

INDEX

02 CHAIR'S MESSAGE

04 ACTIVITIES

08 ARTICLES

12 FICCI IP FORUM

13 FICCI-IPEC

14 NEWS AND UPDATES

16 KEY JUDGEMENTS

AUGMENTING HUMAN CAPITAL & INSTITUTIONS FOR INTELLECTUAL PROPERTY



Naked Licensing of Trademarks: Dos and Don'ts



Ms. Aparna Gaur

Senior Member, IP & TMT Team,
Nitish Desai Associates



Ms. Raashi Vaishya

Member, TMT, IP and Gaming Law Practice
Group Nishith Desai Associates

The advent of novel technologies has generated new branding avenues for companies. Some examples are the creation of branded digital stores in the metaverse, creation of a brand's NFTs and so on. In all such arrangements, the brand owner grants a license to the relevant third party to use their trademarks for the purpose of integration in the digital works. Brand licensing forms the cornerstone of several more commonly known business arrangements as well. The most common example of this is franchising arrangements wherein the franchisee adopts the trademarks of the franchisor.

In any such arrangement, wherein a third party is allowed to use a trademark by its registered proprietor, adequate quality control measures are essential. Quality control measures ensure that the brand is used in accordance with the expectation of the registered proprietor and only in relation to the goods and services in respect to which the mark is registered. Without quality control measures, the licensee is free to decide how to use the trademark. For instance, a metaverse platform which has been allowed to integrate the trademark "Gucci" onto their platform may choose to use it in relation to a store where users can purchase weapons. Such use may not only be against the brand values of a particular brand but may also result in loss of the distinctive value of the trademark.

Agreements which lack quality control measures to monitor and regulate the use of a trademark by a licensee are considered as naked licenses. In this article, we discuss the consequences of naked licensing and some key terms that agreements must have to ensure quality control.

Concept of Naked Licensing

Trademarks are commonly understood as source indicators of all goods and services. They help consumers in identifying and differentiating one good or service from others in the market. When purchasing goods or services that display a specific mark, the customers have faith that the business meets the standards associated with the mark or brand. For example, a person visiting Mc Donald's in Mumbai can expect the same quality of burgers when visiting Mc Donald's in Delhi.

When a trademark owner grants a license to a third-party allowing use of their mark, but the licensee uses the mark in a manner which is not consistent with the use of the trademark owner, the issue of naked licensing arises. A naked license poses the risk of causing confusion in the minds of the public regarding the source of the mark resulting in consumers dissociating the mark with the trademark owner. This results in the mark losing its distinctive value.

Legal Framework

The Trademarks Act, 1999 ("Act") recognizes that a person other than the registered proprietor of a trademark can use the trademark so long as such use is authorized. While the Act does not expressly state the term "naked licensing", it does have provisions which can be construed as quality control measures.

Section 49 of the Act deals with registration of a user as a registered user. A registered user is any entity permitted to use the trademarks by the registered proprietor. Section 49(1)(b)(i) mandates the inclusion of an affidavit describing the relationship between the registered proprietor and the proposed registered user including particulars showing the "degree of control" over the use of products or services by the registered proprietor. Further, Section 50(1)(d) of the Act stipulates that the registration of a person as registered user may be cancelled on the ground of non-compliance with the conditions set out in the trademark licensing agreement regarding the quality of goods and services in relation to which the trademark is being used.

Even with respect to unregistered trademarks, the Act provides that "permitted use" of a trademark by a person other than a registered user and the registered proprietor is use by a person with, inter alia, the consent of the registered proprietor in compliance of the conditions and limitations to which such person is subject to.²

Consequences of Naked Licensing

A major risk posed by naked licensing is the possible loss of distinctiveness of the mark. The Delhi High Court ("Court") in *Rob Mathys India Pvt. Ltd. v. Synthes Ag Chur*³ noted that conditions of control are adequate to maintain the connection in the course of trade between the proprietor of the trade mark and the goods in relation to which the trade mark is used by the licensee. The Court further noted that lack of adequate control or lessening of control over a period of time would be fatal to the distinctiveness of a trademark.

Loss of distinctiveness of a trademark is a ground for seeking cancellation of the trademark under the Act. Section 57 of the Act lists the grounds for rectification/cancellation of a trademark. One of the grounds is that the trademark is wrongly remaining on the register.⁴ Under this ground, cancellation can be sought on the ground that the mark is devoid of any distinctive character and hence, cannot remain registered as per Section 9 of the Act.⁵

Measures to prevent naked licensing

In order to prevent naked licensing, businesses should carefully examine and incorporate quality control measures similar to those listed below:

- Identification of the goods and services in relation to which the trademark can be used. There should be a prohibition on use of the mark in relation to any other goods and/or services;
- Strict quality control measures in relation to the quality of the goods and services being offered under the mark;
- Restriction on any unauthorized morphing, editing, modification and alteration of trademark;
- Reserving the right to audit the use of trademark and the quality of the goods and services offered under the trademark; and
- Restriction on adoption of the same/similar marks by the licensee during the subsistence of the license and after expiry;

Conclusion

Consumers associate with a brand based on the quality of goods and services provided by the brand. If the brand does not retain its distinctiveness, it leads to confusion in the minds of the consumer and loss of distinctive value. For this reason, licensors should carefully incorporate adequate controls in their licensing agreements to ensure their decades of hard work in building a brand does not go in vain.

Disclaimer: *This article contains the views of the authors alone.*

1. Section 48 of the Act

2. Section 2(1)(r)(ii) of the Act

3. 1997 (SUP) ARBLR 0218 DEL

4. Section 57(2) of the Act

5. *As per Section 9(1)(a) of the Act, trademarks which are devoid of any distinctive character, that is to say, not capable of distinguishing the goods or services of one person from those of another person should not be registered*

