

Trade Mark Licence Agreements (India)

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Practice notes | Law stated as at 01-Nov-2024 | India

A Practice Note addressing the key legal issues to consider when drafting, negotiating, and entering into a trade mark licence governed by Indian law.

This Note addresses formalities, the scope of the licensed rights (including exclusivity and most favored nation clauses), title and validity, and matters relating to the protection and maintenance of the licensed trade mark. It also addresses royalties and taxation, risk allocation and termination.

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A company's brands are often among its most important assets. Not only can brands help to differentiate a company's goods and services from its competitors in the marketplace, but they can also provide a valuable source of revenue through licensing. Trade mark licensing is not without risk, however. A licence agreement that does not contain adequate protections for the licensor can diminish the value of the licensed trade mark or result in the licensor's rights in the mark being lost altogether.

The parties to a trade mark licence must tailor the agreement to reflect the circumstances of the arrangement. The format and scope of the agreement depends on a wide range of factors, including:

- The relationship between the licensor and licensee within the relevant marketplace.
- The purpose, value, and duration of the licence.
- The type of products or services that the licensed trade mark will be used in connection with, by the licensee.

This Note addresses the laws and commercial practices applicable to trade mark licensing in India.

For an example of a jurisdiction-neutral trade mark licence, see *Standard Document, Trademark License: Cross-Border*. For a checklist of the key issues to consider in relation to trade mark licensing, irrespective of the governing law, see *Checklist, Trademark Licensing: Cross-Border*.

To view and customise charts on trade mark licensing across the full range of Global jurisdictions, see *Quick Compare Chart, Licensing Trade Marks*, and for information on licensing intellectual property rights more generally, see *Practice Note, Licensing of Intellectual Property Rights: Cross-Border*.

Overview of Trade Mark Licensing in India

Trade mark licensing is the most common method used by trade mark owners to exploit their trade mark rights and facilitate effective large-scale operations across India. Licensing also enables the owner to create a market presence and ensure maximum outreach for their goods or services in association with their trade mark(s).

Unlike a trade mark assignment (by which ownership of the trade mark transfers from the assignor to the assignee), under a trade mark licence, the licensor retains ownership of the trade mark but permits the licensee to use it for an agreed period of time, subject to certain conditions or requirements.

Preliminary Considerations

The preliminary considerations for the parties entering into a trade mark licence in India will vary depending on the circumstances. Both parties will likely need to evaluate some or all of the following:

- Market forces of demand and supply, and any potential risks of delays in production, or decline in sales. This will be of particular concern to the licensor if the royalty is calculated as a percentage of the profits achieved from the licensee's sales of the licensed goods or services. This will also be of concern to the licensee if they are required to commit to a minimum royalty irrespective of profits achieved in a particular period.
- Financial status of the parties. This will be of particular concern to the licensor who will want to ensure the licensee is capable of fulfilling its payment obligations under the royalty terms.
- Goodwill and reputation of the trade mark and related goods or services. This will be of particular concern to the licensee, as a strong reputation will help them to gain an advantage over competitors. The licensor will want this reflected in the royalty rate, however, and may also seek to include protective clauses in the licence terms to ensure that no harm comes to the goodwill associated with the mark.
- Prior sales. Strong sales number will increase the licensor's bargaining power. Prior sales will also be of concern to the licensee to forecast their own prospective sales. Information on prior sales may also assist both parties in deciding on their marketing strategy.
- Relevancy and usefulness of the goods or services in certain geographical areas. This will be of concern to both parties to assess market demand for the goods and profit margins.
- Flexibility to modify the terms of the licence, if necessary, based on specific requirements. This will be of concern to both the licensor and licensee, who may wish to have the option to amend the licence based on revised business strategies and considerations.

Formalities

Requirements Under Legislation

The *Trade Marks Act, 1999* (Trade Marks Act) does not define the term "licence," but instead refers to "transmission" of the trade mark. A licensee is referred to as a "registered user" of a trade mark and the licensee's use of the mark is referred to as "permitted use" (section 48, Trade Marks Act).

A trade mark licence does not need to be in writing to be valid. While oral agreements are valid, lack of evidence of the terms of the agreement may render enforcement difficult. Therefore, it is strongly recommended to have a written agreement signed by both the licensor and licensee. There are no language requirements applicable to trade mark licences.

To register a registered user, both parties must jointly apply in writing to the *Registrar of Trade Marks* (Registrar). The application must include:

- An agreement in writing on the permitted use of the trade mark, or a duly authenticated copy (stamped in accordance with the relevant state laws).
- An affidavit executed by or on behalf of the registered proprietor, which includes the following information:
 - nature of the relationship, existing or proposed, between parties, including the degree of control by the proprietor over the permitted use and whether the licence will be exclusive or non-exclusive;
 - description of the licensed goods or services that the trade mark will be used in connection with;
 - any conditions or restrictions to the permitted use or any other matter; and
 - duration of the licence.
- Any other document or information that the Registrar may require.

(Section 49, Trade Marks Act and rules 86 to 96, *Trade Marks Rules, 2017* (Trade Marks Rules).)

Only registered trade marks can be recorded with the Registrar. However, an unregistered trade mark can be licensed through a valid agreement between the parties (*Gujrat Bottling Co. v Coca Cola Company* [1996 (16) PTC 89(SC)]).

A licence agreement must be stamped as follows:

- If the licence relates to a trade mark registered under the Trade Marks Act, the agreement must be duly stamped in India in accordance with the applicable state law, regardless of whether one or both of the parties is domiciled in India.
- If the obligations under the licence are to be performed by a party domiciled in India, the agreement must be stamped in India in accordance with the applicable state law.

