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## **LEGAL PROTECTION OF THE TRADEMARK RIGHTS IN LICENSE AGREEMENT**

### **Abstract**

Under Regulation 207/2009 / EC, a licensee which is not registered in a suitable register cannot initiate proceedings due to a violation of trademark rights. The subject of this analysis is how the courts in the Member States of the European Union are acting on this issue, i.e. how they apply Article 23 paragraph 1 of Regulation 207/2009 / EC.

Firstly, authors are analysing the issue concerning the rights of the licensee which has not been registered in an appropriate register has in the event of a violation of a trademark right. The authors endeavour to re-examine the uniqueness of acting in practice in a way that would encircle a research process and would see flaws in the normative regulation of the same.

Considering that in practice there are cases in which, according to Article 23, paragraph 1 of the Regulation, the courts in the Member States of the European Union adopt different judgement, the case of the analyse is the judgment of the European Court of Justice C-163/15.

The aim of this paper is to point out that only through an efficient system of protection and proper implementation of the legislation, taking into account the practice of the European Court of Justice will contribute to the stabilization of the economic circulation of goods and services.

**Key words:** *license, trademark, transfer of right, legal protection, regulation 207/2009.*

### **1. Introduction**

In present times, the intellectual property rights represent a crucial part of the legal systems and are a reflection of the economic growth. Being successful at the internal market is an essential element which is why there is an abundant list of international instruments which regulate certain aspects of this phenomenon. The importance of protecting these intellectual property rights can be noticed in situations where the lack of these rights can have a negative effect on a country, despite its economic status.

The need for these specific rules is based on the initial need for protection of those who acquire these rights. The regulations which arrange the protection of the trademark rights have the same if not more important meaning than the provisions which stipulate that the holder of the trademark right has an exclusive right of using the symbol protected by the trademark. Hence, the monopoly right of the trademark subject would not have any meaning unless adequate protection is secured.

Taking this into consideration, the trademark should be considered as a proprietary right independent from the companies whose products or services are marked. According to this, the trademark should be transferable, especially when needed, and also the public must not be left confused due to this transfer.

The way of solving the issue that applies to the transfer of the trademark rights, without having to transfer the company it belongs to, i.e. the relation between the symbol and the products that have it, depends on the potential and the modalities of the trademark law.

This paper focuses on the field of legal protection i.e. the rights of the trademark which belong to the acquirer according to the license agreement. In other words, the paper analyses how the courts interpret article 23, paragraph 1 of the Council Regulation (EC) no. 207/2009 from 26<sup>th</sup> February 2009.<sup>1</sup>

The aim of this Regulative 207/2009 is emphasized in the preamble, and is to overcome the inequalities of the solutions that arise from the laws of the member states, which refer to the economic activities on one hand, and the internal market (removing the barriers for free flow of the products and services) and its transformation into a single market, on the other hand. This results in differences in the national and internal trading while selling goods and giving services and can lead to violation of the market competition, especially when the goods and the services are sold or offered in other member states. Therefore, the provisions of the Council Regulation (EC) No 207/2009 cover all specific rules whose application enables stronger legal security, in the evaluation about whether the holder of the trademark rights with license agreement is entitled to legal protection in case of violation of these rules without having the agreement registered.

Our purpose in the paper is not just to analyze the degree of compliance in terms of the evaluation for the existence or non-existence of the right of the license holder in case of violation which has not been registered, and also we aim to perceive the mechanisms of their legal control.

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<sup>1</sup> The predecessor of this Regulative has been the Council Regulative (EC) no. 40/94 from 20<sup>th</sup> December, 1993 on communitarian trademark which was modified in 2015, after which on 01.10.2017 the current Regulative (EU) 2017/1001 of the European Parliament comes into force and the one of the Council comes into force on 14<sup>th</sup> June, 2017, for the EU trademark.

