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TRADEMARK TRANSACTIONS IN COMMON LAW COUNTRIES: LIBERALISATION AND ITS LIMITS

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Trademark Transactions in Common Law Countries: Liberalisation and Its Limits

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I. Introduction

Historically, common law countries took a restrictive approach to transactions involving trademarks. This restrictive approach was said to flow from the reasons for granting protection for trademarks in the first place. If a trademark communicates information to consumers as to the origin and quality of a particular trader's goods or services, it was thought that any dealing with a trademark, such as an assignment of the mark or the grant of a licence to a third party to use the mark, would disrupt the source and quality guarantee functions of the mark and potentially cause confusion among consumers. In other words, the very reasons that a trademark receives legal protection were thought to justify constraining an owner's ability to deal with the mark (in contrast with other personal property, such as an unencumbered chattel or a patent). Initially, these sorts of concerns were highly influential, and the law either proscribed or imposed strict limitations on the exploitation of trademarks. However, over the course of the last century there was a gradual liberalisation of these rules. Consequently, in most common law countries we have now reached a position where the law recognises registered trademarks to be personal property, which can be exploited with fewer restrictions than in the past. This liberalisation has to a large extent reflected changes in business practices, as brands have come to be recognised as valuable commodities in their own right and as trademark licensing, merchandising and franchising have become large and lucrative industries. Notwithstanding this, the tension between the idea of the mark as "property" and the mark as a badge of origin remains. This tension is reflected in the fact that the law retains restrictions on trademark transactions in cases where marks have been or might be used in such a way as to deceive consumers. Working out when a badge of origin can be transferred to an unrelated third party whilst not falling into the category of a "deceptive transaction" remains difficult.

II. Trademark Assignments

Restrictions on the assignment of trademarks in the British Commonwealth can be traced back to the 1860s, that is, to the point when a law of trademarks recognisable as such to modern eyes first emerged. By the mid-1860s, Chancery courts had come to the conclusion that trademarks were a species of property. However, it was also clear that trademarks could not be freely assigned to third parties; they could not be dealt with "in gross." In particular, in

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the 1865 decision of the House of Lords in *Leather Cloth Co. Ltd. v. American Leather Cloth Co.* it was held that a trademark could be assigned only “upon a sale and transfer of the manufactory of goods on which the mark has been used.”¹ The first British Commonwealth trademarks statutes followed the courts’ lead in providing that a registered mark could be assigned only in conjunction with the goodwill of the owner’s business.² The rationale for this limitation, as at common law, was to prevent the public from being deceived by a break in the link between the mark and the provider of the goods.³

However, over the course of the twentieth century, restrictions on the assignment of trademarks came to be challenged. Most notably, brand owners pressed for a more permissive approach in the course of public enquiries into the state of trademark law.⁴ Over time these efforts bore fruit and it began to be accepted that the very restrictive approach rested on a narrow conception of the trademark as an indicator of a specific, known source of goods, rather than a guarantee of consistent quality provided by a potentially unknown source.⁵ British Commonwealth legislation was therefore amended in the mid-twentieth century to permit the assignment of marks without goodwill.⁶ Certain restrictions and conditions were, however, retained. For example, under both the United Kingdom’s (U.K.) Trade Marks Act of 1938 and Australia’s Trade Marks Act of 1955 an assignment without goodwill could be invalidated if the continued use by the assignor in relation to the specified goods or services resulted in public deception or confusion.⁷

A further round of liberalisation occurred from the mid-1990s, when Commonwealth countries began to pass new trademark statutes in the post-TRIPS period. It is now the case that the modern laws of the U.K., Australia and New Zealand do not set out specific grounds on which an assignment without goodwill might be invalidated.⁸ However, this does not mean that such assignments, and the registration of such assigned marks, cannot be challenged. As will be seen below, in each case the legislation leaves open the possibility that such an assignment can be invalidated, and/or the registration of the mark cancelled, on the grounds that the use of the mark has become deceptive.

¹ *Leather Cloth Co. Ltd. v. Am. Leather Cloth Co.*, (1865) 11 H.L. Cas. 523, 534 (Lord Cranworth) (appeal taken from Eng.).

² See, e.g., Trade Marks Registration Act, 1875, 38 & 39 Vict., c. 91, § 2 (U.K.); Patents, Designs, and Trade-marks Act 1889, s 77 (N.Z.); *Trade Marks Act 1905* (Cth) s 58 (Austl.).

³ See, e.g., *Pinto v. Badman*, (1891) 8 R.P.C. 181 (C.A.) (Eng.).

⁴ In the U.K., see REPORT OF THE DEPARTMENTAL COMMITTEE ON THE LAW AND PRACTICE RELATING TO TRADE MARKS, Cmd 4568 (1934) (hereinafter, “Goschen Committee”). In Australia, see REPORT OF COMMITTEE APPOINTED DURING 1938 BY THE THEN ATTORNEY-GENERAL TO CONSIDER WHAT ALTERATIONS ARE DESIRABLE IN THE TRADE MARKS LAW OF THE COMMONWEALTH (1954) (hereinafter, “Knowles Committee Report”); REPORT OF COMMITTEE APPOINTED TO CONSIDER WHAT ALTERATIONS ARE DESIRABLE IN THE TRADE MARKS LAW OF THE COMMONWEALTH (1954) (hereinafter, “Dean Committee Report”).

⁵ See, e.g., Knowles Committee Report, *supra* note 4, at ¶¶ 69–71.

