

# Licensing best practice

Experts from Canada, Germany, Russia and the United States discuss cutting-edge strategies for the creation of resilient licensing programmes which can maximise the prospects of commercial success while reducing risk

**Given the economic** pressures faced by many companies, the need to exploit the value inherent in intellectual property has never been greater. One route which companies can use to capitalise on their brand identity is licensing. However, it takes only one misstep to inflict fatal damage to your brand proposition. Reflecting this, *World Trademark Review* has convened a panel of experts from across the globe – B Brett Heavner from Finnegan, Henderson, Farabow, Garrett & Dunner in the United States, Sergey Medvedev from Russian firm Gorodissky & Partners, Christian Thomas of Kuhnen & Wacker in Germany and Canadian firm Smart & Biggar/Fetherstonhaugh’s Timothy O Stevenson and Theodore Sum – to take a strategic look at the factors at play, offer practical advice on the must-have contractual provisions and explain how to avoid common pitfalls.

## At what point in the deal-making process should trademark counsel be involved?

**Sergey Medvedev (SM):** I would say that trademark counsel should be involved at every step in the licence deal-making process. First of all, they have to check whether the licensed mark is fully registered and ready to be transacted in favour of a third party. In Russia, for instance, trademark applications or pending marks are not subject to licensing, so you must ensure that the mark at issue has matured into registration and is valid. Second, counsel should help to register the trademark licence contemplated by the agreement. In Russia, trademark licence recordal is imperative; parties cannot avoid this procedure, even by applying a foreign

governing law, which does not make such registration mandatory. There are other reasons why it is important to involve counsel in terms of licensing, including on the pre-transaction as well as post-transaction levels.

**Timothy O Stevenson (TOS):** I agree that counsel should be involved as early as possible during negotiations in order to define the scope of the licensing agreement. The agreement between the licensor and licensee can cover a large number of activities, including the manufacture, labelling, packaging, distribution and sale of a product, as well as marketing and advertising. Since the licensor’s trademark rights may be implicated with each of these steps, it is important that brand owners seek the advice of counsel in order to understand how best to protect their rights with respect to each of these steps. In Canada, quality control is of particular importance for licensors. A strategy for controlling quality and the expression of the brand in the marketplace by licensees should therefore be developed in conjunction with counsel early on.

**Christian Thomas (CT):** Once the parties know that they want to conclude a licence agreement, they should consult a professional in order to discuss the framework conditions and to make themselves aware of the special features of licensing. As trademark attorneys are

familiar with the typical pitfalls, they can provide helpful advice with regard to avoiding foreseeable issues. In addition to this, trademark counsel sometimes come up with ideas which the parties have not thought of. Usually, an experienced counsel has drafted dozens, if not hundreds, of licence agreements with all different kinds of stipulation, and can use his or her expertise to the client’s advantage.

**B Brett Heavner (BBH):** Ultimately, successful licensing requires not only business strategy but also effective legal strategies. Legal considerations can have a profound effect on the form of the licensing agreement and even whether the parties’ goals can be achieved within the jurisdiction’s trademark rules. Our rule of thumb is that once the parties loosely outline the basic business goals that they want from the transaction, they should contact trademark counsel. Not only does this allow them to understand what is and is not possible under the jurisdiction’s trademark law, but it can also alert them to important legal issues which might not have occurred to them when discussing the original business plan. For example, business people seldom think about which party is responsible for registering and enforcing trademarks for newly licensed merchandise and geographic territories. It is far better to consider these issues early on in the negotiations rather than hold up the transaction at the last minute to deal with unexpected legal issues.



**Successful licensing requires not only business strategy but also effective legal strategies**



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audits also support a good relationship between licensor and licensee.

### What are the most common licensing mistakes made in your jurisdiction?

**TOS:** The most common licensing mistake is one which practitioners in all jurisdictions can identify with – lack of contractual clarity. Registered rights must be explicitly and fully set out in the licensing contract in order to avoid post-deal legal problems or litigation. At worst, the agreement may be unenforceable if ambiguous or too vague. In Canada, quality control provisions are particularly important, as the country operates under a quality control regime whereby licensors must maintain control over the character or quality of the goods or services offered by the licensee in association with the trademark in order for the licensee's use of the mark to accrue to the licensor. Licensors which fail to ensure that appropriate contractual provisions are

### When considering new licensing activities, how should brand owners approach rights audits to ascertain whether their portfolios are actually geared for expansion?