## **2. Legal nature of the transfer of trademark rights**

The first laws that regulated the matter of the trademark at the end of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century contained provisions prohibiting the free transfer of the trademark without transferring the company to which it belongs.<sup>2</sup> However, both the legal considerations and certain national laws relied on the principle of the independence of the trademark in terms of the dominant position regarding the company. Hence Kohler's theory, which refers to the legal nature of the trademark as a personal right, strictly related to the company as the only expression of production activity.<sup>3</sup>

According to this theory, on one hand, the trademark is intangible good which belongs exclusively to the company that is its creator. On the other hand, there is no trademark without a company, i.e. there is no trademark after the termination of the existence of the legal entity. Therefore, the trademark cannot be transmitted to other parties independently, except when it is transferred in whole or as part of the company.<sup>4</sup>

As a consequence of the economic need of the developed Western market and the legal perceptions of the trademark, as an absolute right of ownership with which the holder can freely dispose, by the middle of the last century, the number of countries

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Council Regulation (EC) No 207/2009 of 26<sup>th</sup> February 2009 on the Community trade mark (codified version) (Text with EEA relevance), 2009 O.J. L 78/1.

Regulation (EU) 2015/2424 of the European Parliament and of the Council of 16<sup>th</sup> December 2015 amending Council Regulation (EC) No 207/2009 on the Community trade mark and Commission Regulation (EC) No 2868/95 implementing Council Regulation (EC) No 40/94 on the Community trademark, and repealing Commission Regulation (EC) No 2869/95 on the fees payable to the Office for Harmonization in the Internal Market (Trademarks and Designs) (Text with EEA relevance), 2015 O.J. L 341/21.

Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14<sup>th</sup> June 2017 on the European Union trademark (Text with EEA relevance), 2017 O.J. L 154/1 [further in the text Regulation on EU trademark].

<sup>2</sup> See more: Swiss Trademark Law (1879 and 1880), German Trademark Law (1882), Austrian Trademark Law (1858) etc.

<sup>3</sup> The individual nature of the Trademark Law is to be inalienable (the trademark is inalienable in principle). As a distinctive symbol of the company that produces that product, and as a personification feature of the same product, the trademark belongs to that personification and can belong only to that same company. The company is related to it just like with its name, that is the symbol of the company, just like the monogram which is the symbol of the artist. The theory of the principle of non-transferability of the trademark is best explained by Kohler-See more: Kohler: *Das Recht des Markenschutzes*, Wuerzburg, 1884, p. 239.

<sup>4</sup> See more: Krneta S. "Prenos prava na žig u svjetlu savremenih kretanja u uporednom pravu", Annual magazine at the Faculty of Law, at the University of Sarajevo, XXII, 1974, p.165.

that have decided, i.e. legally inaugurated and allowed free transfer of the trademark significantly increased.

The replacement of the previous Trademarks Act from 1958, which referred only to the “permitted use” and “registered user” with the Trademarks Act from 1999, leads to expansion of the range of the term “permitted use”.<sup>5</sup> On one hand, this change attempts to achieve the effect, so that the rights of the trademark can be used by the third party by transferring it through a license agreement without the need for registration by the licensee. On the other hand, this enables expansion of the geographical range, as well as expansion of the range of products of the trademark. That is to say, to be an effective business tool and strategy that helps in expanding the existing business territory, and the nature of the business. Therefore, it is not surprising that the transfer of rights has become a routine market transaction for those trademark owners who have already built a big market for themselves and for those who want to build it.

Hence, a dilemma arose, regarding article 23 paragraph 1 of the stated regulation, whether the acquirer of the rights in the license agreement of a protected trademark may take actions against third parties, if the licensor in the contract explicitly authorized it, but the license agreement is not recorded in the register. The European Court of Justice argued for the first time on this issue in the verdict C-163/15 Youssef Hassan against Breiding Vertriebsgesellschaft.<sup>6</sup>

### **3. Legal framework for dispute resolution R-163/15 (Decision of the regional court in Dusseldorf)**

As we have previously mentioned, the subject of analyzing is the issue concerning the rights which the license holder possesses in case of violation, if the agreement is not recorded in the appropriate register. The legal frame for dealing with this issue, which is subject of analyzing, is consisted with the Regulation 207/2009. Namely, in article 23 paragraph (1) of the stated Regulation is stipulated that the *legal actions from articles 17, 19 and 22 (which refer to the transfer of the trademark rights in EC, to the acquisition of rights in REM, and issuing a license) in terms of the trademark of the Union have actions against third parties in all member countries of the EC (present European Union) after they will be included in the register. However, before they are included in the register, these legal actions have legal influence on third parties which acquired the trademark right after the date of*

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See

more:

<http://nopr.niscair.res.in/bitstream/123456789/6058/1/JIPR%2014%285%29%20397-404.pdf> (accessed on 09.03.2018).

