



PROTECTING TRADE MARKS

Understanding Ownership of Trade Marks and Authorised Use

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Structuring of ownership of IP assets is a good thing. The traditional approach is for IP assets to be held by an IP asset company that does not trade and for the use of the IP assets to be licensed to a trading company. This way the IP assets are insulated from the trading risk that will be incurred by the trading company.

This is all very well but when it comes to considering the application for registration of a trade mark and use of trade marks, there are some trade mark law peculiarities that need to be kept in mind or else the registration of the trade marks could be revoked.

There are two issues. Firstly, which individual or entity must be the applicant for registration of the trade mark. Secondly, what control must the owner of a registered trade mark exercise over the trade mark to establish that the trade mark is being used under the control of the registered trade mark owner and therefore not subject to removal for non-use.

The case studies at the conclusion of this article are intended to explore the practicalities of these topics. If you have any queries or concerns flowing from the case studies, please feel free to contact Peter Bolam on (07) 3223 9139 or peter.bolam@brhlawyers.com.au.

Before we can discuss the practicalities of these issues, we need to spend a little time on the legal principles that will impact. These are: (1) understanding use of a trade mark 'as a trade mark', (2) the significance of 'authorised use' and (3) the importance of trade mark ownership when applying to register a trade mark.

Use of a trade mark "as a trade mark"

Integral to an understanding of Australian trade mark law is the concept of the use of a trade mark "as a trade mark". This means the trade mark must be used to indicate that the goods and/or services associated with a trade mark are connected in the course of trade with the registered owner of the trade mark.

A good example is swing tags and labels on clothing. The trade mark on swing tags and labels is being used as a trade mark as it is indicating a connection in the course of trade between the item of clothing and the trade mark owner.

However, there are times that the use of the trade mark is not by the trade mark owner but is by a party that has been authorised by the trade mark owner to use the trade mark. Franchises are a good example. Ordinarily, the trade mark is owned by the franchisor and it licenses franchisees to use the trade mark.

Authorised use of a trade mark

The *Trade Marks Act 1995* contemplates that a registered trade mark may be used by authorised users as well as by the registered trade mark owner. The Act provides that authorised use is to be taken as use by the owner. It does this because if a trade mark is not used for 3 years by the owner, it is liable to be removed from the Register of trade marks for non-use. However, if the trade mark is used by an authorised user, that use is taken to be use of the trade mark by the owner and will be sufficient to establish that the trade mark has been used and should remain on the Register.

Importantly, for authorised use, the connection in the course of trade between the registered trade mark owner and the goods or services being sold by the authorised user must be maintained. Otherwise, the public could be misled by the use of the trade mark. For example, the use of a *Pierre Cardin* trade mark on clothing that Pierre Cardin has had no association with in the course of trade may well mislead consumers.

In the past, it has been accepted that the registered trade mark owner has a connection in the course of trade with the goods or services if the registered owner has theoretical control (even if it has not exercised actual control) over the goods or services. Licence agreements between the trade mark owner and user would be adequate if they allowed the trade mark owner to exercise quality control, say, by the taking of samples, even if actual control was not exercised because samples were never called for nor tested. That is no longer the legal position in Australia.

The Full Court of the Federal Court of Australia¹ has now determined that for a trade mark owner to authorise the use of its trade mark, it must exercise actual control; not mere theoretical control.² The connection between the trade mark owner and the goods or services may be slight, such as by selection or quality control of the goods or services, but the control cannot be slight.³ Control involves questions of fact and degree and there must be control as a matter of substance.⁴

Toothless licence agreements or agreements the provisions of which are not enforced will no longer be sufficient to establish the authorised user relationship. For example, the provisions of a trade mark licence agreement that permitted the trade mark owner to call for samples of goods for testing were not sufficient if the provisions were not activated.⁵

While control can be as to the quality of the goods or services, the manufacturing process of the goods or financial control, 'control' is not restricted to these elements.

1 *Lodestar Anstalt v Campari America LLC* [2016] 92 ("Lodestar")
2 *Lodestar* [97]
3 *Lodestar* [95]
4 *Ibid*
5 *Lodestar* [108]

We now have some guidance as to what will not be adequate. The following are insufficient for 'actual control' or 'control in substance'.

- a. Licence provisions that simply restrict the right to use the trade mark.⁶
- b. As stated above, licence provisions that permit sampling and testing but which are not put into practice.⁷
- c. The ability for the trade mark owner to revoke the licence to use the trade mark.⁸
- d. Quality control provisions in a licence agreement that in practical terms had no significance on the way the licensee operated its business.⁹ For example, if the licence agreement specified a standard for the quality of goods or services that was imprecise or not exacting this will not be sufficient.¹⁰

Conversely, a licence agreement that sets out in detail a quality standard to be achieved by the user may well be sufficient as the detail in the agreement may not require the trade mark owner to give directions or instructions from time to time to the user.¹¹ For example, a licence agreement that requires the trade mark user to meet a specific Australian quality standard may be sufficient.

