

TRADEMARK LICENSING AND TRAFFICKING IN TRADEMARKS: DOES THE LAW PROMOTE IT?

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ABSTRACT

The present paper is an attempt to analyse the legal contours of trademark licensing and regulation thereof. The approach taken for the same is to study the evolution of trademark theory, from the source to the guarantee theory and the different perspectives on trademark licensing that these theories evoked. The paper undertakes a survey of this transformation in several jurisdictions and then comes to the attendant issue of trademark trafficking. Herein, the incongruous position of Indian law, in terms of the remedy which is prescribed to remedy trademark infringement is highlighted and suggestions made. The challenges which may arise in the near future, with regard to trafficking of domain names on the internet, and the recent decision of the House of Lords in *Scandecor* are then discussed in the paper.

INTRODUCTION

Trademarks, much like the commodities on which they appear and which they represent, have become property in themselves. Recognition of this great commercial value of trademarks is the reason for the development of the commerce of trademarks. Traditionally, the assignment of trademarks was not favoured in law.¹ Though assignments in gross were invalid, the right of a proprietor to assign the business was recognised.² The development of modern industry and commerce also meant that it became advantageous for certain proprietors of trademarks to allow third parties to produce and market their products while they held the ownership over the same. Thus, trademarks would have to be licensed to these parties.

A major factor for consideration in the licensing of trademarks is the welfare of the consumers and the prevention of deception to them whereby goods may be passed off as having originated from one source whereas they actually belong to another. The source theory was the first principle that governed the licensing of trademarks. Thereafter, the quality theory came to gain importance when it was perceived that consumers did not identify the source of products but the quality of the same. However, the contemporary developments have moved away from the classical quality theory as well.

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1 Nathan Isaacs, "Traffic in Trade-Symbols", 44 *Harv. L. Rev.*, p.1210, (1931).

2 Grover C. Grismore, "The Assignment of Trade Marks and Trade Names", 15(2) *Journal of the Patent Office Society*, p.122, (1933).

The licensing of trademarks is connected to the problem of trafficking in trademarks which may be simplistically explained as commerce in trademarks themselves. This is so because the practice of licensing implicitly recognises the fact that trademarks have value *per se*. The same however, cannot be traded as a commodity. The discussion of the theories of trademark licensing ranging from the source to the quality theory epitomise how the legal regime has sought to control the practice of licensing keeping in mind that trademarks serve a much larger purpose than merely identification of goods which bear them. The shift that is highlighted by the discussion is from the source theory to the guarantee theory of trademark licensing, thereby showing different approaches to control trade of trademarks themselves.

The first part of the present paper analyses the development of the licensing of trademarks across legal jurisdictions with the development of modern trade and business practices and the normative aspect of the changes. The second part of the paper addresses the issue of trademark trafficking and highlights the incongruous position of law on dealing with trademark trafficking which has the effect of worsening the trafficking situation in certain cases. The suggested solutions are embodied in the concluding part of the paper. The paper also analyses contemporary developments in trademark licensing such as the trafficking of domain names and the re-interpretation of the source theory.

THE EVOLUTION OF LICENSING

The source theory of trademarks is intrinsically opposed to licensing. Trademarks under this theory are indicative of the source of the goods and authorisation of their use by any other party would be tantamount to telling the public a lie about the origin.³ The origin of trademark as a sign of source can be traced to commercial practices such as the Merchant's mark and the Craftsman's mark that were routinely affixed on goods to determine ownership or craftsmanship respectively.⁴ The source theory was a firm source of the action of deceit against a trademark infringement. As early as in the year 1824, it was held that the use of the plaintiff's mark by the defendant amounted to deceiving the purchaser.⁵ The tort action against using a mark on inferior goods was recognised much earlier in the case of *Southern v. How*.⁶

3 *Supra* note 1.