In addition to the terms that must be included in a licence for recordal, the courts have further held that parties must draft a licence in unambiguous and simple language for ease of interpretation. Terms implied into a licence include:

- The principles of natural justice.
- The remedies available for breach of the licence under applicable laws, including the *Code of Civil Procedure, 1908*, *Code of Criminal Procedure, 1973*, and *Arbitration and Conciliation Act, 1996*.

If the licence includes use of the copyright in the trade mark, the agreement must also include mandatory terms set out in the *Copyright Act, 1957* (Copyright Act) (including terms relating to royalties, revision, and termination). In addition, the licensed rights are deemed to lapse if the licensee does not exercise its rights within a year of grant of the licence, unless otherwise specified in the agreement (section 30A, Copyright Act). Therefore, the licence should include appropriate provisions to avoid this.

Recordal

Recordal of a trade mark licence with the Registrar is optional (section 48, Trade Marks Act) but is recommended. The advantages of recording the licence include the following:

- Proof of the parties' relationship as well as respective rights and obligations, including the licensee's permitted use of the trade mark. This can be useful evidence in court proceedings relating to the trade mark.
- The license can serve as useful evidence of the source of the licensed goods in a potential counterfeit scenario.
- The licensee has the right to bring infringement proceedings in their own name in relation to the trade mark, unless otherwise agreed by the parties (section 52, Trade Marks Act).

The disadvantages of not recording a licence include the following:

- It can be more difficult to prove the licensee's permitted use of the trade mark if required.
- The licensee will need to rely on alternative evidence to prove its licensed goods to be genuine rather than counterfeit.
- In the case of a non-exclusive licence, the licensee may be exposed to claims from other licensees who took their interest in the trade mark without being aware of the licence existing.

A trade mark licence must be recorded with the competent office of the Trade Marks Registry, which is determined based on the applicant's:

- Principal place of business, if located in India.
- Service address (attorney's address), if the applicant is a foreign person.

The Trade Marks Registry has its Head Office in Mumbai and branch offices in Kolkata, Delhi, Chennai, and Ahmedabad (see Trade Marks Journal of 22 April 2024, Official Notes on the Jurisdiction of offices of the Trade Marks Registry).

The parties must submit a copy of the signed licence to the Registrar, along with a completed *Form TM-U*. In 2019, the Trade Marks Registry issued a notification (CG/TMR/Public Notice /2019/ dated 6 September 2019) inviting suggestions and feedback on proposals to restrict access to information uploaded on the *IP India website*. This proposal is still under review. In practice, parties who are concerned about the disclosure of sensitive commercial information to the public can file either:

- A redacted licence agreement.
- A complete copy, with a request to the Registrar not to disclose the document to the public, stating reasons for the request.

In most cases, the Registrar complies with request to restrict public access to the licence agreement. In any case, the Registrar has discretion to require additional documents and information to complete the recordal.

If the licence relates to multiple trade marks, it is possible to submit one recordal application for all trade marks listed in the licence. Where more than one application for recordal is made in respect of trade marks covered by the same licence, the required documents can be filed with any one of the applications and a cross reference to such documents can be made in the other applications (rule 86(4), Trade Marks Rules, 2017 (Trade Marks Rules)).

- The Registrar can give the parties an opportunity to be heard before either accepting the application with conditions or refusing the application. The Registrar can refuse the application if it does not comply with the requirements set out in rule 86 of the Trade Marks Rules (for example, if it does not include relevant evidence and supporting documents). The Registrar must communicate these decisions in writing to the applicants and other registered users of the trade mark.

On recording the licensee's rights, relevant information is published in the weekly *Trade Marks Journal*, inviting objections within three months from the date of entry in the register. An objection can be made if the terms of the licence violate the rights of other registered users or any interested party.

After recordal of a licence, third parties can access the following information on the [IP India website](#):

- Licence agreement (redacted or unredacted) or information that the parties requested the Registrar not to disclose the agreement to the public.
- Affidavit evidence filed with the application to record the licence.
- Power of attorney.
- Other documents and correspondence (such as Registrar's requests for additional documents).

Recordal fees are available at [IP India: Trade Marks - Form and Fees](#).

The terms of the licence determine whether the licensor or licensee bears the costs of recordal. Typically, the licensee bears recordal costs.

A trade mark licence must be recorded within six months from the date of the agreement (rule 86(3), Trade Marks Rules). If the parties fail to do so, they must re-execute the licence agreement. The implications for not recording a licence on time include:

- Additional costs of re-execution.
- Delay in registration of the licensee's rights.
- Any use of the licensed trade mark(s) by the licensee may be subject to objections by other registered users.

Scope of the Licence

Degree of Exclusivity

There are typically three types of trade mark licences based on the nature of permitted use:

- **Exclusive licence.** An exclusive licence grants the licensee the exclusive right to use and deal with the trade mark in the manner prescribed in the agreement. The licensor cannot use the licensed trade mark or grant licences to use the mark to third parties.
- **Non-exclusive licence.** In a non-exclusive licence, the licensor retains the right to use the mark and can grant licences to use the mark to third parties.

- Sole licence. A sole licence gives the licensee the sole right to use the trade mark. The licensor retains the right to use the trade mark but cannot grant licences to third parties.

The *Competition Act, 2002* (as amended) (Competition Act) prohibits anti-competitive agreements, abuse of dominant position by enterprises, and regulates combinations (mergers, amalgamations, and acquisitions) to prevent adverse effects on competition in India.

