

# Study unit 9

## Assignment, hypothecation, and licensing

### Overview

In this study unit, you will find out how to assign (transfer or sell) a trade mark and why the concept of goodwill is important when doing so. You will also learn that a trade mark may be used as security and how this security is noted. Finally, we deal with the licensing of trade marks for use by persons other than the proprietor.

### Learning outcomes

After completion of this study unit, you should —

- ☐ know how to assign a trade mark
- ☐ know how to endorse a deed of security against a trade mark
- ☐ know when and how a trade mark may be licensed

### Setting the scene

Thandi's restaurant is doing well. One of the most popular items on her menu is something she calls a 'Thandibandi' but is actually a type of hamburger. The burger is very popular and she decides that she needs to register the name as a trade mark.

### Discussion

### Assignment

Under common law a trade mark is protected as part of the goodwill of the business in the goods for which it is used and can be transferred only in conjunction with such goodwill. An assignment without the associated goodwill (a so-called assignment 'in gross') is regarded as invalid on the ground

that this would result in public deception.

The Paris Convention allows members to require that a mark be assigned together with the associated goodwill, but specifies in article 6<sup>quater</sup> that it is sufficient for only that portion of the goodwill located in that member country to be transferred to the assignee (article 6<sup>quater</sup>).

In contrast, the more recent Trademark Law Treaty pertinently provides that the simultaneous transfer of goodwill may not be a requirement for registration of an assignment (article 11(4)(iv)). The TRIPs agreement also provides that the owner of a trade mark may assign it 'with or without the transfer of the business to which the trademark belongs' (article 21).

This change in approach is because of increasing demands by commerce to treat a trade mark as a disposable asset. Most countries were forced to intervene and legislatively remove the bar to the assignment of a trade mark without the associated goodwill. Complicated provisions were introduced to permit the assignment of a trade mark without the associated goodwill subject to safeguards designed to protect the public against possible deception. One such safeguard was the requirement that the assignment be advertised. This and other strict requirements were dispensed with in subsequent legislation.

In terms of the 1993 South African Act, a registered trade mark can be assigned with or without the goodwill of the business concerned in the goods or services in respect of which it is registered (s 39(1)). Furthermore, a trade mark can be assigned or transmitted either in respect of all or only some of the goods or services for which it is registered (s 39(2)). A trade mark which is the subject of a pending application may also be assigned or transmitted (s 39(5)).

The UK Act of 1994 also permits assignment with or without goodwill, and also permits a partial assignment relating to only some of the goods or services for which it is registered. Interestingly enough, it also permits a partial assignment 'relating to use of the mark in a particular manner or particular locality' (section 24(2)). Commentators on this provision, which would allow a mark to be used by different proprietors in different parts of the United Kingdom, all agree that such an assignment could render the mark deceptive. The formalities for assignment are not onerous, in South Africa, all that is required is that assignment of a registered trade mark or a trade mark which is the subject of a pending

application must be in writing and be signed by or on behalf of the assignor (s 39(7)). The machinery for registration of trade mark assignments and transmissions is provided for in section 40.

Notwithstanding the liberalisation of assignment provisions in recent legislation, it remains a fundamental principle of trade mark law that a trade mark may not be used in a manner which would be likely to cause deception or confusion. This principle is echoed in sections 10(13) and 39(4) of the South African Act. In terms of section 10(13) a trade mark may be removed from the register if, as a result of the manner in which it is used, it is likely to cause deception or confusion. Furthermore, in terms of section 39(4), a trade mark may be removed from the register in terms of section 10(13) if as a result of an assignment or transmission the use of the trade mark by different persons would give rise to the likelihood of deception or confusion. The UK Act of 1994 contains no similar provision but the mark could be revoked in terms of section 46(1)(d).

### *Activity 9.1*

When Thandi's attorney, Walter, conducts a trade mark search, he discovers that the name has already been registered for the whole of class 29 and 30, but is in fact only used for icecreams. Thandi tells him to buy the trade mark from its current owners.

- ☐ Is it sufficient protection for Thandi merely to pay the owner a sum of money and sign a contract stating that she is the new owner of the mark?
- ☐ What form should be completed for registration of the assignment?
- ☐ Is it necessary for the goodwill to be transferred to Thandi together with the trade mark?
- ☐ Can she buy a part of the trade mark — for use on hamburgers only?

## *Discussion*

### *Hypothecation and attachment*

In South Africa, a registered trade mark may be hypothecated (pledged as security) by a deed of security (s 41(1)). The deed of security must be lodged with the Registrar who will endorse the register to that effect (s 41(3)). A deed of security in respect of which an endorsement of the register has been made has the effect of a pledge of the trade mark to the person in whose favour the deed of security has been granted (s 41(4)).