4 Neil J. Wilkof, Daniel Burkitt, *Trade Mark Licensing*, p.22, (London; Sweet & Maxwell, 2nd ed., 2005).

5 *Sykes v. Sykes*, (1824) 3 B. & C.

6 (1618) Popham 144.

The earlier development of jurisprudence in trademark focussed more on the probability of deceit to the consumer than on the injury to the owner of the trademark. That focus changed with the decision in the case of *Millington v. Fox*,⁷ where trademark was recognised as a form of incorporeal property, the title to which could be enforced by the proprietor and infringement of which could be done without intention. Much later, it would be clarified by Lord Diplock that a trademark was “*adjunct of the goodwill of a business and incapable of separate existence dissociated from that goodwill.*”⁸

The recognition of the special property right of trademarks enhanced the source theory related to the same.⁹ The source theory assumes that the purpose of trademarks is to link the purchaser to the source of the goods. A licensee could never be the proprietor of the trademark and use of the trademark by him would invalidate the same. The position of the licensee was much disfavoured from that of an assignee who became proprietor of a mark.¹⁰ A way to understand this would be to see that under the source theory of trademarks, which was followed during this time, a trademark was considered to represent the physical source of manufacture, a method of distinguishing one manufacturer from another. In the absence of the concept of the intrinsic value of a trademark, and a system where one proprietor would authorise or license another party to carry out manufacture having gained acceptance, licensing was naturally considered to be a most unsatisfactory method of handling trademarks.

The decision in the case of *Bowden Wire v. Bowden Brake*¹¹ was a very important exposition on the source theory of trademarks. The Court held that a license was incompatible with the function of a trademark i.e. to inform the public as to the source of manufacture or at least marketing of the goods. An assignment made with the necessary transfer of goodwill would be valid, as the public would have another single source to trace the goods back to as other features of the business would also have been assigned. Assignments of

7 (1838) 3 My. & Cr. 338. (*Per* Cottenham L.C.).

8 *In re, G.E. Trademark*, [1973] R.P.C. 297.

9 *Supra* note 4, at p.25.

10 *Supra* note 4, at p.25. The source function of a trademark was fundamentally incompatible with the process of trademark licensing as the process involved giving recognition to a licensee as a manufacturer, who was distinct from the actual proprietor and therefore, a purchaser was understood to have been deceived about the source of the goods as identified by the trademark. The licensee’s use was held not to reflect the connection in trade between the mark and the physical source of the goods. An assignee was an entity to which the entire goodwill and business had been consigned. Here, the connection between the trademark and the source had not been changed. Therefore, the mark still denoted a single source of the goods, which could be identified and related to the goods through a trade connection.

11 (1914) 31 R.P.C. 385.

trademarks in gross, on the other hand, were not allowed. Approximately six years after this, licensing of trademarks was first recognised in the U.S.A. in the case of the rights of bottlers of soft drinks to market the products in certain territories¹² and in the case of the owner and licensee being part of the same corporate entity.¹³ The “re-bottling cases” laid the cornerstone for the acceptance of the quality theory in the U.S.A. and in Canada.¹⁴

At a later stage of development, the source function of the trademark was relaxed. This came about with the recognition of the fact that the purchaser may not identify the exact source of the goods by the trademark, but would generally associate it with a particular form of manufacture and its associated qualities, because it bore the mark that it did.¹⁵ At some level, therefore, we can discern a movement away from the source theory in favour of the guarantee of quality. Schechter and Isaacs are two scholars who comprehensively criticised the source theory of trademarks. Schechter argued that even though the purchasers could not usually name the manufacturer, deception could be caused by mistaking one class of goods for another.¹⁶ Isaacs argued that the source theory was without basis as the trademark denoted a guarantee of quality and not source.¹⁷

FROM SOURCE TO GUARANTEE

The source theory has been largely discarded today. In its place is the quality or the guarantee theory that governs the law of trademark licensing. The reason behind the shift from the source to the quality theory is the realisation of the fact that trademarks have come not to represent the source of the

12 *Coca Cola Bottling Co. v. Coca-Cola Co.*, 269 F 796 (D Del 1920).