Intellectual property rights (IPRs), including trade marks, grant monopoly rights to their proprietor to exploit the IPRs. The proprietor is free to determine the use their trade mark rights within the applicable legal framework, including the Competition Act. There are no specific antitrust considerations for the parties when deciding on the degree of exclusivity to be granted to the licensee, as the owner has the right to exploit the trade mark as they wish.

Exclusive Licences

Exclusive trademark licensees have greater rights than sole or non-exclusive licensees.

As an exclusive licence prevents the owner from using the trade mark, the rights and obligations of an exclusive licensee are greater than those of sole and non-exclusive licensees. Exclusive licensees usually also have greater obligations under the licence, including protecting and defending the owner's trade mark rights and using the trade mark to avoid cancellation for non-use.

Most Favoured Nation Clause

It is common for a non-exclusive licensee to seek to restrict the terms on which the licensor can grant further licences to third parties to use the licensed trade mark in or outside the licensed territory, owing to market competition and profit margins. Contractual arrangements that impose restraints of trade are void (section 27, *Indian Contract Act, 1872* (Contract Act)). The Indian courts have interpreted this to mean that restraint of trade must be reasonable. Whether a most-favoured nation clause is reasonable, and therefore valid, depends on the specific circumstances of the case.

Licensed Goods or Services

As a trade mark indicates the origin of the goods or services that the public associates with the proprietor, the licensee usually has the obligation to follow a set standard of process so that the goods or services bearing the trade mark are identical to that supplied by the proprietor.

If the licensor grants one or more licences to use the trade mark in different territories in relation to the same food products, the quality standards may vary depending on the territory. The licence terms should define the expected quality standards in each territory, which are typically not subject to change throughout the licence term. It is uncommon to provide for modification of the goods or services that the licensee will put on the market. However, the licensor may need to accommodate changes based on local statutory requirements (for example, in relation to labelling, display of contents, packaging, and distribution process), in which case the licensor can allow the licensee to modify the goods or services to comply with those requirements.

It is possible to limit the licence to certain ways of using the licensed trade mark in relation to goods and services (for example, manufacturing the goods only or only promoting them). In accordance with the general principle of natural justice, these limitations must be reasonable and lawful to be enforceable. The licensor may wish to impose such limitations to maintain greater control over the goodwill and reputation of the trade mark and the goods and services offered under it.

Under the Competition Act, any person has the right to export goods from India to the extent to which the agreement relates exclusively to the production, supply, distribution, or control of goods or provision of services for such export (section 3(5) (ii), Competition Act). Therefore, as a trade mark licence does not relate exclusively to export, and is not entered into for that purpose, the licensor is free to restrict the licensee's ability to export goods under the licence terms.

The licensor can restrict:

- The licensee's ability to sell goods outside of an exclusive distribution system, by limiting their operations to a specific territory or industry.
- The licensee's ability to sell goods via an e-commerce platform.

These restrictions are subject to negotiations between the parties.

Identifying the Trade Mark

It is possible to license both registered and unregistered trade marks (including those pending registration). However, a licence to use an unregistered trade mark cannot be recorded with the Registrar (see *Recordal*).

Different considerations apply to licences of each type of trade mark, for example:

- A registered trade mark licence is governed by the Trade Marks Act. In contrast, an unregistered trade mark licence is governed by common law, and typically referred to as a common law licence. This means that, for example, an unregistered trade mark can only be enforced through a passing off action.
- The licensee under a recorded licence has the statutory right to bring infringement proceedings on behalf of the owner of the trade mark. The licensee under a licence that has not been recorded at the Registry does not have this right unless granted expressly in the licence. By contrast, an unregistered trade mark licence does not entitle the licensee to bring infringement proceedings.

Before entering into a licence, the licensee should conduct due diligence in relation to the validity, ownership and maintenance of the trade marks, by confirming the following::

- Registered owner(s) of the trade mark in each of the licensed jurisdictions, if applicable.
- Change of ownership, if any, and related agreements to confirm chain of title.
- Description of the goods and services in relation to which the trade mark is registered.
- Renewal and maintenance details.
- Any post-registration matters pending before the Registrar.
- Potential, pending or actual litigation in relation to the trade mark, including any opposition or cancellation proceedings.
- List of registered users and their rights.
- Potential mergers and acquisitions affecting ownership rights.

The public can search for national trade mark registrations, and international trade mark registrations designating India from the date the trade mark application is filed or entered into the Registry records. In this regard, the status of a trade mark (pending or registered) can be monitored. Trade mark searches can be conducted free of charge at *Controller General of Patents Designs and Trade Marks: Public Search of Trade Marks*.

Trade marks can be searched by word search, phonetic search, and Vienna classification. Device marks (logo and design marks) can also be searched under the word mark search category based on the name of the trade mark. However, there is currently no separate device search, which makes it difficult to obtain accurate results for these marks. The IP Portal is working towards facilitating the search of device marks. In any case, the reliability of searches is relatively high. A search is primarily conducted to check if there are any identical or similar marks already available on record to rule out potential objections.

The IP Portal was recently updated to handle an extensive load of trade mark applications and other trade mark forms and submissions filed online. Therefore, the speed of a trade mark search has further increased and results of up to 600 marks can be fetched in under a minute. The IP Portal further enables users to view, download, and print selected search results.

If the licensee is domiciled in a different jurisdiction, it is recommended (but not mandatory) to appoint local counsel to conduct a trade mark search in India.

Additional considerations arise if the trade mark licence extends to other types of intellectual property rights in addition to the trade mark.