**BBH:** Licensing is an effective tool for maximising the value of a trademark, allowing owners to enter new product fields and do business in new countries, thereby establishing international expansion within a short period of time. However, before embarking on a licensing programme, the trademark owner must do some homework in the form of an audit to determine whether the targeted licensed products and territories are adequately covered by its current portfolio. If this reveals gaps in coverage, the prospective licensor will need to decide when to move forward with filling in these gaps and who should bear the cost of the additional trademark applications (the licensor, the licensee or both). In conducting the audit, the prospective licensor should also consider whether there is adequate protection for non-traditional trademarks associated with the targeted products, including design or trade dress rights in packaging and product configurations.

**SM:** In general, brand owners should take the following steps when conducting trademark audits. First, obtain trademark-related information and documentation from the trademark owner or target (as applicable). Second, conduct trademark searches and necessary investigations of the registers, public records and the Internet, and also verify the validity of the trademark registrations (both national and international). Next, confirm the trademark ownership, transfers and encumbrances. Additionally, review trademark-related contracts, including assignments, licences, franchises and security agreements. Finally, review trademark-related dispute resolution and litigation files, as well as the status of existing infringement or invalidation claims. Depending on the transaction at issue, there may be the other points to consider when conducting audits or due diligence before the launch of the licence deal.

**Theodore Sum (TS):** Brand owners wishing to expand use of their trademarks into Canada should, at the very least, have commenced the application process in Canada. While the applicable statutory provisions do allow for the licensing of both registered and unregistered marks, a brand owner's position will be much stronger if the trademarks are registered. This may also affect its ability to bargain with potential licensees, as businesses which encounter issues with squatters or the unauthorised use of their marks by third parties will likely find it difficult to proceed with expansion and licensing until these have been dealt with. In addition, if the trademarks have not yet been registered, conducting a clearance search in Canada is critical to ensure that the mark is in fact available and is not owned in Canada by another party. Another important consideration is quality control. In Canada, pursuant to Section 50 of the Trademarks Act, licensors are required to exercise control over the character or quality of the goods or services provided by the licensee in association with the mark in order for the licensee's use to accrue to the licensor. Businesses well placed for expansion to Canada should therefore be able to exercise the required minimum level of control over the operations of their Canadian licensees.

**CT:** On reflection, a trademark audit for Germany, or Europe in general, is no different to an audit for other areas. At the very least, a rights holder needs to know what marks it owns, whether these are being properly used and what applications and registrations exist. An audit should also ascertain whether existing licence agreements are in line with the actual portfolio or whether modifications to the portfolio or licence agreements are needed. From time to time, the obligations and limitations of both the licensor and the licensee should be reviewed for compliance – which can also take place during the audit. The licensor should also have a programme in place to monitor potential infringements and enforce its trademarks. Failure can weaken or even completely destroy the value of a right and might also be a breach of the obligations arising from the licence agreement. Crucially, regular

included (ie, which require licensees to maintain a minimum quality standard and allow the licensor to inspect or influence the licensee's goods and services) may face consequences such as loss of distinctiveness or findings of non-use. Further, under Canadian law, a licence with sufficient quality control provisions is not assumed merely because of common corporate ownership. Parent companies should therefore ensure that there are licensing agreement and quality control measures in place for their operations in Canada. Finally, brand owners often fail to provide public notice of licensed use of their trademark, pursuant to Section 50(2) of the Trademarks Act. While such notice is not mandatory, it does create the presumption that the use is licensed by the trademark owner and that the character or quality of the goods or services is under its control, which is of benefit to licensors.

**CT:** In order to avoid misunderstandings and disputes, it is important to regulate clearly and specify the scope and type of the licence, as well as the details and calculation methods for licensing fees. Further, the parties should agree on the rights and obligations in case the licensed trademark is infringed by a third party. It is often the case that trademark owners want to grant a licence for territories in which they do not even have trademark rights. Stipulations such as "the licence applies worldwide" are not uncommon – even in cases where the rights holder owns IP rights in a few countries only. In the worst-case scenario, such a licence agreement can lead to steep damages claims. Care must also be taken that no regulations are agreed on which are contrary to antitrust law – bigger companies or companies active in certain niche areas must take special care in this regard. Further, clear rules on the terms and the right of termination are advisable in order to avoid disputes.