13 *Re. Radiation* (1930) 47 RPC 37. The mark was held to be a “house mark” that meant that a connection existed between the course of trade of the goods and the group. The licensee was a subsidiary of the licensor and was controlled by the latter.

14 Harold G. Fox, “Trade-Mark Assignments and Licenses in Canada”, 35 *The Trademark Rep.*, p.80, (1945).

15 *Birmingham Vinegar Brewery Co. Ltd. v. Powell*, [1897] A.C. 710 (*Per* Herschell L.J.). It was held, “I think that the fallacy of the appellants’ argument rests on this: that it is assumed that one trader cannot be passing off his goods as the manufacture of another unless it be shewn that the persons purchasing the goods know of the manufacturer by name, and have in their mind when they purchase the goods that they are made by a particular individual. It seems to me that one man may quite well pass off his goods as the goods of another if he passes them off to people who will accept them as the manufacture of another, though they do not know that other by name at all. In the present case it seems to me that “Yorkshire Relish” meant the manufacture of a particular person. I do not mean that in the minds of the public the name of the manufacturer was identified, but that it meant a particular manufacture, and that when a person sold “Yorkshire Relish,” as the defendants did, by selling it as “Yorkshire Relish” and calling it “Yorkshire Relish,” they represented to the public that it was that manufacture which was known as and by the name of “Yorkshire Relish.”“

16 Schechter, “The Rational Basis of Trademark Protection”, 40 *Harv. L. Rev.*, p.816, (1927).

17 *Supra* note 1.

manufacture, but the source of the quality of the manufacture,¹⁸ which must be constant and monitored in the licensing agreement.¹⁹ The benefits of the quality theory were enormous to the proprietor as the earlier requirement of “active participation” in the preparation or marketing of the product was removed completely. The requirement was modified to the position where the proprietor having control over the quality of the product would suffice.²⁰

The quality or the guarantee theory relies heavily on two considerations, viz. the provision for adequate quality control of the licensor over the licensee, and the actual exercise of the control.²¹ The forms of control may differ according to the nature of the licensed product and the jurisdiction.²² However, control must be adequate to ensure that the quality of the goods or services is not below the specified standard.²³ It has been argued, that the control should be of a level so as to ensure public confidence in the mark.²⁴ Two major forms of quality control are recognised generally- contractual and financial.²⁵ It is not required that the license agreement be registered or that the licensee become a registered user for a valid license agreement to be entered into. Even in the case of an unregistered user, the Court would look into the questions of the mark becoming deceptive or that the connection between the proprietor and the goods had been lost.²⁶

18 Emil Scheller, “Problems of Licensing and Intent to Use in British Law Countries”, 61 *The Trademark Rep.*, p. 445, (1971).

19 *Ibid.* at p.447.

20 Anonymous, “Quality Control and the Antitrust Laws in Trademark Licensing”, 72(6) *Yale Law Journal*, p.1177, (1963).

21 Cameron K. Wehringer, “Trademark Licenses: Control Provided, Control Exercised”, 47 *The Trademark Rep.*, p.289, (1957).

22 *Ibid.*

23 Anonymous, “Trademark Licensing, The Problem of Adequate Control”, 1968(5) *Duke Law Journal*, p.878, (1968). It has been seen that the precise standards of quality control have not been specified in the laws which deal with the licensing of trademarks. The Trade Marks Act, 1938 did not define quality control. What the law has provided for, is that there must be a requirement for quality control in the license agreement. Section 28(4) of the 1938 Act provides that the parties must indicate “the degree of control by the proprietor”, what that degree should be, however, has been left unanswered.