⁶ See, e.g., Trade Marks Act, 1938, 1 & 2 Geo. 6, c. 22, § 22(1) (U.K.); Trade Marks Act 1953, s 31(1) (N.Z.); *Trade Marks Act 1955* (Cth) s 82(1) (Austl.).

⁷ Trade Marks Act, 1938, 1 & 2 Geo. 6, c. 22, § 22(4) (U.K.); *Trade Marks Act 1955* (Cth) s 82(2)(b) (Austl.). See also Trade Marks Act 1953, s 31(4) (N.Z.).

⁸ Trade Marks Act, 1994, c. 26, § 24(1) (U.K.); *Trade Marks Act 1995* (Cth) s 106(3) (Austl.); Trade Marks Act 2002, s 10(1)(c) (N.Z.).

Rules governing the assignment of trademarks in the United States (U.S.) follow a somewhat similar arc. By the start of the twentieth century, courts had held that a trademark could not be assigned “except as incidental to a transfer of the business or property in connection with which it has been used.”⁹ Congress preserved this approach in the Trademark Act of 1905.¹⁰ The Lanham Act of 1946 retained a prohibition on assignments in gross, but did not expressly require the transfer of the underlying business: the focus was solely on the question of whether the goodwill associated with the mark had also been assigned.¹¹ Irene Calboli has demonstrated that the change in legislative language allowed courts to shift the inquiry to the question of whether the assignee’s goods were sufficiently similar to those of the assignor such that consumer interests would not be harmed.¹² Unlike in British Commonwealth countries, there was no further round of legislative liberalisation in the 1990s, despite repeated lobbying by brand owners for the removal of the prohibition on assignments in gross under the Lanham Act. As a consequence, it is often said that the continued presence of the prohibition marks out the US as different from other common law countries.¹³ However, what tends to be overlooked is that whether there are, in practice, differences between the position in the US and elsewhere depends on how the general prohibitions on “deceptive transactions” in other countries are interpreted.

III. Trademark Licensing

For much the same reasons as those raised against the assignment of marks in gross, British Commonwealth courts were initially unreceptive to the idea that the use of a trademark could be “licensed” to a third party. In the early twentieth century, it was thought that the inevitable result of licensing would be the deception of the public, since the mark’s function as a badge of origin would be compromised if the mark were used on goods provided by a party other than the trademark owner.¹⁴ Later in the century this view came to be challenged as failing to reflect emerging business practices and consumer perceptions that marks functioned to indicate the company with overarching control and hence to guarantee the quality of goods, rather than to indicate a specific site of production.¹⁵ This led to the U.K. introducing provisions allowing for third party “registered users” of registered trademarks.¹⁶ Similar

⁹ *MacMahan Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 474–75 (8th Cir. 1901).

¹⁰ Trademark Act of 1905 § 10 (repealed 1946).

¹¹ Trademark Act of 1946 § 10, 15 U.S.C. § 1060 (2016).

¹² Irene Calboli, *Trademark Assignment “With Goodwill”: A Concept Whose Time Has Gone*, 57 FLA. L. REV. 771, 790 (2005). For detailed consideration of when the differences between the assignor and assignee’s goods would be substantial enough to result in the assignment being in gross, see, e.g., *Clark & Freeman Corp. v. Heartland Co. Ltd.*, 811 F. Supp. 137, 139–41 (S.D.N.Y. 1993).

¹³ See, e.g., J. THOMAS MCCARTHY, 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 18:10 (5th ed., 2018).

¹⁴ The House of Lords’ decision in *Bowden Wire Ltd. v. Bowden Brake Co. Ltd.*, (1914) 31 R.P.C. 385 (appeal taken from Eng.) was often used as authority for this view, although the case arguably only went as far as deciding that if a registered trademark were licensed it could become invalid if it ceased to show a connection in the course of trade with the registered proprietor or otherwise became deceptive. This latter view came to find favour with U.K. courts.

¹⁵ See Goschen Committee Report, *supra* note 4, at ¶ 118.

¹⁶ Trade Marks Act, 1938, 1 & 2 Geo. 6, c. 22, § 28 (U.K.).

provisions were subsequently incorporated into legislation in other Commonwealth countries.¹⁷ These provisions allowed a licensee of a registered mark to be registered if the Registrar was satisfied as to the “degree of control” that the owner exercised over the permitted use of the mark, such that the registration would not facilitate so-called “trafficking” in the mark.¹⁸

Perhaps the most important development in the period following the adoption of the registered user scheme was the recognition by courts that registration was not, in fact, mandatory for licensees. That is, it was considered that *any* licensing arrangement could preserve the validity of a registered mark, provided that the conditions of control imposed by the owner over the licensee’s use were sufficient to prevent the public from being deceived. For example, in Australia, Aickin J in *Pioneer Kabushiki Kaisha v. Registrar of Trade Marks* held:

the essential requirement for the maintenance of the validity of a trade mark is that *it must indicate a connexion in the course of trade with the registered proprietor*, even though the connexion may be slight, such as selection or quality control or control of the user in the sense in which a parent company controls a subsidiary. Use by either the registered proprietor or a licensee (whether registered *or otherwise*) will protect the mark from attack on the ground of non-user, but it is essential both that the user maintains the connexion of the registered proprietor with the goods and that the use of the mark does not become otherwise deceptive.¹⁹

The “registered user” schemes in place under mid-twentieth century British Commonwealth legislation have not been retained. Instead, modern legislation builds on the more liberal views of licensing taken in cases such as *Pioneer*, with registries having no ongoing role in overseeing licensing arrangements. However, much as with assignments, there are still mechanisms by which uncontrolled licensing might be able to be challenged, including through revocation of trademark registrations.