The assignment or transmission of a registered trade mark in respect of which a deed of security has been endorsed cannot be registered without the written consent of the person in whose favour the deed of security has been granted (s 41(5)). Where the debt or obligation secured by a deed of security in respect of which the register has been endorsed has been discharged, any person may apply to the Registrar to have the endorsement removed from the register (s 41(6)).

A registered trade mark may be attached to found or confirm jurisdiction. It may also be attached and sold in execution (s 41(2)).

### *Activity 9.2*

Thandi wants to obtain a bank loan to expand her business. When the bank asks for security, she offers her trade mark, Crunchy Munchy, as security.

- ☐ Is this possible?
- ☐ What should the bank do to protect its security?
- ☐ If Thandi becomes insolvent, can her trade marks be sold to satisfy her creditors?

Originally all trade mark licensing was regarded as invalid. A trade mark was regarded as being the indication of the origin of the goods or services to which it was applied in the limited sense of identifying the trader or manufacturer from which the goods emanated. Trade mark licensing would give rise to the same mark being used on similar goods by different persons, namely the trade mark proprietor and the licensee, which would invalidate the trade mark on the grounds of public deception or confusion.

To meet the demands of commerce for the relaxation of this strict approach, the English and South African legislature introduced a system of controlled licensing in the form of a registered user system in previous legislation. The proprietor of a trade mark was permitted to license its use by other persons in connection with all or any of the goods or services for which it was registered. To safeguard the public against possible deception, a number of safeguards were introduced. Firstly, the licensee was required to be registered as a registered user of the trade mark thus providing notice to the public of the licensing arrangement. Secondly, the Registrar had to be provided with full particulars of the licensing arrangement including the nature of the control to be exercised by the proprietor over the user in respect of the use of the mark. Thirdly, the Registrar had to conduct a substantive examination to satisfy himself that the licensing arrangement was not contrary to the public interest.

The registered user system proved to be unnecessarily complicated and costly. Furthermore, it was inconsistent with the role played by trade marks in modern industry and commerce. Today, the licensing of trade marks has become commonplace especially in character merchandising and franchise operations. The public has become accustomed to purchasing goods which are supplied under licence and the rationale underlying the registered user system, namely that trade mark licensing gives rise to public deception, is no longer valid.

The Paris Convention made no reference to the possibility of licensing a mark, while the TRIPs agreement merely provides that members may themselves determine conditions for licensing of marks, but that compulsory licences are not permitted (article 21).

In an attempt to keep abreast of developments in industry and commerce, the South African Act of 1993 introduced a system of largely unfettered licensing. Section 38(1) simply provides that 'where a registered trade mark is used by a person other than the proprietor thereof with the licence of the proprietor, such use will be deemed to be permitted use...'. Quality control is no longer a requirement (*AM Moolla Group Ltd v The Gap Inc* 2005 (6) SA 568 (SCA)). Furthermore, permitted use (ie authorised use by a licensee) is deemed to be use by the proprietor (s 38(2)). Therefore, where a trade mark is used by a licensee it will not be possible to remove it on the ground of non-use.

There is no requirement that the licence be in writing.

Although the Act provides for recordal of a licensee as a registered user of a trade mark, this is for informative purposes only (s 38(3)). The Registrar is required to enter the registered user recordal if he is furnished with the necessary information regarding the licensing arrangement to him (ss 38(6) and (7)). The Act also makes provision for the amendment or cancellation of a registered user entry when a change of circumstances takes place, for example, when the licence expires or when the trade mark is assigned or when the registration itself is cancelled (ss 38(8) and (9)).

The recordal of a licensee as a registered user is strictly voluntary. But since it is desirable that information regarding licensing arrangements is available to the public and that the register at all times reflects the current position as accurately as possible, the Act encourages recordal by providing the following incentives: Firstly, a registered user recordal constitutes prima facie evidence that a valid licensing arrangement exists (s 38(5)). Secondly, subject to any agreement to the contrary, a registered user may institute infringement proceedings in his own name if the proprietor fails to do so after being called upon to do so (s 38(4)). Notwithstanding the liberalisation of trade mark licensing in the 1993 Act, it remains a fundamental principle of trade mark law that a trade mark may not be used in a manner which would be likely to cause deception or confusion. In this regard section 10(13) provides that a trade mark may be removed from the register if, as a result of the manner in which it is used, it is likely to cause deception or confusion. Thus, although a trade mark may be freely licensed, the trade mark proprietor is responsible for ensuring that his mark retains its distinctive character.

The UK Act of 1994 is less liberal, and retains the requirement that licences must be recorded to be effective against third parties, and to recover damages for infringement (section 25(3), (4)).

### *Activity 9.3*

— The owner of the mark THANDIBUNDI will not sell it to Thandi, but lets her know that he is prepared to grant her a licence, against payment, to use it in respect of only hamburgers.

- ☐ Is this feasible?
- ☐ How should Thandi protect herself if she decides to accept this proposal?