If a trade mark licence also extends to copyright in the trade mark, the licence must comply with the requirements of the Copyright Act (see Requirements under Legislation) and the licensee should also identify the copyright owner(s). If the licence extends to patent rights, the licensee should identify the patent owner(s) and the rules applicable to the packaging and labelling of the patented products. In either case, if the licensor is not the copyright or patent owner, then the licensee will need to make its own enquiries to obtain a separate licence from the rights holder, to use their IP rights.

Identifying the Territory

The territory(ies) in which the licensee is permitted to use the licensed trade mark can either be set out as a defined term in the licence, or defined in a schedule to the agreement.

Depending on the terms of the licence, it is possible for the parties to agree to modify the licensed territory by executing an addendum to the agreement. This may be necessary if the licensee's business expands beyond the licensed territory, or if a geographic area changes due to reasons outside of the control of the parties.

The key factors for determining, for the purposes of trade mark use, whether an online service is provided from India, or from another, include the following:

- Domain name registration with global access or for specific jurisdictions only.
- Location of the end consumer.
- Revenue generated in India.
- Target audience.

Title and Validity

Ownership

If, through due diligence, the licensee identifies concerns that may affect the validity and enforceability of the licence, these should be resolved before entering into the licence.

It is common for the terms of the licence to expressly state the licensor's ownership of the licensed trade mark, by way of acknowledgment by the licensee of the licensor's rights as owner. In certain cases, the licensor is not the owner of the trade mark but has the right to sub-license the trade mark rights on behalf of the owner. In this case, the sub-licensor commonly warrants and represents in the sub-licence that they have a licence of the trade mark and are allowed to sub-license the trade mark under the terms of the main licence.

Warranties from the Licensor

It is advisable and common for the licensee to seek a warranty from the licensor that it owns the licensed trade mark, to make sure that they have the right to use the trade mark. If the licensor is not the owner of the trade mark, the licensee may also seek a warranty that there are no limitations on the licensor's right to grant the licence to the licensee. The licensor also commonly warrants that:

- They have the right, power, and authority to enter into the licence agreement.
- They have obtained the necessary authorisations to grant the licence (for example, board resolution or authorisation to grant the sub-licence, as applicable).
- They have the right to grant non-exclusive licences (if applicable).
- The licensed trade mark does not infringe any third party rights.
- They have complied with a renewal and maintenance requirements relating to the trade mark.
- There are no pending court or tribunal proceedings involving the licensed trade mark.
- They have complied with all applicable laws in relation to the trade mark.
- The licence terms do not conflict with those of other non-exclusive licences.

Challenging the Validity of the Trade Mark

The licensor may seek to include an obligation on the licensee not to challenge the validity of the licensed trade mark, and a right to terminate the licence if the licensee breaches this obligation. Generally, no-challenge clauses and related termination provisions are enforceable if reasonable and lawful. They can give rise to antitrust concerns, however, if the clauses are deemed to be contrary to the Competition Act, in which case they may be invalid and unenforceable. In addition, contract clauses that are contrary to public policy are null and void (section 23, Contract Act).

See also [Grounds for Termination](#).

Use of Trade Mark Notices

There is no legal requirement on a licensee to use trade mark notices on the goods and related materials bearing the licensed trade mark. However, certain laws impose requirements on the information to include on the labels or packaging of products and services (see *Compliance with Applicable Laws*).

Licences commonly require the licensee to use trade mark notices to identify the source of the products and acknowledge the licensor's ownership of the trade mark. This ensures that the public identifies the origin of the goods or services and exclusively associates the trade mark and the goods or services offered under it with the owner.

Trade mark notices can also provide evidence of use of the trade mark by or on behalf of the owner as required by section 2(2) of the Trade Marks Act.

For example, a trade mark notice can take the following form:

"The Trade mark bearing number [insert registration number] is under [exclusive/non-exclusive] licence from [insert name of the licensor] for the territory of [insert name of territory].

Proprietor's details/address: [insert details].

Licensee's details/address: [insert details].

Licence period: [insert details]."

If the licence includes an obligation on the licensee to use notices, and the licensee fails to do so, then they may be liable for breach of the licence agreement or misrepresentation, or both.

Goodwill

Goodwill is recognised in India as an intangible asset attached to the brand name or trade mark of a business. Goodwill typically accrues automatically to the owner of a trade mark, based on the performance of the goods or services offered under that trade mark, and its association by the public with its owner.

Although the accrual of goodwill to the trade mark owner is automatic, as a matter of best practice, the licence terms should expressly state that the licensee acknowledges and agrees that all rights, including goodwill, in the licensed trade mark are exclusive to, and automatically accrue to, the licensor.

A trade mark can be assigned with or without goodwill (section 38, Trade Marks Act.) An assignment with goodwill includes a transfer of the value, reputation, and customer loyalty accrued by the product bearing the trade mark in the market. Recordal of an assignment without goodwill with the Registrar requires filing Form TM-P.

A licensor or licensee can bring an action to protect an unregistered trade mark from being passed off as that of a third party. To establish a passing off claim, the claimant must show:

- Goodwill or reputation in the mark acquired through use.
- Misrepresentation by the defendant to the public that the defendant's goods or services are those of the claimant.
- Damage arising from that misrepresentation (such as financial loss, damage to goodwill and reputation, or dilution).

Protection of the Trade Mark

Registrations by the Licensee

An application by a licensee to register a trade mark that is identical or similar to a mark it is already using under licence is actionable on the grounds of mala fide motives or bad faith (section 18, Trade Marks Act).