Quite separately from quality control, the trade mark owner may exercise actual control over a user if the user is a subsidiary or an associated entity and the trade mark owner owns or controls a majority of the shares of the user entity or if for some other practical reason it controls the user, financially or otherwise.¹² This is unlikely to be the case for users that are at an 'arm's length' from the trade mark owner.

The importance of trade mark ownership

Only last year the Full Federal Court of Australia in the *Pham* decision¹³ made clear that trade mark

ownership is critical when applying to register a trade mark.

Mr Pham was the sole director of Insight Radiology Pty Ltd (then called AKP Radiology Consultants Pty Ltd) and in 2011 he applied to register a trade mark "Insight Radiology". In doing this, he claimed to be the owner of the trade mark and that he intended to authorise the company to use the trade mark. But on the facts found by the Court, the company commenced to use the trade mark alone in 2012, it was always intended that it was to use the trade mark and this it did without any authority from Mr Pham. Mr Pham seemed to have simply wanted to register the trade mark in his own name. Was he entitled to be registered?

The person (individual(s) or entity) that claims to be the owner of a trade mark is entitled to apply to register the trade mark. But, who is the owner of the trade mark? There are two grounds on which a person can claim to be the owner of a trade mark.¹⁴

1. Firstly, by being the author of the trade mark and having used or authorised the use of the trade mark.
2. Secondly, by authorship of the trade mark, filing the application for its registration and intending to use or intending to authorise another person to use the trade mark.

One of the two alternatives must exist at the time of making of the application.¹⁵ Once the application to register the trade mark is lodged, the trade mark (including the application) can be assigned to another party.¹⁶ Importantly, if the application is lodged by a party that does not qualify as being the owner of the trade mark, the application cannot be saved by a subsequent assignment to the party that was the owner of the trade mark and therefore the correct applicant.¹⁷

6 *Ibid*
7 *Ibid*
8 *Ibid*
9 *Lodestar* [103]
10 *Lodestar* [107]
11 *Lodestar* [98]
12 *Lodestar* [95]
13 *Pham Global Pty Ltd v Insight Clinical Imaging Pty Ltd* [2017] FCAFC 83 ("*Pham*")
14 *Pham* [19]
15 *Pham* [29]
16 *Ibid*
17 *Pham* [32]

As to the requirement of authorship; it is not difficult to satisfy. The trade mark need not be invented or original; just that the claimant has adopted it as a trade mark. A trade mark used outside Australia could be copied and authored in Australia.¹⁸

In the result, while Mr Pham may have been the author of the trade mark, he was not its owner because at the time of the trade mark application, he had not used the trade mark or authorised the company to use it and on the facts of the case it was found that he did not intend to do either of these.

Trade mark ownership case study

Smith commenced operating a business as a sole trader in 2010 using an unregistered trade mark. In 2015 Smith incorporated a company of which was the sole shareholder and which commenced to operate the business adopting use of the trade mark. It is now proposed to register the trade mark.

Who should be the applicant for registration of the trade mark?

What would be the position if the company was not wholly owned by Smith?

Would the position be different if the trade mark proposed to be registered has substantial additional elements to the original 2010 trade mark?

If the applicant for registration of the trade mark is incorrect, can the application be corrected by assigning the application to the correct applicant before registration?

Authorised user case study

Franchisor LLC is a US incorporated entity that is the registered owner of trade marks registered in Australia. Franchisor LLC licenses the use of the registered trade marks to franchisees in a franchise network in Australia. The licence restricts the use of the trade marks to franchise products in Australia and requires the payment of a licence fee to Franchisor LLC.

The franchise network in Australia is operated by Franchisor Pty Ltd and it is owned in equal shares by Franchisor LLC and an Australian entity. Franchisor Pty Ltd enters into a franchise agreement with each franchisee in the network that permits regular sampling and testing of the products sold by the franchise stores. Franchisor Pty Ltd regularly conducts testing of franchise products and requires franchise owners to undergo training if product quality is inadequate.

Franchisor LLC commences trade mark infringement proceedings in the Federal Court of Australia against Competitor Pty Ltd for infringement of its registered trade marks in Australia and Competitor Pty Ltd cross-claims for revocation of the registered trade marks for non-use.

Is the use of the trade marks by the members of the franchise network as authorised users of Franchisor LLC and therefore use of the trade marks by Franchisor LLC.

What would be the position if Franchisor LLC also operated one store in Australia through a wholly owned Australian subsidiary company that used the registered trade marks?

Further Contact

Should you wish to discuss the steps to take to protect your valuable trade marks, please contact the author:

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