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Trademark licensing, no need to control?

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In the recent decision *W.F. Gözze Frottierweberei GmbH, Wolfgang Gözze GmbH v Verein Bremer Baumwollbörse*, case C-689/15, the European Court of Justice (ECJ) analyzes an issue which the EUTMR rules do not clearly resolve, i.e. whether or not a licensed EUTM registration may be invalidated if the owner fails to carry out quality controls on licensee/licensees' products.

The dispute arose between a German cotton textiles industry association (the "Association") and a towel manufacturer (the "Defendant"). The Association owns a EUTM which is used by its licensees on products exclusively made from good-quality cotton fibers (the "Cotton Flower").



According to the decision, although the license terms allowed the Association to verify compliance by its licensees, apparently it only did it "exceptionally".

The Defendant, who was not a licensee, did nonetheless use the Cotton Flower on its goods. Thus the Association started litigation before a German Court, which found this to constitute a trademark infringement.

Following the Defendant's appeal, the Higher Regional Court of Düsseldorf referred to the ECJ a number of issues, among which whether a EUTM can be declared:

1. a) invalid, for deceptive nature (article 52(1)(a) in conjunction with article 7(1)(g) of the EUTMR),
or
2. b) revoked, according to an application by analogy of collective marks provisions (article 73(c) of the EUTMR), if the right owner fails to carry out regular quality controls at its licensees.

The ECJ answered negatively on both invalidity and revocation.

As for the former, according to the ECJ, if the owner of a EUTM fails to ensure quality controls, articles 52(1)(a) and 7(1)(g) of the EUTMR cannot constitute a legal basis for declaring the mark invalid. A EUTM mark can be declared invalid only after a factual-based assessment. i.e. when the registration *as such* was actually capable of deceiving the consumers at the filing date (but, as often the ECJ says “*it is for the referring court to examine whether the cotton flower sign filed by the VBB was capable per se of deceiving the consumer*”). Thus how “subsequently” the EUTM owner uses the mark and/or manages licenses by carrying out or not, periodic quality controls may not impinge “back” to the validity of the registration, which instead, but the ECJ does not say it, may be a factor in deciding a counterclaim under article 51(1)(c) i.e. “*if, in consequence of the use made of it by the proprietor of the trade mark or with his consent in respect of the goods or services for which it is registered, the trade mark is liable to mislead the public, particularly as to the nature, quality or geographical origin of those goods or services*”.

As for the latter, the ECJ also rejected the possibility to revoke a EUTM by analogy with the rules on EU collective marks, holding that these rules can only be applied to marks which described as such when applied for.

It is interesting to note that the attempt to almost automatically cancel the Association’s mark for lack of quality controls echoes the US/common law theory of the so called “naked license” (a theory which some Italian scholars also argued, see A. Vanzetti, Codice della Proprietà Industriale, 2013, p. 487).

Under the naked license theory, the trademark owner has an obligation to control the quality of the goods and/or services associated with its mark, and the failure to adhere to this obligation could result in public deception. It follows that if quality controls are absent the licence may be considered a “naked” licence, and trademark licensor’s attempt to enforce the trademark rights against a third party may risk a counterclaim for cancellation of the mark on the grounds that the licence is “naked”.

Apparently the ECJ ruling seems instead to reject such an “automatic” negative consequence arising out the lack of controls, although a post-facto analysis may instead bring to find that “also” as a result of the lack of quality controls a mark has become deceptive, and if indeed the mark has become deceptive then it may then be declared invalid.

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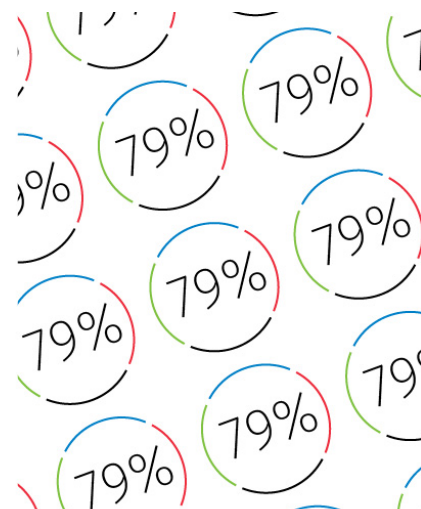
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