24 Link, “The Social Significance of Trade-Marks”, 38 *The Trademark Rep.*, p.622, (1928). Cited in *supra* note 20.

25 *Supra* note 4, at p.102. Contractual control is a method usually employed between unrelated parties and depends solely on the performance of the terms of the agreement. In this method, the license agreement would be required to lay down the exact contours of control which would be exercised and the compliance practices expected of the licensee. Financial control, on the other hand, is usually of use when there are forms of financial control between the parties such as ownership, shareholding etc. Financial control can be implied by the forms of relations between the parties and thus may not even require a formal contractual relationship for quality control.

26 *In re*, “Bostitch” Trade Mark, [1963] RPC 183 (Ch D).

On a case to case basis, the Court must inquire whether actual control is exercised by the licensor. Even when a control provision is not adequately made in the license agreement, actual control would validate the agreement.²⁷ Under the 1938 Act of the United Kingdom,²⁸ the degree of control required over the licensee's activities was not adequately defined. This led to some irreconcilable decisions on the same topic and the sum ratio that was clearly laid out was that a naked license under which the licensor had no control over the licensee would make the trademark deceptive.²⁹ The UK Trade Marks Act, 1994³⁰ enacted to conform to the directive of the European Council continues with the same position as there is no express provision for what an owner may do with a license in favour of a licensee. Under the 1994 Act, the rights of the licensee have been expanded which would ensure that licensee has the right to sue for third party infringement of the trademark. Joining this issue with that of quality control, could it be argued that a licensee may sue a co-licensee for its inadequate quality control standards which may result in the invalidation of the mark or any other financial loss to the licensee? The licensee does not enjoy any proprietary right over the mark and is prevented from suing a person who has the permission of the proprietor to use the mark. A construction of this claim on contract, however, would be an interesting point of study.³¹

TRADEMARK LICENSING IN THE USA

The Lanham Act of 1946 governs licensing of trademarks in the USA.³² The standards of control in the USA are of legitimate use, no deception to the public and legitimate control.³³ These standards have been interpreted differently

27 *Supra*, note 20.

28 Trade Marks Act, 1938.

29 *Kerly's Law of Trade Marks and Trade Names*, p.361, (London; Sweet & Maxwell, 14th ed., David Kitchin, David Llewelyn et al ed., 2005).

30 The Preamble of the Act states, "An Act to make new provision for registered trade marks, implementing Council Directive No. 89/104/EEC of 21st December 1988 to approximate the laws of the Member States relating to trade marks; to make provision in connection with Council Regulation (EC) No. 40/94 of 20th December 1993 on the Community trade mark; to give effect to the Madrid Protocol Relating to the International Registration of Marks of 27th June 1989, and to certain provisions of the Paris Convention for the Protection of Industrial Property of 20th March 1883, as revised and amended; and for connected purposes." Accessed at http://www.opsi.gov.uk/acts/acts1994/ukpga_19940026_en_1#Legislation-Preamble on 2nd August, 2010.

31 Sections 9, 10, 30 and 31. Also see, Neil J. Wilkof, "Third Party Use of Trade Marks", p.116 in *Trade Mark Use*, (Oxford; Oxford University Press, Jeremy Phillips, Ilanah Simon ed., 2005). Also see, *supra* note 30, at p.359.

32 60 Stat 427 (1946), 15 U.S.C. §§ 1051-1127 (1958). Section 5 of the Act provides for the licensing of trademarks by "related companies". A related company is defined as any person who legitimately controls or is controlled in respect to the nature and quality of services over which the mark is used.

33 *Supra* note 19, at p.1179.

and widely and have come to represent a flexible structure within which a mark could be licensed.³⁴ The effect of failure to stipulate quality control is that the proprietor is deemed to have abandoned the mark. Once the proprietor forfeits the trademark, he is stopped from asserting rights over the same.³⁵ Under the current legal system in the USA, the franchisee system has evolved. The purpose of the system was not to distribute the goods bearing the trademark but to carry out business under a common trade name. Under such a system, the trademark represents the goodwill and quality standards of the business. This system does not depend on the source theory but on the end product and the systems.³⁶