The U.S. law on trademark licensing, again, followed a similar path. At the start of the twentieth century, licensing was understood to be antithetical to the function of a mark as a badge of origin, such that courts dismissed trademark licensing as an impossibility.²⁰

¹⁷ *Trade Marks Amendment Act 1948* (Cth) (Austl.); *Trade Marks Act 1953*, s 37 (N.Z.). See also Sam Ricketson, *The Licensing of Trade Marks and the Operation of Section 103 of the Trade Marks Act 1955* (Cth): *Some Aspects of the Pioneer Case*, 14 U. W. AUSTL. L. REV. 30 (1979).

¹⁸ See, e.g., *Trade Marks Act, 1938*, 1 & 2 Geo. 6, c. 22, § 28(6) (U.K.); *Trade Marks Act 1953*, s 37(6) (N.Z.); *Trade Marks Act 1955* (Cth) s 74 (Austl.). This practice was described as “dealing in a trade mark primarily as a commodity in its own right and not primarily for the purpose of identifying or promoting the merchandise in which the proprietor of the mark is interested”: *HOLLY HOBBIE Trade Mark*, [1984] R.P.C. 329 (H.L.) 356 (Lord Brightman) (appeal taken from Eng.). Importantly, in this case, the trafficking provision was used to invalidate a trademark that had been licensed in an uncontrolled manner (for character merchandising).

¹⁹ *Pioneer Kabushiki Kaisha v. Registrar of Trade Marks* (1977) 137 CLR 670, 683 (our emphases). For similar effect in English cases, see *BOSTITCH Trade Mark*, [1963] R.P.C. 183 (Ch.); *GE Trade Mark*, [1969] R.P.C. 418 (Ch.), *aff’d* [1970] R.P.C. 339 (C.A.).

²⁰ See MCCARTHY, *supra* note 13, at § 18:39.

However, as early as 1909, some courts were prepared to accept that there might be forms of acceptable licensing, provided always that the trademark owner retained a degree of control over the quality of the goods produced by the licensee.²¹ The Lanham Act confirmed that licensing with quality control was permissible,²² a point affirmed by the well-known decision in *Dawn Donut Co. v. Hart's Food Stores, Inc.*²³ The modern law remains essentially unaltered: licensing with control is unobjectionable, whereas licensing without control will result in the cancellation of the registration. The question we explore in the final section of this chapter is the extent to which the U.S. rule and the rules found in other common law countries achieve a common end.

IV. Restrictions on Exploitation: Deception and Non-Use

Having set out a brief history of how the restrictions on the assignment and licensing of trademarks came to be loosened in common law countries, we now turn to look at the restrictions the law continues to impose on the freedom of trademark owners to deal with their marks. Specifically, this section focuses on the restrictions that arise from a desire to prevent consumer confusion—that is, the restrictions that might continue to embody the common law's traditional concerns about the possibility of consumers being deceived. Consequently, we do not consider restrictions aimed at protecting other traders from predatory behaviour of the type found in antitrust law and in codes regulating franchising agreements.²⁴

A. Assignments in Gross

Continued restrictions on the freedom to assign trademarks in British Commonwealth countries are found in provisions that make registered trademarks vulnerable to revocation or cancellation where use of the mark is likely to deceive or cause confusion.²⁵ These provisions are of continued significance where there has been an assignment in gross.²⁶ Indeed, there is a significant tension within Commonwealth statutes which, on the one hand, accept that a registered trademark can be assigned without goodwill while, on the other hand, allowing for

²¹ *Nelson v. J.H. Winchell & Co.*, 89 N.E. 180, 183 (Mass. 1909).

²² Trademark Act of 1946 §§ 5, 45 (definition of “related company”), 15 U.S.C. §§ 1055, 1127 (2016).

²³ *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F. 2d 358, 367 (2d Cir. 1959).

²⁴ See generally ROBERT BURRELL & MICHAEL HANDLER, AUSTRALIAN TRADE MARK LAW 589–91, 596–603 (2d ed. 2016).

²⁵ See, e.g., Trade Marks Act, 1994, c. 26, § 46(1)(d) (U.K.); *Trade Marks Act 1995* (Cth) s 88(2)(c) (Austl.); Trade Marks Act 2002, s 66(1)(e) (N.Z.).

²⁶ See, e.g., Trade Marks Act, 1994, c. 26, § 24(1) (U.K.); *Trade Marks Act 1995* (Cth), s 106(3) (Austl.); Trade Marks Act 2002, s 10(1)(c) (N.Z.). Such statutes do not contain a requirement similar to that contained in section 82(5) of the *Trade Marks Act 1955* (Cth) (Austl.), under which an assignment was not able to be invalidated after three years.

an assignment to be set aside and a mark revoked on the ground that use of the mark would be confusing or deceptive.²⁷ This tension can be illustrated by reference to three scenarios.