**BBH:** In the United States, the most common mistakes relate to the parties' failure to anticipate altered circumstances. For example, as technology evolves, new products may emerge which did not exist at the time the licence was originally negotiated. Should the licence

be interpreted to include or exclude these? Should a licence for CD players be automatically read to include MP3 players? Should a licence for software distributed on disks now be read to include software that is downloadable or used on the cloud? Another area that is frequently overlooked is the assignability of licences. If the licensee is acquired by another company, is the licence automatically assigned to the surviving entity? While this may not be an issue in many cases, what if the surviving entity is a principal competitor of the licensor? It is critical that the parties consider such issues and address them clearly in the licence agreement. Finally, a licensee may face the need to adjust some aspect of the licensed mark (eg, size, shape or format) due to new regulations regarding labelling or new technology affecting the form or shape of the licensed product. Is the licensee allowed to adjust the licensed mark accordingly? Is the licensor's approval required in advance? These too should be addressed clearly.

**SM:** Apparently, the most common mistakes in Russia-related licensing transactions include mistakes about the rights holder's details, attempts to license pending marks or applications, failure to stipulate trademark registration numbers, improper or vague definition of the scope of licensed products, unclear definition of the term of licence and failure to register trademark licences with the Russian Patent and Trademark Office (Rospatent). Other problems and mistakes in licensing practice occur, but these can usually be corrected with the assistance of local trademark counsel and respective IP lawyers.

**What legal risks are there with respect to licensing activities in your jurisdiction?**



**Registered rights must be explicitly and fully set out in the licensing contract in order to avoid post-deal legal problems or litigation**

**CT:** Again, one of the most important things to be aware of is that the licence should be granted for only the territory in which the licensor owns rights. This may sound banal but our experience is that parties often neglect this fact and conclude so-called 'worldwide' agreements. Another key decision is whether a licence should be exclusive or non-exclusive. By granting an exclusive licence, the licensor is barred from granting further licences in future. It should also be clear whether the rights holder is still allowed to use the right itself. Another topic that is often neglected is the granting of a sub-licence, for instance what happens with the sub-licence if the licensor or licensee becomes insolvent?

**BBH:** Two US trademark concepts commonly come as a surprise to foreign licensees. First, in most civil law countries the lack of quality control does not affect the validity of licensed mark – quality is simply a business issue. However, in the United States, quality control is a legal element of a licensing agreement. Controlling the quality of the licensed products ensures that the trademark owner is the source of those products, as required by US trademark law. Insufficient quality control (or so-called 'naked licensing') can result in the inadvertent abandonment of the licensed mark because the licensor is no longer identified as the source of the products. Second, unlike most civil law countries, the United States has adopted the doctrine of licensee estoppel which precludes a licensee from challenging the validity of the licensed trademark. US courts have decided that maintaining the stability of a contractual relationship outweighs the licensee's need to challenge the validity of the trademark. Thus, by entering the agreement, the licensee concedes that the trademark is valid. Foreign licensees must therefore assess the



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the character or quality of the goods or services is under its control.

**SM:** In Russia, in order to record the trademark licence, the parties must submit the application accompanied by one of the following documents, duly signed by the contracting parties: an original licence agreement or notarised excerpt of this, or a notification on the occurred disposal (licence) of IP rights. If the parties are sensitive about revealing the financials provided in the contract, the recommended course is to submit an excerpt or notification. In addition, because the obligation to register usually lies on one of the parties, that party will be engaging local trademark attorneys, which will file documents with Rospatent. Therefore, the application should also include a power of attorney allowing the trademark attorney to file. Finally, it should include a document confirming the official fee payment. The practical term of licence recordal in Russia is between two and three months (in the absence of office actions or Rospatent inquiries).

validity of the licensed trademark before signing the agreement because (with rare exceptions) they will be unable to challenge its validity after the agreement is concluded.

**SM:** In Russia, one of the most significant aspects of licensing activities is registration. Before October 1 2014, the validity and enforceability of a licence agreement depended on this – if the licence agreement was not recorded with Rospatent, the contract between the parties was not recognised by the law or by the courts. Moreover, the contracting parties could not enforce licence grants against third parties in the absence of the registration of the underlying licence agreements. However, since October 1 2014 – when Russia's IP laws were substantially amended – licence registration no longer affects the validity and enforceability of a contract itself. In other words, if the licence agreement has been executed, it becomes valid for the contracting parties immediately from the effective date, while registration effectuates the licence grant given by the licensor under the contract. Of course, if the licence grant under the executed contract has not been recorded at Rospatent, this is considered to be invalid. Under this scenario, the licensee cannot claim the already paid licence fees to the benefit of the licensor, as this is not treated as the unjust enrichment of the latter, instead it may force the licensor to grant and register the trademark licence in its favour. Alternatively, if the licensee can prove the same before a court, it can claim damages from the licensor.