It is therefore possible, and advisable, for a licensor to include restrictions in the licence that prevent the licensee from applying to register a potentially conflicting mark, either in the licensed territory or anywhere at all. If the licensee were to do so, it may give rise to confusion that negates the role of the trade mark as a source identifier. These restrictions can be imposed during the term of the licence and after termination.

Quality Control

Compliance with Licensor Directions

The Preamble of the Trade Marks Act refers to the key elements that are necessary to maintain the integrity of a trade mark, such as:

- Creating an association between the source of the goods or services and the trade mark owner.
- Quality control standards.
- Product differentiation.
- Brand awareness.
- Defending rights against fraudulent use by third parties.

To protect the reputation of the trade mark, the licensor can:

- Impose standard procedures.
- Request samples for inspection (see *Samples*).
- Set guidelines and specifications on the appearance, style, and use of the trade mark.
- Impose approval procedures.

The licence can be limited to use of the mark in connection with goods or services that meet certain quality standards. Failure to meet the required standards may be a ground for termination of the licence.

Under the licence, the licensee must usually notify the licensor of all complaints received in relation to the licensed goods or services and act on these in the manner prescribed.

Failure to control the quality and nature of the licensee's use of the trade mark is referred to as "naked licensing," which may lead to dilution of the mark and loss of reputation and goodwill. In addition, if an exclusive licensee fails to use a registered trade mark for a continuous period of five years, the mark may be subject to removal from the register (section 47, Trade Marks Act). Therefore, it is common for exclusive licensees to be contractually required to use the licensed.

To record a licence, the registered proprietor must submit an affidavit specifying the "degree of control" it will exercise over the use of the goods or services (section 49(1)(b)(i), Trade Marks Act) (see also *Recordal*). The Registrar can cancel the registration of the licensee, on their own motion or on receipt of a written application by the licensor, for non-compliance with the statutory conditions regarding the quality of the goods or services in relation to which the trade mark is used (section 50(1)(d), Trade Marks Act). This will also generally lead to termination of the licence, which may otherwise be unenforceable for violation of mandatory laws.

Compliance with Applicable Laws

There will be a range of laws, regulations, industry standards and codes of practice that apply to the licensee's use of the trade mark, depending on the licensed goods or services they use the mark in connection with.

In particular, the licensee will need to ensure that it complies with Indian packaging and advertising laws, such as:

- The *Legal Metrology Act, 2009*.
- The Legal Metrology (Packaged Commodities) Rules, 2011.
- The *Food Safety and Standards Act, 2006*.
- The *Food Safety and Standards (Labelling and Display) Regulations, 2020*.
- The *Environment (Protection) Act, 1986* (which requires eco-friendly packaging).
- Indian Standards published by the *Bureau of Indian Standards*.

The licensor can, and commonly do, require the licensee to comply with applicable laws and regulations. Compliance with applicable laws may also be a condition to granting the licence or a condition to renew the licence. It is also advisable for the licensor to supervise the licensee's performance of its obligations, including compliance with applicable laws.

Samples

It is common for the licensor to require the licensee to provide samples of goods and promotional materials bearing the licensed trade mark before circulation in the relevant market. Most trade mark owners require potential licensees to prove the quality of their output at regular intervals during the licence term, but sometimes also before the licence is agreed. This is to protect the reputation and goodwill of the licensed trade mark.

The licence might prescribe a certain timeframe within which the licensee must produce samples ahead of circulating any goods or promotional materials bearing the licensed mark. The licensor might require that, in the event of a sample not meeting its requirements, the licensee is required to produce a maximum of, say, two or three more samples, after which the licensor must either accept or reject the goods or promotional materials.

The implications of a rejected sample may include:

- Refusal by the licensor to grant the licence (if not yet agreed).
- Termination of the licence until an acceptable sample is produced.
- Prohibition on the licensee manufacturing and distributing any goods or services, the samples of which have been rejected.

The licensee may wish to request a written report from the licensor or its authorised representative on the results of the tests conducted on any samples. This enables the licensee to identify the grounds for rejection and the improvements required.

Licensor Control Over Proceedings

Typically, the licence requires the licensee to notify the licensor of any potential threat to the brand or trade mark that the licensee becomes aware of during the licence term.

The licensee commonly represents and warrants to perform its obligations under the agreement to the best of its abilities, which typically include an obligation to notify the licensor of any potential infringements or violations of the licensed trade mark. Failure to notify may make the licensee liable for damages for breach of the licence terms. Notification obligations are usually mutual and can also be imposed on a licensee of unregistered marks. It is uncommon for the licensor to adjust the royalties payable to the licensee during this time, as these instances are rare and are usually accounted for separately. Unless otherwise agreed and even if the licence is silent on this matter, a registered licensee has the right to bring infringement proceedings on behalf of the registered owner (section 52, Trade Marks Act). This is the case whether the licensee is exclusive, non-exclusive, or sole. It is common for the licensor to oblige the licensee to seek legal advice before bringing proceedings in relation to the mark.

A licence that has not been recorded (whether of a registered or unregistered trade mark) can also grant the licensee the right to bring infringement or passing off proceedings (as applicable) in relation to the trade mark, provided it is set out expressly in writing in the licence terms. The licensee of an unregistered trade mark has no right to bring proceedings for trade mark infringement in their own name (section 53, Trade Marks Act), and so can only ever bring proceedings on behalf of the licensor. They can also only sue for passing off if this is expressly provided in the licence (*P.K. Sen v Exxon Mobile Corporation and Ors.*, 2017 IAD (Delhi 1)). The licensor, as trade mark owner, usually bears the costs of any legal proceedings. Provided the licensee acts on behalf of the licensor with their prior written consent, the licensee is usually entitled by the licence terms to seek reimbursement of the costs incurred.