The first scenario is unique to Australia. However, it provides a good starting point as an illustration of the degree of uncertainty that attaches to the relationship between assignment provisions that are obviously intended to liberalise trademark transactions and cancellation provisions that apply to marks whose use has become deceptive. The background is that Australia has long had a policy of facilitating parallel importation. However, the relevant provision in the Trade Marks Act of 1995 was, until August 2018, worded in such a way that parallel importation was possible only where the owner of the Australian trademark consented to the application of the trademark to the imported goods.²⁸ Ownership in this context was strictly construed, such that even where a trademark was owned by another company within the same corporate group, the parallel importation provisions did not apply. As a consequence, foreign trademark owners entered into assignments in order to place the ownership of the mark in the hands of an Australian licensee or a shell company, thereby circumventing the effect of the parallel importation defence to infringement.²⁹ From a policy perspective, this was clearly undesirable. Notably, a compelling argument was made (but never tested in court) that since the marked goods were still clearly those of the foreign owner, produced without any meaningful control by the Australian assignee, the assignment of the mark would have confused consumers, leaving the registration of the mark vulnerable to cancellation under section 88(2)(c) of the Australian Act.³⁰

That the above argument was even open remains instructive. Consumers would indeed, in some sense, be confused as to the “trade origin” of the goods in the above scenario: following the assignment, consumers would understand the goods to be produced by someone other than the trademark owner. Judged as an infringement matter, there could be no question that this type of response would be sufficient to result in a finding that consumers were being confused. But if this analysis were applied universally, then assignments in gross would never be possible. This first scenario therefore illustrates three key issues:

- (i) Although we tend to assume that assignments in gross are vulnerable to challenge only where they lead to some more profound degree of consumer confusion (in particular, where consumers are likely to be confused as to the quality of the goods), there is nothing in the Australian Act, or indeed in the legislation of other British Commonwealth countries, that confines the operation of the cancellation provisions to this scenario.

²⁷ See also DAVID KEELING ET AL., *KERLY’S LAW OF TRADE MARKS AND TRADE NAMES* ¶ 15-048 (16th ed. 2017), referring to the 1994 U.K. Act and stating “[t]he important question which requires an answer is how far the permissive nature of s. 24 can be pressed before the tension with s. 46 becomes unbearable.”

²⁸ *Trade Marks Act 1995* (Cth) s 123(1) (Austl.) (in force from Jan. 1, 1996 until its repeal by the *Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Act 2018* (Cth) sch 1, item 4 (Austl.), with effect from Aug. 25, 2018. The former section 123(1) still applies in relation to actions for trademark infringement commenced before that date).

²⁹ See, e.g., *Transp. Tyre Sales Pty Ltd. v. Mont. Tyres Rims & Tubes Pty Ltd.* (1999) 93 FCR 421 (Full Fed. Ct.) (Austl.).

³⁰ James W. Dwyer & David L. Yates, *The Montana Case on Appeal—Dealing with “Parallel Importers”*, 10 *AUSTL. INTEL. PROP. J.* 111, 122–23 (1999).

- (ii) Insofar as infringement analysis remains a touchstone for the operation of the cancellation ground, our analysis suffers from the fact that we have no clearly articulated understanding of when a degree of consumer confusion is to be tolerated in order to facilitate other desirable ends.³¹
- (iii) It is unclear whether the operation of the cancellation ground ostensibly designed to deal with consumer confusion can also be informed by other public policy concerns, such as the preservation of a clear and longstanding policy to allow parallel importation.

The second scenario we wish to explore is the more commonly recognised problem of the extent to which a ground of cancellation might arise because, following an assignment in gross, the assignee's goods are of different quality. In some such scenarios, it must be the case that cancellation would sometimes be warranted. As yet however, we have very little guidance in British Commonwealth case law as to when this would be so.³² As the current editors of *Kerly's Law of Trade Marks and Trade Names* have suggested (and as our parallel importation example illustrates), some temporary confusion is *always* likely in the period immediately after a mark is assigned.³³ However, as they go on to suggest, where the legislation countenances the possibility of assignments in gross, some degree of confusion should be tolerated.³⁴ It should also be kept in mind that an assignee has a significant commercial incentive to maintain quality standards, such that we ought not to imagine that cancellation would be warranted in more than a small proportion of cases. Nevertheless, there is a clear need for further guidance as to the steps that an assignee can legitimately be expected to take to ensure a consistent consumer experience and hence the validity of the mark.

Here we suggest that there might be scope for British Commonwealth countries to draw on U.S. jurisprudence. The U.S. experience is helpful because there is a consensus that the prohibition on assignments in gross means that the assignee must take steps to maintain quality control—even accepting this as a single touchstone for the analysis would mark an improvement on the current Commonwealth position. Moreover, it is also clear in the U.S. that maintenance of quality control per se is not sufficient: the requirement is of *continuity* of quality control. As Neal Platt explains, “[i]t is insufficient (perhaps even irrelevant) for the purchaser to show that for some time after the closing the purchaser exercised quality control that was ‘good’ or even ‘excellent’; the purchaser’s burden, rather, is to show that for such period her quality control remained essentially the same as the seller’s.”³⁵ A body of case law provides more specific guidance as to the sorts of steps that assignees should undertake. For

³¹ See BURRELL & HANDLER, *supra* note 24, at 375–87 (discussing consumer confusion and policy factors in the context of the Australian infringement provisions).

³² See, e.g., *Scandecor Devs. AB v. Scandecor Mktg. AV*, [2001] UKHL 21, [44] (Lord Nicholls) (appeal taken from Eng.). See also *Heintzman v. 751056 Ontario Ltd.* (1990), 34 C.P.R. 3d 1 (Can. Fed. Ct.).

³³ KEELING ET AL., *supra* note 27, at ¶ 15-058.