The Position of Trademark Licensing in India:

In India, under the Trade Marks Act, 1999³⁷ licensing of registered trademarks is permitted by registered third persons and also by unregistered third parties having a written agreement for that purpose with the proprietor of the trademark.³⁸ The Act does not expressly deal with the issue of licensing of an unregistered trademark but the same has been held to be valid as common law licensing.³⁹ Improper application of licenses to goods bearing no connection to the goods of the proprietor may lead to the removal of the trademark from the register.⁴⁰ An unregistered licensee has no rights to institute an action for infringement of the trademark. This right is granted to a registered licensee.⁴¹ The registered licensee is also immune from non-use as a ground for refusal to register the license.⁴² The registered licensee is also entitled to the legal fiction of having his use of the trade mark deemed to be that of the proprietor himself for any purpose under the Act or any other law.⁴³ The licensee of an unregistered trademark is also granted this legal fiction where the license agreement stipulated control and supervision of the licensor.⁴⁴

It has been held by the Supreme Court that the license of a trademark without the registration of the licensee would be governed by common law.⁴⁵

34 *Supra* note 19, at p.1177.

35 *Barcamerica International USA Trust v. Tyfield Importers Inc.*, 289 F.3d 589. (9th Cir. 2002).

36 Narayanan, *Trade Marks and Passing Off*, p.448, (Kolkata; Eastern Law House, 6th ed., 2004)

37 Act 47 of 1999.

38 Section 2(1)(r).

39 *Supra* note 36, at p.423. *Supra* note 8. Also see the judgment of the Chancery Division from which the appeal was preferred, [1969] RPC 418, at 455-457.

40 *Supra* note 36, at p.424.

41 Sections 52, 53 and Explanation I to Section 54.

42 Section 46(1) (b).

43 Section 47.

44 *Caprihans v. Registrar*, (1976) 80 CWN 222 at 228.

45 *Gujarat Bottling Co. Ltd. and others v. Coca Cola Company and others*, AIR 1995 SC 2372.

In the *Gujarat Bottling* case, it was held that an unregistered licensee could validly use the trademark on the fulfilment of the three conditions of not causing confusion or deception to the public; not destroying the distinctiveness of the trademark in the public; and maintaining a connection between the proprietor and the goods under the mark.⁴⁶

The Act also imposes several obligations on a registered licensee. Under Section 50, the registered user entry of the registered licensee may be cancelled or altered by the registrar. The grounds for such cancellation or variation have been provided in the Act. However, this provision would only affect a registered licensee and not one who is an unregistered licensee under the Act. Under Sections 57 and 58, the trademark itself may be removed from the register of trademarks on the grounds of violation of any of the conditions to their entry amongst other grounds.

The present discussion on the evolution of the legal principles governing the licensing of trademarks displays how the law sought to govern the practice of licensing wherein it was imperative that the licensee be under certain controls or obligations with respect to the use of the marks. The practice of licensing does denote that trademarks have some value but that cannot be traded independently of the products or be assigned in gross. Where a license over a trademark is granted and the same is used not in respect of goods but as a commodity itself, the same would amount to trafficking.⁴⁷ Also, it would violate the guarantee rationale of licensing as the quality of products is definitely not sourced through such an arrangement. The legal response to trafficking in trademarks which is given rise to through a license agreement has been explored in the next section of the paper.

TRAFFICKING OF TRADEMARKS

Under the 1938 Act of the UK, registration of licenses that could promote trafficking in trademarks would not be granted.⁴⁸ In the *Holly Hobbie* case⁴⁹ the House of Lords defined the term trafficking in the following terms “... trafficking in a trade mark context conveys the notion of dealing in a

46 *Ibid.*

47 *Infra* refer footnotes 49-54.