Maintenance of the Trade Mark

Use of the Trade Mark

The primary objective of the Trade Marks Act is the registration and protection of trade marks that are intended to be put to commercial use. The term "use" for these purposes means:

- For goods, use of the mark on the goods, in any physical or other form.
- For services, use of the mark as, or as part of, any statement about the availability, provision, or performance of the services.

(Section 2(2)(b) and (c), Trade Marks Act.)

Any interested third party can apply for cancellation of a registered trade mark if it has not been used in India for a continuous period of five years from registration in relation to goods or services for which the mark is registered. This does not cover non-use due to any restrictions on use imposed by any law, regulation, or court order. (Section 47, Trade Marks Act.)

If the licensee is an exclusive licensee, the licensor may wish to compel the licensee to use the trade mark, as the trade mark may otherwise become vulnerable to cancellation on the ground of non-use. This may be less of a concern for the licensor in the case of a non-exclusive licence. However, the licensor can still impose an obligation on the licensee to use the trade mark, as the objective of licensing is to put the mark to commercial use.

Non-use of the licensed trade mark by the licensee is not a statutory ground for termination of a licence. However, the licence agreement may include non-use as a ground for termination.

Renewal

A trade mark registration is valid for ten years from the date of filing of the application. Registration can be renewed indefinitely for further ten-year periods, subject to payment of renewal fees. (Section 25, Trade Marks Act 1999.)

Typically, the trade mark owner, as the registrant, is responsible for maintaining the registration of the licensed trade mark. In certain circumstances (for example, in an exclusive licence), the licensee may be given responsibility for maintaining the registration of the licensed trade mark,

The Registrar can issue the notice to renew registration of the trade mark between one year and six months before the mark is due to expire. If the owner fails to renew the mark before the expiry date, there is a grace period of six months from the expiry during which time the owner can still renew, on payment of the renewal fee, plus a surcharge fee applicable for late payment (INR4,500 per class at the date of writing). If the owner still has not renewed by the end of the grace period, then the mark, and any licences recorded against it, are automatically removed from the register.

The expiry of a registered trade mark does not impact the continuation in force of any licence that has already been granted. In the absence of any express provision to the contrary, any existing licence will remain valid and enforceable between the parties and continue to operate as a licence of an unregistered trade mark.

For more information on trade mark maintenance in India, see [Practice Note, Trade Mark Registration and Maintenance: Overview \(India\)](#).

Other Obligations to Maintain a Trade Mark

Unless otherwise provided in the licence, the licensee can sub-license their rights to third parties with the prior written consent of the registered proprietor (section 2(1)(r)(ii)(c), Trade Marks Act).

If the licensee has sub-licensed their rights, the principal licensee usually has additional obligations, including:

- Maintaining the validity of the trade mark in the applicable territory.
- Conducting market surveys.
- Monitoring potential infringements.

See also [Assignment and Other Dealings](#).

Payment

Royalties

The factors and considerations that the parties usually consider when determining the royalty rate include:

- Industry standards.
- The value of the licensed trade mark.
- The licensee's business model.
- The duration of agreement.
- The licensed territory.

In a franchising business model, the industry and market conditions in which the franchise operates can influence royalty calculation. Franchisors may adjust royalty rates based on factors such as market demand, competition, and economic trends.

The most common payment structure is a percentage royalty rate (expressed as a fixed percentage of the licensee's gross sales of the licensed goods or services). The licensor may fix the percentage rate based on anticipated sales figures. The licensor may also set sales or financial targets for the licensee, for each quarter or the entire duration of the agreement, which may help determine the percentage royalty rate for the renewed term.

Royalties are usually payable monthly. However, the licensee may also be required to make a quarterly lump sum payment to the licensor for using the licensor's trade mark.

It is best to provide for a fixed currency exchange rate for royalties payment to an overseas franchisor. If the bank processes the payment at the exchange rate on a given day, the difference can be paid to the licensor or licensee through a one-off payment. Under Indian exchange control laws, royalty payments are permissible current account transactions and are governed by the parties' contractual arrangement. Therefore, these payments do not require specific approval from the Reserve Bank of India. There is no statutory timeline within which royalty payments must be made by or to an Indian party. The timeline for royalty payments are also governed by the parties' agreement.

Overseas remittance of royalty payments requires the licensee to file *FORM A2 (Application for Remittance Abroad)* with the bank and indicate the method of royalty calculation. The trade mark licence can be enclosed with FORM A2 to show the basis of the royalty calculation along with a declaration on the transfer of funds (usually required by banks for transparency purposes), unless the bank's policy requires other documents to calculate tax due.

The licensee is typically required to submit quarterly royalty reports. The report must generally be assessed and prepared by a certified independent auditor. The audit report usually include the following:

- Details of the licensor and licensee.
- Trade mark(s) licensed to the licensee.
- Licensed territory (for tax purposes).
- Period of reporting.

- Production and manufacturing costs incurred by the licensee.
- Advertising costs incurred by the licensee.
- Sales turnover and profits.
- Royalty payment calculations, as specified in the licence agreement.
- Adjustments and set-offs, if any.
- Applicable taxes and deductions (see *Taxation*).
- Gross and net calculations.

If the licensee is sub-licensing the licensed trade mark, the principal licensee can fix a separate royalty percentage rate. If royalties payable under the main licence are based on a percentage of a net sales, the principal licensee must usually pay royalties on sales made by both the licensee and sub-licensee.