**TOS:** A key risk facing potential licensors is the loss of distinctiveness to their trademark or a finding of non-use flowing from inadequate quality control measures, insufficiently explicit contractual provisions or insufficient monitoring for licensee compliance. Non-use may arise where the licensor is not using the mark in Canada and is relying on use by a licensee, but fails to establish sufficient quality control measures or fails to enforce these measures. In such cases, a court may hold that the brand owner cannot benefit from Section 50, which may leave

the trademark registration vulnerable to expungement. Loss of distinctiveness may arise where the goods offered by the licensee in association with a product are of such inferior or differing quality to those of the licensor that the public becomes confused and no longer associates the mark with a distinctive class of products. Loss of distinctiveness may also be found where the licensor grants licences too broadly and indiscriminately, or where the licensor does not control use by the licensee and others outside the licensing scheme requirements.

### What are the requirements – if any – with respect to recording the licence with the trademark office in your jurisdiction?

**CT:** Germany is one of the few countries in which the trademark law contains no legal provisions for registering licences in the trademarks' register. For EU trademarks, Article 22(5) of the EU Trademark Regulation provides that the grant of a licence in respect of an EU trademark can be recorded on the register at the request of one of the parties. If such a request is submitted by the trademark holder, no proof of the licence's existence is required. If the licensee files the request, it must also provide proof of the granted licence (eg, a copy of the licence agreement). The application must include the licensee's name, address and citizenship. Further, it is possible to record a special type of licence, for example whether it is an exclusive licence or a sub-licence or in relation to which goods and services the licence has been granted.

**BH:** Like Germany, the United States has no provision for recording trademark licences with the US Patent and Trademark Office.

**TS:** There are also no requirements in Canada to record a trademark licence with the Canadian office. However, providing public notice of the licence and the identity of the trademark owner (eg, by way of a notation on the product or its packaging) creates a rebuttable presumption that the use of the trademark is licensed by the trademark owner and



**In broad terms, what are the key contractual must-haves to incorporate into licensing agreements?**

**BBH:** US trademark law requires the following six licensing elements:

- clear identification of the licensed marks;
- clear identification of the licensed goods and services;
- quality control;
- territory;
- termination; and
- consideration.

Non-US parties should be particularly careful about the US concept of ‘consideration’. While civil law countries treat this simply as a business issue relating to payment, the United States treats consideration as a legal requirement for any agreement to be enforceable. US courts define this as a bargained-for exchange between the parties – it need not be monetary payment but can include a promise to act (or not) in some manner. However, the promise must be binding and require mutual performance. In a trademark licensing context, the consideration for a licensee is the ability to use the mark, while for a licensor it may be a royalty payment or simply the increased goodwill resulting from licensee’s use of the mark. Consideration is also required to enforce the oral modification of a licensing contract. A trademark licensing agreement allegedly modified by an oral statement without additional consideration in return may be unenforceable in the United States. Counsel should always clearly identify in the contract each side’s consideration for the licence.

**TS:** Defining the scope is important and can be carried out in a variety of ways, including specifying the type of licence, the geographical area in which the licence may be used, the activities that the licensee is entitled to engage in with respect to the trademark, whether the licensee is entitled to grant sub-licences or assign the licence, the duration of the licence and reservation of rights. As noted earlier, specifying quality control is crucial, including requiring the licensee to meet minimum

quality standards and giving it the right to inspect the licensee’s goods and services. Contracts should also specify trademark control, providing the licensor with the right to control how the mark is displayed by the licensee in stores and online, as well as how it is portrayed on packaging, advertising material and so forth. Other contractual must-haves include:

- specifying licensee performance requirements;
- specifying clear royalty and payment terms;
- providing for licensee use of the trademark to accrue to the benefit of the licensor;
- providing for an indemnity clause in favour of the licensor;
- requiring the licensee to report promptly to the licensor any infringement or imitation of the trademark of which the licensee becomes aware;
- specifying the rules of conduct relating to enforcement for third-party infringement; and
- general boiler-plate clauses, such as confidentiality, disclaimers and limitations, governing law.