48 Section 28(6).

49 *In re, American Greeting Corporation's Application*, [1984] 1 W.L.R. 189. (*Per* L. Brightman). In the opinion of Lord Bridge, the position under Section 28(6) was a complete anachronism and needed to be repealed. Also see, John Adams, “Trade Marks Law: time to re-examine basic principles?”, 12(2) *E.I.P.R.*, p.39, (1990). The 1994 Act that is in force in Britain has dispensed with the reference to trafficking of trademarks and has simplified the licensing procedure. See, Paul Torremans, *Holyoak and Torremans Intellectual Property Law*, p.558, (Oxford; Oxford University Press, 5th ed., 2008).

trade mark primarily as a commodity in its own right and not primarily for the purposes of identifying or promoting merchandise in which the proprietor of the mark is interested.”⁵⁰ The Court also referred to the judgment in the case of *Re, Batt (J.) & Co.*⁵¹ where trafficking was defined as a type of stockpiling of trademarks without any intention of using them on the proprietor’s goods and to deal with them commercially with other traders.⁵² The crux of the Court’s problem with the issue of trafficking in trademarks seems to be the fact that they are not marketable properties *per se* and gave rise to no rights alone without association with any commodity.⁵³

The Supreme Court has also dealt with the issue of trafficking in a trademark and has stated that the act of getting a trademark registered without any intention to use it in relation to any goods but to deal with the mark itself to gain monetary benefit by its sale would amount to trafficking in a trademark.⁵⁴ The term “trafficking” is not defined in the Act of 1999. However, the above definition is accepted. The judgment also makes references to the propriety of licenses that are quite analogous to the source theory analysed earlier. The test according to Justice Mukherjee is that the connection between the proprietor and the goods is maintained in addition to the public not being deceived.⁵⁵

DEALING WITH TRADEMARK TRAFFICKING, A PROBLEMATIC SOLUTION

There exists a problem with the legal mechanism to deal with the problems of improper licensing and trafficking of trademarks. The approach of the Courts has been to invalidate a trademark and to expunge the same from a register if any. Once this is done, the trademark ceases to be protected and infringement is not actionable anymore. The problem with this approach that may arise is that almost unlimited passing off would become possible.⁵⁶ If the consumers do not have knowledge of the de-recognition of the trademark, then the possibility of consumer deception would be made extremely high. This situation would continue till the ordinary consumers would gain knowledge of the decision and would stop associating the trademark with the quality they used to expect.

50 *Ibid.*

51 *In re, Batt (J.) & Co.’s Trade Marks*, (1898) 15 R.P.C. 262.

52 *Ibid.*

53 The *Holly Hobbie* case cites the judgment of the *Bowden Wire* case which uses this ratio.

54 *American Home Products Corporation v. Mac Laboratories Pvt. Ltd. and Another*, AIR 1986 SC 137.

55 *Ibid.*

56 George Rolston, “Trafficking in a Trademark”, 50 *The Trademark Rep.*, p.1167, 1168, (1960). “... the penalty imposed by the Courts was simply to refuse to prevent other traders from copying or “infringing” his mark (and thus indirectly giving their blessing to almost unlimited passing off- but that is another story).”

Another undesirable effect of the law as explained above would be to act as a disincentive for the proprietor to challenge infringement of his trademark in Court as he could very well destroy his own mark in the process. A practical example of this situation is the celebrated *Turmix* case.⁵⁷ In the present case, the defendants had introduced another machine under another trade name when the previous license agreement to produce and sell machines with the plaintiffs was terminated. An action of passing off was brought which was dismissed on the grounds that the defendants had not represented themselves as the agents of the plaintiffs and the previous trademark was not identified with them. The license to use the trademark was not in compliance with the stipulations of section 28 of the Trade Marks Act, 1938 the effect of which would be that the trademark itself would become invalid. It was perhaps because of this possible disastrous result that an action for infringement was not brought.⁵⁸

It can be argued that removal of a particular trademark can be done only when the public is actually being deceived and therefore, there is no real increase in deception after the removal. However, in the view of the researcher, the same would be a dangerous proposition to accept. The harm that one unscrupulous trader can effect on society is not of the same magnitude as several, without any valid or registered trademark albeit, for a short term till the consumers realise that the trademark has ceased to exist.

