the licensor who uses their mark concurrently with their licensee. The licensor retains a reversionary interest in the mark in respect of which they grant a licence. When the licence comes to an end, the rights which were vested in the licensee will return to the licensor. If the usage of the mark was not carefully regulated during the term of the licence, on termination the value of the mark may be damaged, possibly beyond repair. In the worst case scenario, the licensee's usage of the mark will compromise its validity.

Accordingly trade mark licences should contain usage and quality control provisions which will protect the licensor's interests. The licensee must be prevented from using the mark in any manner which could mislead the public with regard to the origin of the goods or lead to the mark becoming generic. The representation of the mark must be completely accurate at all times and carried out in accordance with the detailed instructions of the licensor. In order to police these provisions, it will be advisable to include rights to inspect samples of the goods, possibly at the licensee's expense. These provisions will have to cover all aspects of the goods (such as their packaging and promotion). The licensor will wish to reserve the right to terminate the licence in cases of material breach.

Assignment and sub-licensing

The licence should specify what rights the parties have to assign or sub-license their interests. It is common for the licensor to specify that no assignment or sub-licensing is to be permitted by the licensee. This is because of the danger that the brand could be damaged by the activities of an assignee or sub-licensee, over whom the licensor would have no contractual control. One compromise is to allow the appointment of sub-licensees in respect of whom the licensor has

indicated their written approval and on the basis that the sub-licensee is subject to the same terms as the original licence.

Advertising and marketing

The licensor may want to impose advertising and marketing obligations on the licensee, in order to maximise the likely return on the licence. At the very least the licensor should reserve rights of approval over advertising and marketing materials produced by or on behalf of the licensee.

Rights on third party infringement

Under the Act, a registered exclusive licensee can sue for UK trade mark infringement in the place of the registered proprietor. A non-exclusive licensee, by contrast, may only bring infringement proceedings if the registered proprietor fails to take action within two months of a request to do so by the licensee. These rules are subject to an agreement to the contrary. As such, the issue of the parties' rights in respect of third party infringements should be dealt with in the licence. Licensees may wish to be granted substantial rights in addition to the above statutory rights – for example, to call on the registered proprietor to co-operate fully (possibly at their own expense) in infringement proceedings brought by the licensee. However, a licensor may refuse to grant their licensee any rights in respect of third party infringements, including the statutory rights which would otherwise apply. This is because there is a risk for the licensor in giving up control of infringement proceedings: the Act permits a defendant to infringement proceedings brought by an exclusive licensee to challenge the validity of the registered mark.

Competition Law

It will be important during the negotiations for a trade mark licence to consider UK and EU competition law (although there is significant consistency between the two systems).

European competition law

It will usually be necessary to have regard to European Union competition rules, even if the licence will only cover the UK. The extent to which this will apply post Brexit is currently in flux.

Article 101 of the Treaty on the Functioning of the EU prohibits agreements between independent undertakings which may affect trade between Member States of the EU and which have as their object or effect the prevention, restriction or distortion of competition within the common market.

Agreements which contravene Article 101 are automatically void - at least in respect of their "anticompetitive" provisions - unless they have been "notified" to and "exempted" by the European Commission. Notification is a cumbersome process and the Commission adopts very few formal decisions of exemption each year.

Infringing undertakings may also face substantial fines levied by the European Commission and actions for damages brought by third parties who have sustained damage as a result of the infringement.

UK competition law

The Competition Act 1998 introduced a new regulatory regime within the United Kingdom. The competition regime in the UK is now modelled on the EU system and prohibits all agreements between undertakings which may affect trade within the UK and which have as their object or effect the prevention, restriction or distortion of competition within the UK or a part of the UK.

Anti-competitive behaviour or arrangements in whatever form - written, unwritten, formal or informal – are caught.

An agreement of any kind, including a trade mark licence, will be caught by the prohibition only if it has an “appreciable” effect on competition within the UK. In general, an agreement will have no appreciable effect on competition if the parties’ combined share of the relevant market does not exceed 25%. Exceptions to this are agreements which directly or indirectly fix prices, impose minimum re-sale prices, or share markets – such agreements will be judged as having an appreciable effect on competition (even where the parties’ combined market share is less than 25%).

COMPETITION LAW – PRACTICAL GUIDANCE

Depending on the circumstances, it may be that the licence can be brought within an exemption or an exception. As a general rule, terms which are necessary to maintain the reputation of the trade mark will not normally fall foul of the competition rules provided that they do not go beyond what is necessary.