³⁴ *Id.*

³⁵ Neal R. Platt, *Good Will Enduring: How to Ensure that Trademark Priority Will Not Be Destroyed by the Sale of a Business*, 99 TRADEMARK REP. 788, 797 (2009).

example, in the case of a mark for retail services, ensuring continuity of managerial control, employee numbers, range and depth of inventory, return policies, and employee attire may all help establish the requisite consistency.³⁶ Admittedly, in U.S. commentaries it is often noted that a degree of uncertainty can remain as to whether the assignee has done enough to overcome the prohibition on assignments in gross, but this is largely because of the fact-specific nature of the inquiry. Even if there are elements of the current U.S. position that might be improved, there is certainly no reason why British Commonwealth courts ought not to draw upon the U.S. experience. A shared understanding of when a trademark assignment is vulnerable is particularly valuable given that assignments of the same mark might take place in more than one jurisdiction more or less simultaneously.

The third scenario is where the mark contains an explicit reference to a particular individual or organisation as being the provider of the specified goods or services. For example, if a compound mark (such as a label on a bottle of spirits) contains a statement that the goods are produced by a specific party, then, following an assignment of that mark by that party, even with the transfer of the underlying business, there has to be a strong case that the assignee's use of that mark would cause confusion.³⁷ This conclusion receives strong support from the House of Lords' decision in *Scandecor Developments AB v. Scandecor Marketing AV*, where Lord Nicholls gave the example of "an artist's mark on his own artistic works" as the sort of mark that was unassignable because it "connotes a personal connection between the original owner of the mark and the goods in respect of which it is used."³⁸ The question in this type of case, therefore, is not so much when the assignment might be prohibited, but when it might be allowed.

A useful case through which to explore the issue of when an assignment of a mark containing a personal reference might be allowed is *Elizabeth Emanuel v. Continental Shelf 128 Ltd.*³⁹ The background to that case was that a fashion designer, Elizabeth Emanuel, sold her wedding dress business and assigned the registered trademark ELIZABETH EMANUEL to an unrelated third party, who continued to provide wedding dresses under the mark. The Court of Justice of the European Communities held that, in the circumstances, the registration could not be revoked.⁴⁰ An important consideration was that the transfer of the underlying business meant that the same designs were being produced, in the same workshops, by the same employees.⁴¹ Interestingly, therefore, the Court of Justice seems to have accepted that consistency of quality was the overarching consideration. The outcome is not, however, unproblematic. As the Court itself noted, "the average consumer might be influenced in his act of purchasing a garment bearing the trade mark ELIZABETH EMANUEL by imagining

³⁶ *Id.* at 803.

³⁷ See *Heublein Inc. v. Cont'l Liqueurs Pty Ltd.* (1959) 103 CLR 435 (Austl.), where the compound mark contained the statement "Prepared and Bottled by Ste Pierre Smirnoff Fls Inc. Hartford Conn. U.S.A." and the mark had been assigned from Ste Pierre Smirnoff to Heublein in 1954. Kitto J thought that it was "obvious that if the mark be applied to liquor manufactured since 1954 it must convey false information": *id.* at 440.

³⁸ *Scandecor Devs. AB v. Scandecor Mktg. AV*, [2001] UKHL 21, [20] (appeal taken from Eng.).

³⁹ Case C-259/04, *Emanuel v. Cont'l Shelf 128 Ltd.*, 2006 E.C.R. I-3089.

⁴⁰ *Id.* at ¶ 51.

⁴¹ *Id.* at ¶ 45.

that [Ms. Emanuel] was involved in the design of that garment.”⁴² It therefore seems to us that the outcome is open to debate, and even if the case is rightly decided it must very much be regarded as a case at the margins of what ought to be permissible.

This is not to say that marks containing personal names should never be assignable. In many industries, consumers would not expect that the presence of an individual’s name in the mark means that the individual is personally involved in the production of the goods or services. And once a person whose name appears in the mark has died, concerns about consumer confusion would tend to fall by the wayside.⁴³ There are, however, some industries (high-end fashion strikes us as being a particularly good example) where it must be that in many cases consumers would expect that goods bearing the name of a living person have been made by that person or with that person’s input or imprimatur, which must then impact on how those marks are dealt with.

B. Licensing: Consequences of Lack of “Control”

Unconstrained licensing must, at least in principle, also be capable of triggering cancellation on the ground that the mark has become deceptive. This was certainly the case under former British Commonwealth law. For example, in *MCGREGOR Trade Mark*⁴⁴ Whitford J in the English High Court held that “uncontrolled” or “bare” licences were inherently deceptive. The difficulty, much as with assignments in gross, is working out how and why the current position is different – modern Commonwealth legislation seeks to make licensing easier, but provides no guidance as to how the cancellation provision is to be applied under a more liberal regime. Importantly, moreover, there are signs that Commonwealth courts may be diverging on this issue.

The leading case in the U.K. remains the 2002 decision of the House of Lords in *Scandecor*, which we also discussed in the previous section. Lord Nicholls held that the 1994 U.K. Act took a different approach to trademark licensing, such that the approach adopted in cases like *MCGREGOR* had to be set aside. More specifically, Lord Nicholls noted that the legislative definition no longer referred to a trademark as a sign used to indicate a “connection in the course of trade” with the proprietor, but rather to a sign “capable of distinguishing goods or services of one undertaking from those of other undertakings.” His Lordship concluded that this change in statutory language had brought about a fundamental change in the law.⁴⁵ Under the 1994 Act, an exclusive bare licensee’s use of a mark could not be said to be deceptive because such use would still indicate that the goods came from a single source (namely, the licensee, rather than the licensor). His Lordship went on to note that, as a

⁴² *Id.* at ¶ 48. See also Ron Moscona, *What Really Matters? The Designer’s Name or the Name on the Label?*, 29 EUR. INTELL. PROP. REV. 152 (2007).