Another argument that may be taken is that in case of an event of trafficking, the rights of the licensee should be derecognised instead of invalidating the trademark itself. However, in India, there is a dichotomy of status between registered and unregistered licensees. Therefore, the action of removal of the registration of the license would only be an effective remedy against a registered licensee. In order to curtail the activities of an unregistered licensee, the same cannot be done. Therefore, what the Courts will take recourse to in such a case is to cancel the trademark.

The cancellation of a trademark may have the detrimental effect on consumer's rights and it is sure to cause loss to the actual proprietor of the trademark who would lose the capital and labour value of the same due to a poorly drafted license agreement. The reform of the law should address two issues namely; the knowledge asymmetry that would result in the public not knowing about the trademark cancellation and secondly, the consideration for the rights of the proprietor as balanced against the consumer interests.

⁵⁷ *Oertli v. Bowman*, [1959] RPC 1 (HL).

⁵⁸ *Supra* note 36, at p.426.

TRADEMARK TRAFFICKING ON THE INTERNET; DOMAIN NAMES

It has been seen that in the case of trafficking of trademarks, the licensee does not intend to use the mark in respect to the goods of the proprietor but to sell them at a later point as goods *per se*. In the trafficking of domain names, the domain name bearing marked similarity to the trademark is procured and later sold to the proprietor himself. It is, in some respects, a reverse passing off in which the domain names are “auctioned”. The defence taken in such cases is generally that there was no use or intended use of the name and the public could not have been deceived.⁵⁹

The Court in the case of *One in a Million*⁶⁰ held that such practice did amount to passing off and trademark infringement as it was likely to deceive the public as to the domain name owner’s connection with the trademark owner. Also, an action for trademark infringement did not depend on actual use, but the fact that the practice was an “instrument of fraud” and could be used only to defraud the public.⁶¹ The judgment has been criticised as having unreasonably extended the scope of passing off to actions in the contemplation of the licensee. The judgment has further been criticised since it holds that a similar name without association of goodwill can amount to passing off, it has by a reverse logic, favoured the assignment of marks in gross.⁶²

However, the author feels that when the Court has discerned not mere possibility, but probability of passing off, it can surely take recourse to declaring and preventing the same. In the *One in a Million* case, the Court had held that any real use of the domain name would lead to fraud. There seems to be no reason as to why the Court should wait for the passing off to actually occur.

COMING FULL CIRCLE; BACK TO SOURCE THEORY?

The theories used to understand the arrangement of trademark licensing developed from the source to the quality or the guarantee theory. However, the position is unsettled and a revisit to the source theory has been carried out on various occasions. The quality control test was completely re-interpreted by the House of Lords in the case of *Scandecor Developments AB*⁶³ which ruled that the requirement of quality control in a trademark license had been done away in Britain by the Act of 1994. Therefore, if consent has been obtained in the license, then the mark cannot be challenged on that ground. It was held

59 *British Telecommunications Plc. and Another v. One in a Million Ltd. and Others*, [1999] 1 W.L.R. 903.

60 *Id.*

61 *Ibid.*

62 Alexandra Sims, “Rethinking One in a Million”, 26(10) *E.I.P.R.*, p.445, 446, (2004).

63 *Scandecor Developments AB v. Scandecor Marketing AB et al* [2001] ETMR 74.

that the 1994 Act recognised the licensing of trademarks as indicative of the source of goods.

