

Legal Issues in ‘Contract Manufacturing’

Issue: Is ‘Degree of Control’ by the Proprietor a pre-requisite for a Valid Trademark License

Relevant Legal Provisions

❖ Section 2 (1) (r) of Trade Marks Act, 1999

“permitted use”, in relation to a registered trade mark, means the use of trade mark—

[...]

(ii) by a person other than the registered proprietor and registered user in relation to goods or services—

(a) with which he is connected in the course of trade; and

(b) in respect of which the trade mark remains registered for the time being; and

(c) by consent of such registered proprietor in a written agreement; and

(d) which complies with any conditions or limitations to which such user is subject and to which the registration of the trade mark is subject;” (emphasis supplied)

Relevant Legal Provisions (Contd.)

❖ Section 2 (1) (zb) of Trade Marks Act, 1999 -

“trade mark” means a mark...which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of colours; and—

[...]

(ii) ..., a mark used or proposed to be used in relation to goods or services for the purpose of indicating or so as to indicate a connection in the course of trade between the goods or services, ..., and some person having the right, either as proprietor or by way of permitted user, to use the mark whether with or without any indication of the identity of that person, and includes a certification trade mark or collective mark;” (emphasis supplied)

Relevant Legal Provisions (Contd.)

❖ Section 28 of Trade Marks Act, 1999 –

*“Rights conferred by registration.—(1) Subject to the other provisions of this Act, the registration of a trade mark shall, if valid, give to the registered proprietor of the trade mark the **exclusive right to the use of the trade mark in relation to the goods or services in respect of which the trade mark is registered** and to obtain relief in respect of infringement of the trade mark in the manner provided by this Act.”* (emphasis supplied)

❖ Section 49 (1) (b) (i) of Trade Marks Act, 1999

*“...giving particulars of the relationship, existing or proposed, between the registered proprietor and the proposed registered user, **including particulars showing the degree of control by the proprietor over the permitted use** which their relationship will confer and whether it is a term of their relationship that the proposed registered user shall be the sole registered user or that there shall be any other restriction as to persons for whose registration as registered users application may be made;”* (emphasis supplied)

Relevant Judicial Decisions

❖ *Gujarat Bottling Co. Ltd and Ors. v. Coca Cola Company and Ors.* [1995 AIR 2372]

The Supreme Court while evaluating the validity of licenses entered into between the Licensee and Licensor observed that –

“Apart from the said provisions relating to 'registered users, it is permissible for the registered proprietor of a trade mark to permit a person to use his registered trade mark. Such licensing of trade mark is governed by common law and is permissible provided (i) the licensing does not result in causing confusion or deception among the public; (ii) it does not destroy the distinctiveness of the trade mark that is to say, the trade mark, before the public eye, continues to distinguish the goods connected with the proprietor of the mark from those connected with others; 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.” (emphasis supplied)

Relevant Judicial Decisions (Contd.)

❖ *Power Control Appliances v. Sumeet Machines Pvt. Ltd* [1994 SCR (1) 708]

“It is a settled principle of law relating to trade mark that there can be only one mark, one source and one proprietor. It cannot have two origins.” (emphasis supplied)

❖ *Malhotra International Pvt. Ltd. and Ors. v Vidyut Metallics Ltd.* [1998(1)BOMCR351]

“Even a common law licence has to be granted on the basis of carefully recognised conditions. The agreement would have to be in writing. It must contain the necessary precautionary conditions for protecting the trade mark from misuse. It cannot in normal circumstances be for a period more than the life of the trade mark, which is put at 7 years. Owner of the trade mark must keep control over the trade mark, with regard to quality and misuse. Only then can it be held that there is a valid common law licence to use the trade mark.” (emphasis supplied)

Relevant Judicial Decisions (Contd.)

❖ *UTO Nederland BV v Tilaknagar Industries Ltd.* [2012 (49) PTC 249 (Bom)]

“This was not a bare license as contended by the defendant itself. There was adequate consideration to support it viz. the defendant's obligation to procure specified minimum quantities to concentrate and all required concentrate for producing and selling the products under the said marks. It is reasonable to presume that parties who seek and obtain a license use a trademark, acknowledge the reputation and goodwill attached thereto. If the products sold under the said mark had no goodwill and reputation in India, a party would not negotiate a license to use the same on such onerous terms and conditions.”

*“During this period of fourteen years, the plaintiffs' conduct was consistent with their having transferred and assigned the marks to the defendant. They permitted the defendant **unrestricted use of the mark, unhindered by any form control. They exercised no quality control.** I do not suggest that the supply of concentrates/raw material is never adequate to constitute quality control by a licensor and that the same is never sufficient to **establish a connection in the course of trade between the licensor and the products sold or services rendered by the licensee under the said marks...** the plaintiffs had not only not exercised any quality control in respect of the products for seven years, but had done nothing whatever in connection with the products sold by the defendant under the said marks. This leads to an important consequence. **It would indicate a total absence of connection in the course of trade between the plaintiffs and the products sold by the defendant under the said marks.**” (emphasis supplied)*

Relevant Judicial Decisions (Contd.)

- ❖ *Viridian Development Managers Private Limited & Anr. v. Rps Infrastructure Limited* [O.M.P.(I) (COMM.) 335/2023, Delhi High Court Judgement dated November 6, 2023]

“Further, the licensor has a right and duty to ensure the consistency of the goods or services being sold and advertised under its mark. If the licensor has severed its business relationship with a licensee, it cannot guarantee the continued quality of the ex-licensee's operations....” (emphasis supplied)

Conclusion

- ❖ Courts have exported the conditions of a valid Registered User Agreement to trademark licenses that are entered into under common law.
- ❖ The requirements for a valid trademark licenses, as established by the Supreme Court are:
 - (i) *the licensing does not result in causing public confusion or deception*
 - (ii) *it does not destroy the distinctiveness of the trade mark;*
 - (iii) *a connection in the course of trade between the goods and the proprietor of the mark.*

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However, there is no standard or threshold for the degree of quality control that is to be exercised by a proprietor over the use of the mark by a licensee, this continues to be evaluated by the court on a factual basis.

THANK YOU!
Questions?

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