⁴³ Of course, it might be said that consumers may not know about the death of a designer or other prominent individual (or at least not immediately). However, this goes to the broader point that some degree of consumer confusion may always attach to trademark transactions. The question is when a degree of confusion is to be tolerated in order to facilitate market transactions.

⁴⁴ *MCGREGOR Trade Mark*, [1979] R.P.C. 36 (Ch.).

⁴⁵ *Scandecor Devs. AB v. Scandecor Mktg. AV*, [2001] UKHL 21, [33] (appeal taken from Eng.).

practical matter, an owner would impose “suitable terms” on a licensee to ensure that the mark did not become devalued.⁴⁶ But it was held that “[c]ustomers are not to be taken to rely on the protection supposedly afforded by a legal requirement that the proprietor must always retain and exercise an inherently imprecise degree of control over the licensee’s activities.”⁴⁷

The advantage of the *Scandecor* approach is that it pays deference to the legislature’s desire to make licensing easier. This decision does not, however, mean that uncontrolled licensing could never give rise to a ground of cancellation. The possibility of cancellation on the ground that the mark has become deceptive remains. What is missing from *Scandecor* is any sense of when harm to consumers might rise to such a level as to justify cancellation. The disadvantage of *Scandecor* is that it would seem in every case to require a fact-intensive enquiry into the nature of consumer expectations and the extent to which those expectations have been disappointed.⁴⁸ It is arguable that an approach that focuses on the question of whether the licensor exercised real and effective control over the licensee’s activities is a much less unwieldy enquiry. It is an enquiry that courts are in a much better position to undertake. Of course, if it can be demonstrated that consumer expectations have indeed been disappointed then an action for cancellation ought always to arise. Our point is that lack of control provides a useful proxy for the types of situation where consumer expectations are most likely not to have been met, and one that allows courts to sidestep a more difficult enquiry in the majority of cases.

Significantly, other common law countries have maintained a much greater focus on control than the U.K. This is true, for example, in the U.S., where it has been held that licensing without control (often referred to as “naked licensing” in American legal parlance) is inherently deceptive and amounts to “abandonment” of the mark.⁴⁹ This also represents the position in Australia, although the mechanism by which uncontrolled use leads to marks being expunged from the Register is not immediately obvious from a review of cases dealing with the deceptiveness ground of cancellation under Australian law, that is, section 88(2)(c) of the Trade Marks Act 1995. The principal case to deal with this point is *Health World Ltd. v. Shin-Sun Australia Pty Ltd.*, a 2008 first instance decision of the Federal Court.⁵⁰ That case concerned the registered mark “HealthPlus” for pharmaceuticals. This mark was owned by Shin-Sun, but had been used exclusively by an associated family business, Nature’s Hive. Shin-Sun and Nature’s Hive had a common general manager (the daughter of the directors of Shin-Sun), who was also the majority shareholder of Nature’s Hive and a common place of

⁴⁶ *Id.* at [39].

⁴⁷ *Id.*

⁴⁸ That a fact-intensive inquiry might justify cancellation is implicit in some aspects of Lord Nicholls’ decision: *id.* at [44].

⁴⁹ See *Eva’s Bridal Ltd. v. Halanick Enters., Inc.*, 639 F. 3d 788 (7th Cir. 2011); *FreecycleSunnyvale v. Freecycle Network*, 626 F. 3d 509 (9th Cir. 2010); *Barcamerica Int’l USA Trust v. Tyfield Importers, Inc.*, 289 F. 3d 589 (9th Cir. 2002). See generally MCCARTHY, *supra* note 13, at § 18:48; Irene Calboli, *The Sunset of “Quality Control” in Modern Trademark Licensing*, 57 AM. U. L. REV. 341 (2007). Moreover, it might be noted that as a matter of U.S. law, in the absence of control by the licensor it is more likely that goodwill will be attributed to the licensor rather than the licensee.

⁵⁰ *Health World Ltd. v. Shin-Sun Austl. Pty Ltd.* (2008) 75 IPR 478 (Fed. Ct.) (Austl.).

business.⁵¹ Notwithstanding these links, Jacobson J considered that there was no evidence that Shin-Sun exercised a “legally enforceable power of control” over Nature’s Hive, with the consequence that his Honour ordered cancellation of the mark under section 88(2)(c). One complicating factor is that the case concerned a mark for pharmaceuticals. Nature’s Hive was listed as the party with obligations to maintain the quality of the goods under the Therapeutic Goods Act of 1989 and this weighed heavily against the argument that Shin-Sun had exercised *de facto* control. However, as we have argued in detail elsewhere, *Health World* should not be read as turning on the Therapeutic Goods Act point.⁵² The better reading of the case is that it stands for the broader proposition that licensing without control can always give rise to cancellation. This comes across most clearly from Jacobson J’s focus on the absence of a written agreement between the family entities, which meant that there was no legally enforceable power of control, such that cancellation was justified.