The source however, could be either the licensee or the proprietor. It was held that a license entered into without quality controls was not inherently likely to deceive the public. The judgment also altered the notion of source under trademark licenses. Under Section 23(2) of the Act of 1994, co-proprietors of a trademark are given recognition. Therefore, in the decision, the consideration of source shifts from a single person or proprietor to a business source. It was recognised by the Court that the purpose of a trademark was to convey to the consumer that the goods were from a single business group or undertaking.⁶⁴

The decision of the House of Lords in the present case was on appeal from criticised decisions at the High Court⁶⁵ and the Court of Appeal.⁶⁶ The Court of Appeal had ruled that because the assignment of the registered word mark was reserved as it was expressly provided that the agreement did not assign the goodwill associated with the mark, the continued use of the same by the assignor would accrue to his benefit. This is against the principles of trademark licensing which would direct the assignment to be held void. As has been noted previously in the paper, an assignment in gross has been held to be invalid. Also, an assignment which reserves or splits the goodwill would render the entire agreement void.⁶⁷ We can very well imagine what this decision would mean for future licensing or assignment agreements. Firstly, a formerly disallowed form of assignment seems to have been validated by the Court. Secondly, in the case of licenses, the use of goodwill would become problematic as is explained below.

In the opinion of Wilkof, the decision of the House of Lords does not provide for the situation that may arise upon termination of the license. The licensee may choose to continue to deal in the same goods under a different mark and the licensor may then be able to exploit the goodwill created by the licensee during the term of the license. This would lead to confusion as to the source amongst the public.⁶⁸ The decision was rendered in the case of a sole license. The second problem that may arise is that in case of a non-exclusive

64 Lord Nicholls states, "*What is the message which a trade mark conveys today? What does a trade mark denote? It denotes that goods bearing the mark come from one business source: the goods of one undertaking, in the words of s. 1(1) of the 1994 Act. That much is clear.*"

65 [1998] F.S.R. 500.

66 Court of Appeal, 23rd July, 1998, unpublished. Cited in Neil J. Wilkof, "Wake-up Call for U.K. on Trade Mark Licensing", 20 *E.I.P.R.*, p.386, [1998].

67 *Ibid.* at p.389. Also see, *Greenlon Inc. of Cincinnati v. Greenlawn Inc.*, 217 U.S.P.Q. 790 (S.D. Ohio 1982).

68 *Supra* note 31, at p.118.

license.⁶⁹ The “source” function as applied there would be problematic as under the judgment, even the licensee may be considered to be a source.

CONCLUSION

The present law would normally deal with the situation of trafficking or lack of quality control by simply removing the trademark from the registry and de-recognising it. The alternative remedy of removing the registered licensee cannot be exercised in an unregistered license agreement and therefore, often Courts have no other option but to cancel the trademark. The present legal system is insufficient because once the trademark is de-recognised, anyone can use the mark on any goods and the public becomes vulnerable to unlimited passing off. Also, the erstwhile proprietor is placed at a substantial loss as he loses his trademark and its associated rights.

There are certain measures by which remedy can be made to the situation. Firstly, a necessary requirement to the cancellation of the trademark can be its mandatory public declaration so as to make the public aware that the trademark would soon cease to exist. The effectiveness of the measure may only be found on implementation. The problem with this solution is where the trademark has recognition over a vast geographical area; such declaration may not be effective. Another way in which the researcher feels the law may develop is to remove the provision for the unregistered trademark licensee. When the trademark licensee is registered, the Courts have recourse to removing the license agreement from the register and the same would not affect the trademark’s validity. This would ensure that the rights of the proprietor and the interests of the public are counter-balanced.

With regard to the theories of trademark licensing, the author is of the opinion that the quality theory better represents the practicality of trademarks. The same is so because the scope of trademark use now extends beyond borders and it would be impracticable and incorrect to assume that the consumers identify the source of the products and not the quality. The quality representative function of the trademark serves the purpose of the trademark. In such a case, the *Scandecor* judgment would not be able to account for the different circumstances associated with the use of trademark licenses as it relies on a re-invention of the source theory in this area. As has been pointed out previously in the paper, the application of the *ratio* of the judgment would be problematic in case of non-exclusive licenses or those where certain aspects are reserved.⁷⁰

69 *Supra* note 31, at p.118.

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