Taxation

Royalty payments between resident parties are subject to 10% withholding income tax (section 194J (1)(c), *Income Tax Act, 1961*).

Royalty payments made by an Indian entity to a non-resident are subject to withholding tax (tax deducted at source) (TDS). The tax rates vary depending on the provisions of the double taxation avoidance agreement between India and the country of residence of the non-resident payee. The payer must also comply with rules on the deposit of TDS and filing of TDS returns.

If the Indian payer and the non-resident payee are related parties, transfer pricing regulations apply and require the royalty amount to be an arm's length price determined in a transfer pricing study prepared by an Indian Chartered Accountant. The payer must also comply with additional record-keeping requirements.

Audit and Inspection

It is common for the licensee to grant the licensor rights to inspect and audit the licensee's books of account, during the term and, in certain circumstances, after termination of the licence.

The licensor's audit rights usually cover:

- Assessment of the licensee's compliance with trade mark maintenance requirements.
- Inspection of the licensee's books of account by internal and external auditors.
- Review of the licensee's operations, reports, and records.

The licensor usually determines the period for which the licensee must maintain the records. Inspections can take place on a regular basis or on request, depending on the parties' agreement. The parties can agree that the licensor must overlook inadvertent accounting errors backed up by valid and authentic supporting documents.

Liability, Indemnity, and Insurance

Under the *Consumer Protection Act, 2019* (CPA), a product manufacturer, product seller, or service provider must compensate for any harm caused to consumers by defective products or services (section 2(34), CPA).

The licensee typically falls within the definition of product manufacturer, product seller, or service provider as defined in section 2(36) of the CPA and is therefore exposed to product liability claims. A licensor may be vicariously liable for products manufactured by a licensee if the licensor provided faulty standards or specifications for manufacturing.

A consumer can bring a product liability action against a product manufacturer, service provider, or product seller, for any harm caused to them by a product that:

- Has a manufacturing defect.
- Is defective in design.
- Does not comply with manufacturing specifications.
- Does not conform to an express warranty.
- Does not contain adequate instructions for correct use or warning regarding improper or incorrect use.

(Section 84, CPA.)

The impact of product liability actions on the licensor usually include:

- Loss of reputation and goodwill in the market.
- Loss of licence to trade.
- Loss of value of shares.
- Litigation costs.

In addition, the Central Consumer Protection Authority can:

- Issue safety notices to alert consumers against dangerous, hazardous, or unsafe goods or services (section 18(j), CPA).
- Recall goods or withdraw services that are dangerous, hazardous, or unsafe, if it is satisfied, following an investigation, that there is a violation of consumer rights or an unfair trade practice (section 20(a), CPA).

Licensee's indemnities are common (for example, an obligation to indemnify the licensor against costs incurred as a result for third-party actions brought against the licensor). They usually cover cases of negligence and willful default by the licensee. It is also common for the parties to exclude their liability for special, incidental, indirect, punitive, or consequential damages. The parties can set a cap on the liability amount.

Depending on the nature of the goods or services and circumstances of the transaction, the licensor may require the licensee to take out a commercial insurance policy that covers both parties in the event of a force majeure, theft, liability, and so on.

Additional Licensee Obligations

Additional licensee obligations may include the following:

- Maintain the licensed trade marks and enforce trade mark rights. For example, this may be required under an exclusive licence.
- Comply with requirements relating to warehousing facilities, storage, transport, and import, if relevant. This may apply if the licensed goods require storage and proper packaging before distribution and sale.
- Advertise and market the licensed products or services. This may apply to increase sales and achieve the licensee's targets.
- Comply with applicable laws and licensing requirements in the licensed territories (for example, obtain a factory licence, a manufacturing unit licence, a licence from the Food Safety and Standards Authority of India (for food products), Indian Standards Institute (ISI) certification, or comply with banking regulations or export control laws).
- Pay the licensee's employees. This is a common obligation of licensees.
- Maintain books of accounts. This is a common obligation of licensees.
- Maintain records of sub-licences revenues (if applicable).
- Comply with specific development and commercialisation obligations.
- Conduct due diligence and audits on behalf of the licensor. For example, it is common for the licensee to be required to monitor potential infringements and supervise sub-licensees, if any.
- Meet specific sales targets. This may apply if the profit margin of the licensee is target-based.

Some of these additional licensee obligations may be a condition precedent to entering into the licence and to renewal of the licence.

The licensee can manage these additional obligations by adopting a standard operating protocol.

Assignment and Other Dealings

Neither party is automatically entitled to assign, charge, or otherwise deal with their rights under a trade mark licence. This includes the licensee's right to grant sub-licences to third parties of their rights under the licence. Either party wishing to deal with their rights under the licence must obtain the prior written consent of the other (section 2(1)(r)(ii)(c), Trade Marks Act).

If either party enters into any assignment, sub-licence, mortgage, or any other arrangement relating to their rights under the licence, it should be set out in a separate agreement with a clearly defined scope.

Grounds for Termination

Either party can terminate a trade mark licence in the following circumstances:

- Expiry of the licence.
- Bankruptcy or insolvency of one of the parties.
- Court order restricting the use of the licensed trade mark.
- Termination for cause, such as breach of contract by the other party (for example, delay in payment of royalties, breach of representations, warranties, or obligations).

- For a licence that has been recorded at the Registry:
 - use of the trade mark by the licensee in a manner that exceeds the scope of the licence;
 - misrepresentation or failure by either party to disclose facts that are material to the application to record the licence at the Registry; and
 - change in circumstances, as a result of which recordal is no longer justified and so can be cancelled.

(Section 50, Trade Marks Act.)