In any event, moreover, licensing without control in Australia can always lead to the mark being expunged from the register not by virtue of section 88(2)(c), but rather because of the way the removal for non-use provisions operate. Under section 92(4)(b) of the Trade Marks Act of 1995 a mark is vulnerable to removal if it has not been used by the owner in the preceding three years. Use by a licensee can inure to the benefit of the owner, but only to the extent that the licensee’s use is *authorised*. Authorised use is defined in section 8 of the 1995 Act as being use “under the control” of the owner of the mark. This includes, but is not limited to, use in circumstances where the owner exercises “quality control” over the goods or services or “financial control” over the operations of the licensee, as provided for by subsections 8(3) and (4) respectively.⁵³ The question with which the courts have struggled is whether owners are required to demonstrate that they have in fact exercised control or whether it is sufficient for them to point to a legally enforceable right of control.

In early cases under the 1995 Act, the Federal Court adopted a permissive interpretation of the authorised user provisions. Under this approach it was sufficient for the licensee’s use to demonstrate a “slight connection” with the trademark owner. In practice this meant an owner could resist removal for non-use merely by pointing to a contract that gave it a right to exercise a degree of control over the activities of the licensee. The permissive approach is best illustrated by *Yau’s Entertainment Pty Ltd. v. Asia Television Ltd.*⁵⁴ The mark owner was a Hong Kong television broadcaster that had entered into an agreement with Yau’s, an Australian distributor, under which the broadcaster supplied Yau’s with master tapes of programs bearing the registered mark to be copied and distributed by Yau’s in Australia. The Full Federal Court held that the owner’s contractual right to veto the selection of television programs released on video in Australia by Yau’s amounted to a sufficient degree of control

⁵¹ *Id.* at 487. By the time of the hearing, the directors of Shin-Sun had also become the directors of Nature’s Hive. Jacobson J considered that this was not evidence of Shin-Sun’s control over Nature’s Hive’s activities on the basis that the daughter, being the majority shareholder of Nature’s Hive, retained the power to remove her parents as directors: *id.* at 501. In any event, as the change in directorship took place after the rectification proceedings were commenced, this issue could not have been taken into account for the purposes of section 88(2)(c).

⁵² BURRELL & HANDLER, *supra* note 24, at 583, 587.

⁵³ A further factor is that the authorised use must be use “as a trade mark”: for recent consideration, see *Dunlop Aircraft Tyres Ltd. v. The Goodyear Tire & Rubber Co.* (2018) 134 IPR 220 (Fed. Ct.) (Austl.).

⁵⁴ *Yau’s Ent. Pty Ltd. v. Asia Television Ltd.* (2002) 54 IPR 1 (Full Fed. Ct.) (Austl.).

under section 8 so as to make Yau’s an authorised user.⁵⁵ This was so even though there was no evidence of this power ever having been exercised. The result in *Yau’s* is consistent with how Aickin J’s decision in *Pioneer* (a decision under the 1955 Act, noted above) had come to be interpreted. The reasoning in *Yau’s* is, however, problematic, not least because subsections 8(3) and (4) apply only where the owner *exercises* quality or financial control.

The breadth of *Yau’s*, and its inconsistency with the statutory language, was recognised in *Sky Spirits LLC v. Lodestar Anstalt*, a first instance decision of Perram J.⁵⁶ The plaintiff, a manufacturer of bourbon, had agreed to settle a dispute with a small winemaker using a similar unregistered mark on the basis that the plaintiff could seek to register the mark and that it would, in return, license the winemaker to use the mark. The licence fee was \$1 and, although the licence agreement contained quality control provisions, there was no evidence that these were ever exercised. Indeed, Perram J went as far as saying that there was “a total lack of control or interest in the marks beyond the most formalistic recognition of the licence agreement,” and that the owner’s “ability to control the quality of the wine was entirely theoretical and had no footing in reality.”⁵⁷ His Honour considered that he was bound to follow *Yau’s* in finding that the winemaker’s use was nevertheless “under the control” of the owner and thus not liable to be removed for non-use, but was highly critical of *Yau’s*.⁵⁸ Judge Perram’s criticisms have significant force and, on appeal, in *Lodestar Anstalt v. Campari America LLC*, a five judge Full Bench of the Federal Court held that the exercise of control is central to the notion of authorised use.⁵⁹ The court emphasised that “control in section 8 means actual control in relation to the use of the trade mark and it means actual control in relation to the trade mark from time to time.”⁶⁰ It also noted that this result was consistent with the legislative history, and that attempts to read *Pioneer* as supporting the more permissive approach were inconsistent with the overall tenor of that judgment.⁶¹ Interestingly, the Full Court was directed to the decision of the House of Lords in *Scandecor*, but held that this case had no applicability in Australia, as English and Australian law “have taken different paths.”⁶²

Australian law has thus returned to being closer to the historical position at common law, and to the position that pertains in the U.S. Although this approach may look dated to a U.K. audience, it is one that adheres more closely to the historical function of trademarks as badges of origin. Trademarks are neither free-floating signifiers nor mere receptacles for

⁵⁵ *Id.* at 16 (Hely J, with whose reasons Sundberg and Finkelstein JJ agreed).

⁵⁶ *Sky Spirits LLC v. Lodestar Anstalt* (2015) 112 IPR 328 (Fed. Ct.) (Austl.).

⁵⁷ *Id.* at 337–38. This has strong similarities with the facts of *Barcamerica Int’l USA Trust v. Tyfield Importers, Inc.*, 289 F. 3d 589 (9th Cir. 2002).