<sup>6</sup>Verdict C-163/15 Youssef Hassan against Breiding Vertriebsgesellschaft <http://eur-lex.europa.eu/legal-content/HR/TXT/HTML/?uri=CELEX:62015CJ0163&from=HR> (accessed on 18.01.2018).

*concluding that legal act, but only if they were aware of the legal act on the date of acquiring the rights.*<sup>7</sup> The rights that arise from this article can enable only with the permission of the holder, the acquirer of the right to be able to take actions to protect these right even before the recording in the register.

After the adoption of the Directive 207/2009 most of the member states implemented its provisions in their national legislation. However, there are ambiguities in the implementation process of the provisions for the intellectual property rights in the member states, in terms of extending the rights to legal protection in case of violation. In this context, the decisions of the courts of the German court instances are very important, as well as the previous questions addressed to the European Court of Justice.

Namely, in the mentioned dispute, the company Breiding acquires the right to a protected trademark with a license agreement, on 2<sup>nd</sup> January 2011, which is not recorded in the Community register for trademarks (but applies to a verbal trademark of EU - ARKTIS, for which the company KBT & Co. Ernst Kruchen agenzia commercial sociétá, submitted a request on 15<sup>th</sup> August 2002, but registered it on 11<sup>th</sup> February 2004 under No STM 002818680), and is specifically used for blankets and beddings. In the license agreement it is stipulated that Breiding can initiate a procedure in the name of the holder in case of trademark rights violation.<sup>8</sup>

*The businessman Youssef Hassan, advertised products which were selling under the name "ARKTIS". Breiding, as a right holder of the license agreement for the trademark EUTM "ARKTIS" (and agreed by the title bearer) later in Germany initiated a procedure for protection of violation.<sup>9</sup> As a result of the initial offers and official notices by the title bearer of the ARKTIS trademark, on 3<sup>rd</sup> February, 2010, obliged by an agreement (under the name abstaining statement) that he will not use the symbol "Arktis" for beddings under the threat of agreed sanctions by the licensed acquirer of the rights. In the procedure initiated by Breiding, the judicial court upheld the appeal (determined the validity of the contract) and obligated Hassan to cancel the products which have cause the violation, to annul them and to pay for the damage.*<sup>10</sup>

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<sup>7</sup> See more: Article 23 paragraph 1 of the Regulation 207/2009/EC from 26<sup>th</sup> August 2009 on European Union trademark

<sup>8</sup> See more: Case C-163/15 Youssef Hassan against Breiding Vertriebsgesellschaft <http://eur-lex.europa.eu/legal-content/HR/TXT/HTML/?uri=CELEX:62015CJ0163&from=HR> (accessed on 18.01.2018).

<sup>9</sup> See more: <https://www.lexology.com/library/detail.aspx?g=b64c9668-777a-41f9-8b45-59ac054476a5> (accessed on 18.01.2018).

<sup>10</sup> See more: Case C-163/15 Youssef Hassan against Breiding Vertriebsgesellschaft

### 3.1 Decision of the Higher Regional Court in Dusseldorf

The dissatisfied party to the decision filed a complaint to the Higher Regional Court in Dusseldorf. The Higher Court in Dusseldorf evaluated that the success of the appeal depends on resolving the issue whether Breiding, which according to the license agreement has also consent of the title bearer of the trademark (according to article 22 paragraph 3 of the regulation), to initiate a procedure due to violation of the stated trademark even though it is not recorded in the register as acquirer of the license.<sup>11</sup> The Higher Court in Dusseldorf, in the explanation of the decision highlights that in a previous procedure, it has made a decision in which it is stipulated that the first sentence of article 23, paragraph 1 of the Regulation 27/2009/EC regulates *just the case of good will*. Furthermore, if these provisions are thoroughly interpreted, they generally state that the legal acts which apply to the Union trademark in accordance with articles 17, 19, and 22 of the Regulation, have an effect on third parties in all member states of the Union only after they are recorded in the register. Hence, they can file a complaint for violation of rights according to these legal acts.

In terms of the first sentence of article 23, paragraph 1 of the Regulation and the next paragraph, the Court considers that they apply only in case of gaining good faith, which means that, if these provisions are systematically interpreted, the same will apply also in the first sentence. One court in Spain determined that the bearer of the right from the license can initiate a procedure against third party after the license is recorded in the register.

