

## **QUESTION 116**

### **Trademark licensing and franchising**

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Q116

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#### **Resolution**

#### **I. Definition of a trade mark licensing agreement and franchising**

#### **A. Trademark licence**

1. AIPPI reiterates the definition of a mark adopted at the Berlin Congress in 1963: "A trademark is a sign for distinguishing the products or services of a person or group of persons" (Year Book 1963/1 page 35).
2. It may perform functions such as denoting quality, advertising and competition, as was recognized by the Executive Committee in Montreux in 1976 (Year Book 1976, page 156) and at the Munich Congress in 1978 (1978/II, page 71).
3. A trademark license can be defined as an agreement whereby the trademark owner authorizes another person or persons to use a mark. A trademark licence usually, but not necessarily, contains several conditions such as exclusiveness, consideration, quality standards, the way in which the trademark may be used and advertised, territorial scope, provision of models, patterns or samples.
4. Many countries have regulations concerning collective and certification marks. Collective marks are intended for use by members of an association. Certification marks are intended for use in accordance with a specific standard. In each case the use of the marks is defined by regulations which are specifically appropriate to these two situations.

## **B. Franchising agreement**

1. AIPPI will limit itself to the description of the franchise rather than to propose a legal definition in order not to restrict the development of such a dynamic concept.
2. From an economic point of view, a franchise can be described as a method of distributing goods and services through independently operated business that show a common identity to the public.
3. A franchise agreement typically includes the following elements:
  - a) the franchisor and the franchisee are independent entities;
  - b) the franchisor grants to the franchisee the right to use franchisor's distinctive signs, such as trademark, service mark, trade name, logotype, trade dress, advertising or other commercial symbols as well as copyright protected elements and provides technical and/or commercial know-how and information;
  - c) the franchisee undertakes to use what has been granted by the franchisor under a uniform marketing plan or system prescribed in substantial part by the franchisor;
  - d) the franchisee is required to pay directly or indirectly for the franchise;
  - e) the franchisee is required to fulfil certain quality requirements;
4. There is no common rule as to the registration with local authorities of franchise agreements, and not either as to other prerequisites.

## **II. Line of demarcation between trademark licensing and franchising agreements.**

1. From an economic point of view there is a difference between a franchise agreement and a trademark licence. A franchise is mostly considered as an agreement aiming at exploiting marketing plans or systems. From a legal point of view, it should be noted that most franchise agreements contain a trademark license, but this is not necessary. A franchise agreement may be restricted to licences of names, trade dress, house style, etc. Franchise agreements contain the obligation by the franchisor to provide technical and/or commercial know-how and/or assistance, whereas this is not always the case in a trademark licence. Although many trademark licence agreements will contain an obligation by the licensee to fulfil certain quality requirements with respect to the manufacture and/or sale of goods and/or supply of services, such requirements are typical elements of a franchise agreement.

2. With respect to the demarcation line between franchise agreements and the use of collective and certification marks, while there are certain common features (such as, in the case of certification marks, the inclusion of an obligation in terms of uniformity of quality and the possibility of supervision by some organization) in a franchise the aim is to give an unitary image by use and to form a network which is not the case in the use of collective or certification marks. Accordingly, AIPPI believes that collective and certification marks are not appropriate subject matter for a franchise agreement.

### **III. Anti-trust rules**

Franchising is an important means to foster, enhance and stimulate competition and as such it will result in a benefit to the consumer.

There are certain provisions in the franchise agreements that may be seen by some as conflicting with anti-trust rules, such as territorial scope, areas of protection, sales prices, obligations to buy from certain suppliers, non-competition clauses, etc.

When the legality of such provisions is being determined, their anti-competitive nature (if any) should be weighed against the competition which can result from franchising and the consequent benefit to the consumer.

AIPPI will continue to study the possible effects of the legal rules on competition on franchising.

(Earlier Resolutions concerning the same question respectively the same subject matter: Q 31/1960, NS 10/2, 17; Q 80/1984 I, 162; Q 80/1985 III, 309; Q 92 B/1988 II, 220; see also Report Q 116/1992 III, 319.)

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