Finally, there should also be clear termination mechanisms and provisions to address the bankruptcy and insolvency of a party.

**SM:** In Russia, a number of key contractual must-haves should be incorporated into any trademark licence agreement. First, details of the parties to a contract (company names and addresses of the licensor and licensee, as well as their authorised officers), the subject matter of the licence (trademark registration numbers), details of the licensed goods or services subject to the trademark registrations (as per the certificates) and

clarity on the type of licence (ie, whether it is sole, exclusive or non-exclusive) are important. Second, information on the licensable rights (ie, the specifically permitted use of the licensed mark), a compensation clause and detail of the licensed territory (the default territory is the whole of Russia) and licensed term (the default term is five years) should be included. Then there may be sub-licence clauses (ie, whether sub-licensing is permitted automatically or whether it is subject to the licensor’s consent) and termination for convenience clauses (whether the licensor and licensee has the right to terminate the licence unilaterally). In addition, the contract would usually contain clauses related to quality control, trademark protection and infringement, termination and post-termination, as well as other provisions depending on the specificity of the transaction.

**CT:** A trademark licence agreement should contain regulations on the type of the licence (exclusive or non-exclusive licence), the territory, the amount and the payment conditions of the royalties, rules on quality control, termination and terms of the contract. An important aspect is also a potential guarantee with respect to the existence of the right, the enforceability of the right and the question of how to deal with potential infringements by third parties (infringement and litigation). While it is often recommended that more contractual stipulations be included, the provisions listed above should be incorporated into every licence agreement. In order to avoid discussions afterwards, it is also highly recommended that clear guidelines with regard to use of the right (eg, how a trademark must be used) and whether the licensee must provide evidence of use should also included.



**The more involved the licensor is in directly maintaining quality, the greater the risk that it may be swept into a product liability-type claim against the licensee**



## What are the essential provisions and controls to include if sub-licensing is permitted?

**TS:** There are no provisions of the Canadian Trademarks Act that relate specifically to sub-licensing – it has been found to fall within the scope of Section 50, regardless of whether the master licensing agreement contains a provision explicitly addressing it. Valid sub-licences must be executed with the authority of the trademark owner, which must ultimately maintain direct or indirect control over the quality of goods or services of the sub-licensee. The Federal Court has also found that it is sufficient for the licensor to exercise its control through the intermediary licensee or sub-licensor, provided that there is continuity of quality control. Nonetheless, trademark owners are best advised to include appropriate sub-licensing provisions in the master licence agreement which specify, among other things:

- responsibility for direct oversight and quality control with respect to the sub-licensee's activities;
- the number of sub-licences which may be granted and the number of tiers;
- the power of the licensor to approve or refuse a sub-licensing arrangement;
- rights of inspection;
- rights of termination;
- obligations of the licensee to ensure sub-licensee compliance;
- rights of the licensor in the event of continued non-compliance by a sub-licensee; and
- provisions of the main licence applicable to the sub-licence.

**SM:** In Russia, a licensee has the right to grant sub-licences only if the licensor has consented to this in writing. Any sub-licensing rights must, therefore, be either expressly provided in the trademark licence agreement or further approved by the licensor on a separate (written) basis. If the licence agreement is silent on sub-licensing and there is no licensor's consent to sub-licence, a licensee is not entitled to grant sub-licences to third parties. Any trademark sub-licence that is filed with Rospatent for recordal without

the licensor's consent or approval will be rejected. Hence, the licensor is protected in this regard to a certain extent.

**CT:** In Europe, in principle an exclusive licensee is entitled to grant a sub-licence, whereas a mere licensee requires specific permission for this. If sub-licensing is permitted, it should be clarified whether the sub-licensee is obliged to pay an entry fee and to whom it should pay the licence fees. Further, it is recommended that the licensee's liability for the sub-licensee's licence fees be spelled out, as well as the fact that all obligations under the main licence also apply to the sub-licence. In addition, the dependence of the sub-licence on the main licence should be mentioned explicitly, as the sub-licence ends with the termination of the main licence. Special rules apply in case of the main licensor's insolvency.

