

## WHAT USE A TRADE MARK USER AGREEMENT?

This paper covers the function and indicative terms of a trade mark user agreement, often named as a Licence Agreement. Sometimes this is a stand-alone agreement. Other times the terms may be part of a broader arrangement, such as a Franchise Agreement.

It assumes an Australian trade mark registered under the *Trade Marks Act*.

**Parties:** The parties will be the registered owner of the trade mark (**Owner**) and the person being granted the right to use the trade mark (**User**).

**Trade Mark:** The agreement will identify by registered number the trade mark being licensed (**Mark**). If the agreement concerns a pending application for registration of a trade mark, the agreement will identify the application number.

**Licence:** The Owner grants to the User a right to use the Mark.

**Time:** The licence usually starts on execution of the agreement. It usually ends on the earliest of:

- A specified termination date (subject to any rights of extension or renewal).
- Breach of contract by a party for a specified number of days.
- Insolvency of a party.

**Scope of Goods or Services:** A Mark must be registered for one or more statutory classes of goods or services, or both goods and services. If the User may not use the Mark in all the registered classes, or for all goods or services within one class, the agreement should spell out the restriction.

**Scope of Territory:** If the User may not use the Mark throughout Australia, the agreement should spell out the restriction. This is not easy to do, having regard to the reach of the Internet and modern advertising media. If the User receives an order for product from outside the territory, must the order be referred to the Owner? If the Owner or another user receives an order for product from in the territory, must the order be referred to the User?

**Scope of Customers:** If the User may not use the Mark in marketing to all classes of potential

customers (private and public sectors, wholesalers, retailers, end-users), the agreement should spell out the restriction.

**Exclusivity:** Does the licence prohibit the Owner from itself using the Mark, or granting a third party a right to use the Mark? Sometimes a User will negotiate for a non-exclusive licence so that it pays a lesser royalty to the Owner. The Owner however, should be aware that a non-exclusive licence to the User will prevent the Owner later granting an exclusive licence to a third party who may have offered much higher royalties.

**Registration of the User:** Is the User's interest in the Mark to be registered under the Act so that the User is notified by IP Australia upon any future dealing with the Mark?

**The Owner's Statutory Rights:** Is the Owner obliged to enforce its statutory rights against a third party infringer of the Mark? Usually not, because of the potential for high costs.

**The User's Statutory Rights:** Is the User entitled to enforce its statutory rights against a third party infringer of the Mark? If so, the agreement should spell out any sharing of fruits of litigation.

**Marketing:** There are several elements here:

- The User must endeavour to maximize its supply of product using the Mark. A minimum sales threshold may support that.
- The User must not register a company name, business name or domain name that is the same or similar to the Mark. There may be restrictions on the User listing the Mark in telephone or business directories.
- The Owner must approve any marketing materials that use the Mark. This would include the User using the ® symbol to denote a registered trade mark.
- The Owner must approve the quality or other specifications of goods or services supplied using the mark.
- The User indemnifies the Owner from any liability (including product liability) caused by the marketing or supply of goods or services

using the Mark. The User may also be obliged to carry specific insurance.

**Royalties:** This topic attracts the most attention and while it all depends on the circumstances, the following are some guide:

- Sometimes, but not often, a “signing fee” is payable. Usually this is separate from future royalties that will be become payable. It could be agreed however, that the signing fee is treated as a credit against future royalties.
- A royalty of a percentage of the net sales value of product supplied using the Mark. This topic throws up many issues, including:
  - o the percentage (about 5% is common)
  - o the definition of “net sales value” to exclude GST, transport costs, bad debts, product warranty claims
  - o the frequency of royalty payments (calendar quarterly is common)
  - o the currency of royalty payments, where customers pay the User in foreign currency
  - o minimum annual royalties to be paid in all events
  - o whether a bank guarantee or other security should support the due payment of future royalties.
- Ancillary provisions then oblige the User to keep sufficient records, make periodic reports to the Owner and allow the Owner to audit the records to check up on royalties payable.

**Intellectual Property Rights:** These elements usually appear:

- The Owner warrants it owns the Mark and that it does not infringe a third party’s rights.
- The Owner must maintain registration of the Mark for the class of goods or services covered by the licence.

**Restraint of Trade:** The User may be obliged not to use a similar competing mark during the licence or for a period thereafter.

**Winding up the Licence:** On termination of the licence, it may be provided:

- The User must stop using the Mark (except perhaps to dispose of any inventory of goods bearing the Mark that cannot economically be rebranded).

- The User must freely transfer to the Owner any company name, business name or domain name that is the same or similar to the Mark and registered to the User.
- The User is not entitled to compensation for any increase in the goodwill of the Mark caused by the User's efforts.
- The Owner has an option to buy (usually at cost) any inventory of goods bearing the Mark and held by the User.

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