Accordingly, it is unlikely that terms regulating the quality of the marked goods will infringe competition laws. It will also generally be acceptable to tie the use of the mark to the purchase of ancillary goods or services from the licensor if this is necessary to maintain the quality of the branded goods.

However, certain provisions should be avoided – for example, price-fixing terms and absolute bans on the export of marked goods outside the territory. With reference to the latter example and depending on the circumstances, it may be acceptable for the licensor to seek to prevent the licensee from actively marketing the goods outside the territory.

Registration

In the UK, trade mark licences can be registered at the trade mark office and show up on the official register. Registration is not compulsory but it is advisable. This is because until an application is made to register the transaction:

1. a licensee cannot recover damages or an account of profits relating to any period when the licence was not registered;
2. the grant of the licence will be ineffective against a person who acquires a “conflicting interest” in the mark in ignorance of it; and
3. the licensee will not obtain the statutory rights to take infringement proceedings against third parties in certain circumstances.

Taxation

The tax consequences of a trade mark licence may be a factor in deciding on a trade mark licensing strategy. It is advisable to take specialist tax advice.

In most cases the royalties which are received by the licensor will be treated as income or trading receipts in the hands of the licensor for corporation or income tax purposes. From the point of view of the licensee, the royalties paid for the use of the trade mark will usually be treated as trading expenses and, accordingly, they will be deductible in the calculation of its profits.

Fees and expenses of applications for registration and extensions are allowable as a deduction against trading profits. The obligation to withhold tax on royalties by the licensee is a complex one and requires specialist advice.

Before 28 March 2000, stamp duty was payable on transfers of intellectual property rights. This is no longer the case but an assignment or transfer of a trade mark will almost certainly constitute (or form part of) a supply of goods or services made in the course of business which is potentially subject to VAT.

Confidentiality

Depending on the type of goods or services concerned, it may be prudent for the licensor to seek a confidentiality undertaking from the licensee. This will be particularly the case where the licensor will be providing the licensee with related know-how or other intellectual property rights under the terms of the licence. It may also be advisable for the licensor to insist upon a confidentiality agreement before negotiations for the licence begin.

TRADE MARK LICENCE AGREEMENT CHECKLIST

Parties

1. clearly state the identity of the parties. If a company, state the place of incorporation, registered/principal office and any registered number
2. are the obligations of the licensee to be guaranteed?

Definitions

1. Commencement Date
2. Territory
3. Net Sale Price
4. the products/services which are the subject of the licence
5. the Trade Mark(s)

Scope of the appointment

1. is the licence exclusive / sole / non-exclusive?
2. are "passive" sales (i.e. cold contacts) permitted?

Duration of the licence

1. fixed period
2. any initial minimum period
3. right to renew/automatic renewal
4. right to terminate by notice
5. length of notice period
6. The licence i.e. rights granted
7. Responsibilities of the licensee
8. quality of products and usage of mark
9. to supply promotional literature and/or samples for licensor's approval
10. to supply accounts to the licensor

Responsibilities of the licensor

1. to provide the requisite know-how and assistance
2. maintenance of registration of the mark(s)

Registration of the licence

Ownership of the trade mark and goodwill

1. licensor's ownership of the trade mark
2. Ownership of goodwill
3. agreement not to challenge the trade mark

Infringements

1. control of proceedings

2. co-operation in proceedings
3. costs of proceedings
4. rights in respect of damages or settlements

Assignments and sub-licensing

Warranties and indemnity

1. warranty from licensor in respect of valid ownership of mark
2. indemnity from licensor in respect of claims that licensee's use of the mark infringes rights of third party
3. indemnity from licensee in respect of any other claims arising from licensee's use of the mark (e.g. product liability)

Royalties

1. basis of royalties
2. time, manner and place of payment
3. currency of payment
4. minimum royalty?

Termination

1. material breach by licensee / either party?
2. insolvency of the licensee / either party?
3. a change in control of licensee?
4. on failure to achieve sales targets?
5. on notice?
6. on purported assignment by licensee?
7. if the agreement becomes illegal?

Consequences of termination

1. royalty entitlements of licensee on termination
2. obligations of licensee on termination
3. rights and liabilities of the parties to survive termination

Insurance

Taxation

1. all sums exclusive of VAT etc.
2. withholding tax

Other issues

1. Choice of law, jurisdiction and address for Service
2. Whole agreement provision
3. No joint venture or partnership
4. Force majeure