**BBH:** I think that sub-licensing should be permitted only where:

- the licensor has the right of prior approval with respect to the identity of the sub-licensee;
- the sub-licensee submits some sort of sample to establish that it has the ability to meet quality requirements;
- the licensor can address quality concerns directly with the sub-licensee;
- the sub-licensee is subject to all of the same terms of the agreement as the original licensee; and
- the licensor can terminate the agreement based on any breach by the sub-licensee, even if the original licensee is not at fault.

In general, though, I think that sub-licensing poses too great a risk to the licensor trademark owner.

**While quality control is critical, licensors also need to give licensees room to operate. What is the best practice in your jurisdiction with respect to monitoring and auditing licensees?**

**BBH:** Quality control provisions serve a dual function. First, they safeguard the

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licensor's trademark rights by ensuring that it is the source of the goods. Second, they maintain a consistent and predictable quality for the licensed goods. Under US law, the mere right to control quality is insufficient; the licensor must exercise actual quality control. Without a formal quality control programme, actual licensor control can still be proven by the fact that parties have a close working relationship which established the basis for the licensor's reliance on the licensee's integrity. On the other hand, maintaining too much control over product quality may expose the licensor to the risk of product liability. A non-manufacturing trademark licensor could be held liable for a licensee's defective products if it has played an active role in the design or manufacture of the product. With this in mind, we believe that the best practice for quality control requires a balanced approach. Leave the design and manufacturing decisions to the licensee, but let it carry out regular inspections of the licensed goods so that it can reject end products which fail to meet the quality criteria which were set out in the agreement.

**TOS:** Bearing in mind that quality control is essential for the licensee's use of the trademark to accrue to the licensor, a hands-on approach to monitoring and auditing licensees is advisable. While in some circumstances a simple affidavit statement from the rights holder that it controls the character and quality of the goods or services under the agreement has been accepted as sufficient, it is always better to back these up with evidence that it is exercising such control. Licensors should require that a licensee keep records to show compliance with the terms of the licensing agreements, and should also monitor the goods and services of the licensee periodically in order to verify consistent quality levels, keeping records of these inspections. To a certain degree this can involve being directly involved in influencing the level of quality of the goods and services maintained by the licensee. The licensor will want to take certain steps to reduce the risk of being seen to be directly involved in the quality of the goods and services. The more involved the licensor is in directly maintaining quality, the greater the risk that it may be swept into a product liability-type claim against the licensee. As part of its risk mitigation strategy, the licensor should ensure that quality control and monitoring provisions are supported by insurance provisions or indemnity provisions and that the licensee is able to fulfil the indemnity.

**CT:** This question is a difficult one to answer. This is because it always depends on the parties as well as the fields of business. It is certainly much easier to check the application and correctness of a trademark licence in respect of a simple t-shirt than a patent licence for a highly complex piece of machinery. In each individual case a decision must be taken as to the extent to which compliance with the individual contractual obligations should be controlled. In addition, there are various methods with regard to examining the licence fees. One widely-used version which has been proven to be practicable is where the licensee has to disclose its business figures and provide information on the quantities. If doubts remain, the

licensor is entitled to access the account books at its own expense and by means of an independent auditor. If this reveals major deviations, the licensee must bear the expenses for the audit and (in some cases) an additional licence fee.

**SM:** In Russia, licensees must ensure compliance with the licensors' quality standards. Licensors reserve the right to carry out checks and inspections.

**Where problems arise and an immediate break in the relationship is necessary, what are the key considerations for licensors?**

**TS:** Clauses which specify the situations under which a party may terminate and the consequences flowing from early termination allow both parties to plan early exit strategies at the outset. This can be critical in a range of circumstances, including breaches. The scope of termination should be carefully considered so as to encompass, where appropriate, circumstances which – if left unaddressed – may not be considered a breach. For instance, the agreement should cover situations where there is a material change in the circumstances of one party or where the licensee's conduct weakens the value of the trademark. Termination provisions should also specify which rights and obligations are immediately extinguished and which can survive the termination. In situations where early termination is contemplated due to the bankruptcy or insolvency of one party, in Canada the parties should be aware of provisions in the Companies' Creditors Arrangements Act and the Bankruptcy and Insolvency Act which might allow debtor companies to repudiate or disclaim contracts in order to restructure. The intersection between IP rights and bankruptcy and insolvency law remains

unsettled on many fronts, notwithstanding relatively recent legislative amendments designed to provide more clarity. In various circumstances a trustee in bankruptcy may still be entitled to assign the IP rights of a bankrupt entity to a third party free and clear of even exclusive licences unless the parties have carefully addressed this issue in advance.