⁵⁸ *Sky Spirits*, 112 IPR at 339–40, 342.

⁵⁹ *Lodestar Anstalt v. Campari Am. LLC* (2016) 244 FCR 557, 581 (Besanko J, with whose reasons Allsop CJ and Greenwood J agreed), 585 (Nicholas J, with whose reasons Allsop CJ agreed), 598 (Katzmann J). In doing so, four of the judges interpreted *Yau’s* as not in fact turning on the point that mere theoretical control was sufficient to amount to authorised use: *id.* at 580 (Besanko J), 594 (Katzmann J). See generally Anna Harley, *Keeping the Faith: Is There a Standard of Sufficient “Use” of a Trade Mark in Australia?*, 111 INTELL. PROP. F. 25 (2018).

⁶⁰ *Lodestar*, 244 FCR at 581 (Besanko J).

⁶¹ *Id.* at 574–76, 580 (Besanko J), 585 (Nicholas J) 596–98 (Katzmann J).

⁶² *Id.* at 581 (Besanko J).

brand value. This is recognised in Article 19(2) of the TRIPS Agreement, which provides “[w]hen subject to the control of its owner, use of a trade mark by another person shall be recognised as use of a trade mark for the purpose of maintaining the registration.”⁶³ The Full Federal Court in *Lodestar* cited this provision as a reason for rejecting the more permissive approach to licensing.⁶⁴

One final issue is worthy of consideration. This is when a licensed mark might be vulnerable to being expunged from the Register even though the requirement of control would appear to be satisfied. As we noted above when considering Lord Nicholls’ approach to naked licensing in *Scandecor*, we believe that there are good reasons for regarding control as a necessary condition, but that it ought not to be treated as a sufficient condition in every case. Most obviously, this would arise where there is reason to believe on the face of the mark that consumer expectations are not going to be met. For example, this might occur where a feature of a compound mark indicates that the goods are manufactured by a specific party, but the goods in question are produced by the licensee (even under the licensor’s control).⁶⁵ More controversially, there is a live question, at least in Australia, about when an apparent exercise of actual control is to be disregarded as being merely “colorable,” or use other than in good faith. This possibility was raised by Nicholas J in *Lodestar*.⁶⁶ Section 92(4)(b) of the Australian Act is worded in such a way that this possibility must remain open, but identifying the boundary between merely colourable control and genuine control undertaken partly with an eye to preserving the registration is difficult, as Nicholas J himself recognised.

V. Conclusion

Among the trademark community it is generally understood that America continues to impose more onerous restrictions on the assignment and licensing of trademarks than many other countries. In European commentaries, including those produced by U.K. authors, this tends to be treated as another example of American trademark exceptionalism. On this account, restrictions on trademark transactions sit alongside the maintenance of a use-based model of registration and infringement,⁶⁷ the requirement of proof of use on renewal,⁶⁸ and

⁶³ Agreement on Trade-Related Aspects of Intellectual Property Rights art 19(2), Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, 33 I.L.M. 1197.

⁶⁴ *Lodestar*, 244 FCR at 575 (Besanko J).

⁶⁵ Cf. the facts of *Heublein Inc. v. Cont’l Liquers Pty Ltd.*, *supra* note 37.

⁶⁶ *Lodestar*, 244 FCR at 587–88 (Nicholas J).

⁶⁷ See generally Graeme B. Dinwoodie & Mark D. Janis, *Use, Intent to Use, and Registration in the USA*, in TRADE MARK USE 313 (Jeremy Phillips & Ilanah Simon eds., 2005); Rebecca L. Tushnet, *Registering Disagreement: Registration in Modern American Trademark Law*, 130 HARV. L. REV. 867 (2017); Jane C. Ginsburg, *Euro-Yearnings? Moving Toward a “Substantive” Registration-Based Trademark Regime*, 130 HARV. L. REV. F. 95 (2017).

⁶⁸ Trademark Act of 1946 § 8(a)(2), 15 U.S.C. § 1058(a)(2) (2016). This provision is often singled out, not least because there is a strong argument that it puts the U.S. in breach of Article 3(1)(a)(xvii) and 3(6) of the Trademark Law Treaty and of Article 3(1)(a)(xvi) and 3(3) of the Singapore Treaty on the Law of Trademarks. See BURRELL & HANDLER, *supra* note 24, at 366.

the concept of incontestability.⁶⁹ However, from an Australian perspective at least, the U.S. law on trademark transactions remains instantly recognisable. Indeed, it might provide useful guidance, particularly on when an assignee of a trademark should be deemed to have done enough to ensure that its use of the mark has not become deceptive (an issue that remains largely unlitigated and under-theorised outside the U.S.). Viewed from Australia, it is the U.K. where the law on trademark transactions, particularly licensing, has moved furthest from the common law fold. But as we have tried to demonstrate, there must remain circumstances in the U.K. in which uncontrolled transactions can give rise to cancellation of the mark. Knowledge of the more restrictive approach that continues to apply in other common law countries might help sharpen understanding of when cancellation might be justified, even after the more liberal approach adopted by the House of Lords in *Scandecor*.

⁶⁹ Trademark Act of 1946 § 15, 15 U.S.C. § 1065 (2016). *See generally* Rebecca Tushnet, *Fixing Incontestability: The Next Frontier?*, 23 B.U. J. SCI. & TECH. L. 434 (2017); Kenneth L. Port, *The Illegitimacy of Trademark Incontestability*, 26 IND. L. REV. 519 (1993).