Opposite of this, if it is determined that the gain of the acquirer rights from the license depend on the recording of the license in the register, then arises a new question about whether the acquirer of the license which is not recorded in the register can exercise the rights of the title bearer on request on his behalf. Also, it is determined that the German Law allows this in certain occasions, which is the case with this situation.<sup>12</sup>

In this exact procedure, the Higher Regional Court of Dusseldorf decides to adopt a decision on termination of the procedure and submits a request to the European Court of Justice to say about the previous questions:

1. Does the first sentence of article 23, paragraph 1 of the Regulation 207/2009/EC interpret that the acquirer of the license which is not recorded in the register can initiate a procedure on violation of the Union trademark?

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<sup>11</sup> According to article 22, paragraph 3 of the Regulation 207/2009/EC from 26<sup>th</sup> August 2009, for the European Union trademark, regardless the terms of the license agreement, the acquirer of the license can initiate a procedure for violation of the trademark right only with consent by the title bearer of the trademark. On the other hand, the acquirer of an exclusive license can initiate the same procedure as a bearer of the trademark right only if he/she does not initiate a procedure for violation in a certain time period after the violation notice.

<sup>12</sup> See more: [http://www.wipo.int/edocs/pubdocs/en/intproperty/489/wipo\\_pub\\_489.pdf](http://www.wipo.int/edocs/pubdocs/en/intproperty/489/wipo_pub_489.pdf)

2. If the answer to the first question in positive, is the first sentence of article 23, paragraph 2 of the Regulation 207/2009 opposite to the national legal practice according to which the acquirer of the license can exercise the rights of the bearer of the rights against the person who committed the violation, by filling an application on his own behalf?<sup>13</sup>

#### 4. Decision of the European Court of Justice C-163/15

In the international circulation of rights, there are more license agreements than agreements for transfer of rights. Namely, the license provider can use the rights which he did not transferred with the agreement, while in the case of the agreement for transfer of rights, the industrial property right is transferred from the giver to the acquirer.<sup>14</sup> In the case of the license agreement, the transfer has a constitutive effect, while in the case of agreement for transfer of rights, it has a translational effect.

In this particular case, the Court in Dusseldorf adjourned the procedure and submitted a request to the European Court of Justice to address the question regarding article 23, paragraph (1) of the Regulation 27/2009/EC. The European Court of Justice noticed that, if read in isolation, article 23, paragraph (1) interprets that if the license is not recorded in the Register, the acquirer of the license cannot rely on the rights granted by this license vis-à-vis third parties.

However, when making its decision, the European Court of Justice highlighted the importance of the need for taking into account the context in which article 23, paragraph (1) is mentioned, as well as the purpose of its Regulation (Verdict of Brain Products, C-219/11, EU: C: 2012: 742, p.13. as well as Lanigan, C-237/15 PPU, EU: C: 2015: 474, p.35, and the cited legal practice 1). In other words, the Court stated that the aim of article 23, paragraph (1) *is to protect* those who have or maybe had right to the trademark in the member states of the European Union as a subject of ownership (title bearers), and not to protect those who violate these rights.

When analyzing the Regulation, i.e. the first sentence of article 23, paragraph 1, one can notice that the second sentence of this article limits the rule established in the first sentence to "third parties who acquired the right for the trademark" after the date of concluding the legal act, but only if they are aware of that legal act on the day of acquiring the rights. On the other hand, paragraph (2) of this article 23 is an exception to the rule in terms of the person who acquires the right of the Union trademark or some other right concerning the Union trademark with transfer of the whole company or in some other way of universal succession.

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<sup>13</sup> See more: Verdict of the European Court of Justice C-163/15

<sup>14</sup> In the case of the license agreement, the acquirer of the license is not a legal successor as opposed to the agreement on transfer of rights where the acquirer of the right is a legal successor of the license giver. See more: Davovik-Anastasovska, J, Pepeljugoski, V, Pravo na intelektualna sopstvenost, second edition, Akademik LTD, p.312-313, 2012.