**BBH:** Agreements should certainly be drafted to plan for prompt termination under the right circumstances (eg, a licensee's failure to meet quality standards, its unauthorised changes to the licensed mark, its use of the mark on unlicensed goods or its failure to pay the contractual fee or royalty). Without such termination provisions, the licensor may be stuck with the licensee's problem products being in the marketplace for an extended period of time. Consequently, it is imperative that the licence agreement:

- identify the circumstances which would trigger immediate termination;
- provide a certain date after which the licensee must cease use of the licensed mark; and
- require that after that date, the licensee destroy any remaining inventory of licensed products (or at least remove the licensor's mark from these products).

To maximise the licensor's ability to obtain relief quickly should the licensee continue marketing unauthorised licensed products, the agreement should indicate that breaching these terms will cause irreparable injury to the licensor, which should allow it to obtain a temporary restraining order or a preliminary injunction from a US court. In addition, the agreement should identify liquidated damages for this sort of breach so that the licensor can be sure of some compensation without having to prove the licensee's actual sales or the licensor's actual damages.



**Agreements should be created flexibly so that they can take account of all types of eventuality**



**SM:** In terms of breaking the relationship, the licensor should consider inserting special termination (as well as post-termination) clauses into its contracts in order to have some leverage against licensees.

For example, the law in Russia provides for *ex parte* termination procedures, which licensors can choose to incorporate. On the ongoing and post-termination side, the law allows the possibility of including default interests, late payments and other monetary compensation clauses into licence agreements in order to make the breaching licensees more liable. Finally, licensors should take into account the possibility of bringing trademark infringement claims where licensees break the contracts and refuse to stop using the licensed trademarks.

**CT:** According to Section 314 of the German Civil Code, both parties have the right to terminate the licence agreement without notice “for an important reason”. This can include where the relationship of trust has been irrevocably damaged and the terminating party can no longer be expected to comply with the provisions of the contract. Good causes include the insolvency of one party or where there is a failure to meet the payment terms for the licence fees. In case of non-compliance, it is necessary to set a deadline and allow the other party to fulfil their obligations. If the important reasons for termination are listed in the agreement, it should be made clear that this list is non-exhaustive. Although the right to terminate for good cause is explicitly regulated by the Civil Code, it is advisable to also include a right of termination in the licence agreement. A claim for damages is not excluded by the termination.

### Are there any other issues you would like to raise?

**SM:** I think it is worth highlighting the dispute resolution options available in Russia. These include the national (civil) court system, arbitral tribunals and mediation. The national court system comprises two main divisions: the courts of general jurisdiction (ie, civil courts), which resolve disputes involving individuals,

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and the state courts (ie, commercial courts), which have special jurisdiction over all types of business-related dispute, including those that arise from intellectual property. The Russian IP Court specialises in resolving IP disputes only. It acts as the court of first instance for trademark non-use cancellation actions and disputes against Rospatent. It also acts as the court of cassation for IP infringement matters and is a powerful judiciary, helping businesses to resolve IP matters in a professional manner. Trademark licensing disputes, whether national or cross-border, are no exception.

However, when there is an arbitration clause in a trademark licence agreement, the contracting parties may resort to commercial arbitration (permanent or *ad hoc* arbitral tribunals). Alternative dispute resolution institutions are usually chosen in heavyweight, ‘multi-dollar’ licensing deals. The oldest and most reputable arbitration institution operating on a permanent basis with international authority in Russia is the International Commercial Arbitration Court.

Additionally, mediation procedures are

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becoming increasingly popular. Despite the rapid growth of different mediation centres in Russia, their role on dispute resolution in the context of trademark licensing remains undeveloped. Practically, it is customary for contracting parties to resolve disputes under trademark transactions using the national judicial system or arbitral tribunals.

**CT:** Finally, it is always important to refer to each individual case and each individual fact – while many may appear similar there are always differences and sometimes these can be significant. For some clients the priority is to earn the maximum amount of licensing revenue, whereas for the others it is how the mark is used that is of primary importance. Other licensors want to establish a large network of licensees (almost franchising), whereas some are focused on finding new partners. In our experience, it is of little use to waste time trying to form the parties’ intentions into a rigid licence agreement. Rather, agreements should be created flexibly so that they can take account of all types of eventuality. **WTR**