- Contractual grounds for termination, as specified in the licence.

It is common for a trade mark licence to provide that, in the case of a breach by either party, the party in breach must be given an opportunity to remedy the breach within a reasonable time. The licence terminates if the breaching party fails to remedy the breach within that period.

Termination can be automatic in certain circumstances, such as the bankruptcy or insolvency of a party or force majeure.

If one party terminates the licence without cause, in the absence of a valid ground, the other party can bring a claim for either or both of specific performance and damages resulting from wrongful termination.

See also *Practice Note, Terminating Licences of IP Rights (India)*.

Consequences of Termination

The consequences of termination of a trade mark licence depend on the terms set out within it, but typically include the following:

- Both parties are discharged from their obligations under the licence.
- All rights granted to the parties under the licence cease to take effect. Importantly, this means that the licensee must stop using the licensed trade mark.
- Both parties must return or destroy any confidential information in their possession relating to the other party.
- An interim period may be agreed, or prescribed in the licence, during which the licensee might be obliged to:
 - complete any pending transactions;
 - sell or deliver up to the licensor any stock of surplus goods;
 - pay the licensor any outstanding royalties and other payments, if any; and
 - terminate any sub-licences the licensee has granted in relation to the licensed trade mark.
- The parties inform all appropriate authorities of the termination, including the Registrar in accordance with the Trade Marks Act (section 50(1)(b-d), Trade Marks Act, read with rule 93, Trade Marks Rules).

The following provisions typically survive termination of a trade mark licence, although this is dependent on the specific terms agreed between the parties:

- Confidentiality obligations (which might be unilateral or mutual, depending on the terms).
- Payment provisions.
- Representations and warranties (subject to any contractual time limit to bring actions for breach of representations and warranties).
- Limitation of liability.
- Consequences of termination.
- Governing law and jurisdiction.

Other Key Provisions

In addition to the key provisions considered in this Note, it is common for trade mark licences in India to include clauses relating to:

- Compliance with any applicable trade sanctions, depending on the jurisdiction of the licensed trade mark.
- Detailed provisions pertaining to trade mark infringement actions (for example, setting out the parties' approach to reporting infringement, indemnification claims, allocation of costs and damages, and limitations of liability).

Trade mark licences also typically include other standard provisions, such as protection of the reputation associated with the licensed trade mark, confidentiality, notices and communications, governing law and jurisdiction, and other miscellaneous clauses that can be found in contracts more generally.

Antitrust Considerations

All types of IPRs have the potential to restrain competition. The Competition Act provides that the prohibition of anti-competitive agreements does not restrict the right of any person to restrain any infringement of, or to impose reasonable conditions, as may be necessary for protecting any of their rights under IP legislation (section 3(5), Competition Act).

However, a trade mark licence may constitute a prohibited cartel if it limits, controls, or attempts to control the production, distribution, sale or price of, or, trade in goods or provision of services (section 2(c), Competition Act). The Competition Commission of India closely monitors cartels.

Licensing Provisions Specific to Particular Types of Agreements

Coexistence Agreements

Trade mark co-existence agreements are common in India to resolve brand conflicts. A co-existence agreement is a contract between trade mark owners trading under (or intending to trade under) similar brands in relation to identical or similar goods or services. Co-existence agreements assist the parties in settling a trade mark dispute or litigation by defining their respective rights to use their own marks without interference from the other, subject to restrictions.

The key terms of a balanced co-existence agreement include:

- A list of the trade mark(s) included in the scope of the agreement.
- Permitted and prohibited uses of the marks.
- Description of the goods or services and industry covered.
- Territory(ies) for permitted and prohibited uses.
- Quality control.
- Advertising and marketing.
- Online and offline sales
- Wholesale and retail trade.
- Permitted and prohibited channels of distribution.
- Duration.
- Amendment of terms.
- Renewal of the agreement.
- Confidentiality and non-disclosure.
- Assignment.
- Waiver of rights.
- Indemnification.
- Enforcement and dispute resolution.

Under a co-existence agreement, the parties do not license their rights to the other, but instead set out the terms and conditions on which each of them agrees to use their own marks.

Parties can also enter into settlement agreements to resolve conflicts and conclude litigation proceedings. Under a settlement agreement, parties tend to license their rights to use the disputed brand(s) for identical or similar goods.

Character Merchandising Licences

Character merchandising agreements are common in India, and mainly involve copyright and design rights. Subject to any agreement to the contrary, the creator of a character is typically the first owner of any copyright subsisting in it, and any related moral rights. Design rights protect original designs applied to an article and the commercial production of these designs.

The key terms of character merchandising agreements include:

- Ownership clause.
- Retention of rights.
- Licence and assignment of rights.
- Exclusivity.

- Geographical scope.
- Category of merchandise.
- Quality of merchandise.
- Labelling.
- Royalties

A character merchandising agreement may also include a non-exclusive licence to use a registered trade mark. The licensor typically reserves their right to grant third party licences to reproduce the licensed trade mark.

The licensor may seek to restrict the distribution of goods bearing the licensed mark to particular channels, or in connection with premier sales or giveaways as part of its business and marketing strategy. This might be on an occasional basis and for a prescribed period of time (for example, limited editions) and may give rise to the adjustment of certain terms of the trade mark licence (including sales turnover, advertising, production costs, and royalty payments).

Other Types of Agreements

There are a number of other types of commercial agreements that commonly include a trade mark licence, such as:

- Franchise agreements.
- Manufacturing agreements.
- Sale of goods and services agreements.
- Distribution agreements.
- Partnership agreements.

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