The European Court of Justice ("ECJ") made a verdict that the acquirer of the license of the Union trademark (previously known as the trademarks of the Community) ("EUTM") can take actions, even if his/her license is not registered, only if the license acquirer has the consent of the trademark owner to confirm these rights.<sup>15</sup>

With the verdict on 4<sup>th</sup> February, 2016, which applies to the previous question (case C-163/15), the judicial council of the European Court of Justice confirms that the consent of the license giver for acquiring the trademark rights is sufficient, regardless whether the license is registered or not in the EU trademark register (former OHIM).<sup>16</sup>

With the verdict of the European Court of Justice, one practical aspect is clarified which refers to the rights that the license acquirer enjoys in case of violation even though the license is not recorded in the trademark register, and which question is not clearly regulated in article 23, paragraph 1 of the Regulation 207/2009/EC. It is important to mention that when the Regulation for trademark protection regulates questions which refer to the transfer of rights, it clearly states that the acquirer cannot rely on the rights that emerge from the registration of the community trademark until the transfer of these rights is recorded in the Register. However, this rule does not apply when it comes to license. Hence, in this particular case, the Court proceeds to systematic resolution of the issue.

The explanation of the decision clearly states that the aim of article 23, paragraph (1) is realization of protection of the violated and threatened intellectual property rights, and not realization of protection to those who committed this violation. On the other hand, in different legal systems, the issue whether the registration of the EUTM license is mandatory or not, and the explanation of the European Court of Justice can be presented as useful for providing unified (exclusive) decisions.

With the plain recognition of the right to "unregistered" license for the Union trademark for taking action against the violation on the right by third parties, the European Court of Justice not only guarantees the trademark rights to the acquirer of the license, as stipulated by the license agreement, but also protects the interest of the license giver who is the title bearer of the trademark rights against those who committed the violation. As explained above, the judge in Dusseldorf stated that the Court of Spain made a decision which rules that the acquirer of the license can rely to the rights concerning third parties only after the license will be successfully recorded

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<sup>15</sup> See more: [https://www.ippt.eu/sites/default/files/2016/IPPT20160204\\_CJEU\\_Hassan\\_v\\_Breiding.pdf](https://www.ippt.eu/sites/default/files/2016/IPPT20160204_CJEU_Hassan_v_Breiding.pdf) (accessed on 15.01.2018).

<sup>16</sup> We consider that the European Court of Justice has made the right decision i.e. has correctly interpreted the first sentence of article 23, paragraph 1 in a way where the license acquirer can initiate a procedure on trademark right violation which is part of the license even though the license is still not recorded in the EU trademark register.



in the Register.<sup>17</sup> Therefore, it should be taken into consideration that the national legislation and practices of the EU trademarks, such as the Spanish one, coexist with the EU trademark system, with a tendency for significant alignment, but still can differ in many practical aspects, always within the boundaries and the principles of the EU Trademark Directive.

Despite the decision of the European Court of Justice, we consider that the bearers of the license rights should record all licenses in the Register as soon as possible as a matter of good business practice, and to protect themselves when it comes to granting of additional licenses or selling the EUTM by the owner or other conflicting interests. This would certainly prevent prolonging the procedure in case of violation on the right, the efficiency, and the procedure economy, as well as uniformed judicial practice of all EU member states.

### **Conclusion**

The Verdict of the European Court of Justice, which is the analyzing subject, clarifies the practical aspect of the litigation of European trademarks which is not clearly regulated by the EU Trademark Regulation. This verdict answers the question of where the limits of the trademark rights are which the acquirer can enjoy after the transfer of the license agreement. As a matter of fact, this decision of the European Court of Justice not only guarantees the rights of the acquirer, which are regulated by the license agreement, but at the same time protects the interest of the license giver. This process of transfer has constitutive effect.

Although the Regulation for trademark protection 207/2009, in the part which refers to the rights (and not licenses), clearly stipulates that the acquirer cannot rely on the rights that emerge from the registration of union trademarks unless the transfer of those rights is not recorded in the Register, this right, however, cannot be applied when it comes to license. The purpose of the article 23, paragraph 1 from the Regulation is completely clear, and speaks for establishing protection of the violated and threatened industrial property rights, but not establishing protection of those who committed the violation. Starting from that, the European Court of Justice made a decision which states that the acquirer of the trademark license can take action in case of violation, even if his/her license is not registered, only if the acquirer of the license has the consent of the owner of the trademark to confirm these rights.

To sum up, recording the license in the appropriate register provides greater legal security, for the acquirer of the license on one hand, from the aspect of procedure economy, as well as for the title bearer on the other hand, from the aspect of better business practice.

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<sup>17</sup> Ibid

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