

Trademark License Agreements under Turkish Law

Introduction

Licensing is evolving from traditional style of renting a logo to a strategic partnership between licensors and licensees. Trademark license agreements provide the opportunity to utilize another's manufacturing, distributing, sales or marketing capacity especially in distant markets which makes it a 'win win' situation for both parties involved.

One of the problems companies face is the question of how to transform existing assets into new profits. New investments are the key actions, but licensing trademarks also remain practical since it carries less risks and requires less capital.

In this article, the legal nature of trademark license agreements under Turkish law will be analysed, and its main features such as quality control, licensees' obligation to use, trademark protection will be explained.

General Information

A licensing agreement, or license agreement, is a deal between the owner of a patent, brand, or trademark and someone who wants to use the patented or trademarked goods or services. The licensee gains permission for the use of trademark on registered manners in exchange of paying a fee to the licensor.

A trademark right may be subject to a license agreement for a broad of specialised range of goods or services. It provides the following business benefits:

- Additional revenue stream for trademark owner
- Expanding trademarks' territorial area
- Sharing or teaming up with another partner
- Access opportunities to new facilities
- Increasing consumer recognition
- Increasing market penetration
- Wider exposure for the company
- Saving time
- Opportunity to turn a discounted trademark into an investment instead of public domain

Types of License Agreements

A trademark license can be granted in two different types: exclusive and non-exclusive licenses. The distinction between these two types are related to the scope of rights held by licensee and the use of trademark.

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Parties' rights and obligations vary depending on the license type. Licenses may also cover other limitations in accordance with the interests of the parties.

A license is considered non-exclusive unless otherwise agreed in the agreement. In non-exclusive license agreements, the licensor is able to grant separate licenses in favour of third parties, also can continue to use the trademark rights along with the licensees.

In exclusive license agreements, the licensor waives the right to give licenses to third parties or to use the trademark unless clearly reserved his rights in the agreement. Violations of the exclusivity will constitute a breach of contract. In addition, if the licensor is willing to continue to use the trademark, this intention must be clearly stated in the agreement.

Both exclusive and non-exclusive trademark license owners have no right to transfer their rights stemming from the license to third parties or to grant sublicenses, unless otherwise agreed on the agreement. In case of termination, invalidity or frustration of the

main license agreement, any sublicense agreements will also become void automatically.

Form of Agreement

A trademark license agreement for a registered trademark must be in written form. Due to its legal nature, the agreement becomes effective for the contracting parties as soon as it has been mutually signed. However, a license agreement is not binding for third parties acting in good faith if the agreement is not registered with the Turkish Patent and Trademark Office.

Licensees' Obligation to Use the Trademark

The fundamental obligation of the licensor is to allow the licensee to use his trademark. If a registered trademark is not substantially used in Turkey without a good cause by trademark owners for a period of five years or if the usage is interrupted for a continuous period of five years, the trademark shall be cancelled by the trademark authority.

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In exclusive license agreements in which the licensor waives his right to use the trademark, the licensee is obliged to use the trademark in order to avoid cancellation even if the agreement contains no express provision. Otherwise, it will be contrary to the license agreement and the mutual trust between the parties. In such case the licensor not only has a right to terminate the agreement for good cause but also retains the right to claim for damages.

Quality Control

Quality control is a key element in a trademark license agreement. The licensee is under the obligation of producing goods and services that meet the licensor's criteria, otherwise customers could lose their trust in the licensor and its trademark thus both parties might suffer. Failure of quality control by the licensor would cause economic and reputational loss in many ways.

Licensor is entitled to take precautions to ensure the quality of the goods to be produced or services to be rendered by the licensee

where there exists different products or services with diverse quality standards in the market.

The main characteristics of the quality control includes the following:

- The licensor establishes quality standards for products manufactured by the licensee using licensed trademark.
- To determine whether the licensee's products ensure the established quality standards, the licensor is entitled to review the products. For this purpose, the licensor has the right to make on-site visits and examine the licensee's facilities.
- The licensor has the right to take representative samples to review the products in order to decide that the licensed trademarks are being printed or displayed in upstanding ways.
- Other provisions that allow the licensor to require additional measures from the licensee to ensure the manufactured products, goods or services are complied with the trademark's quality standards can be added to the agreement.

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No doubt, in case the licensee breaches the terms of the license agreement, the licensor may claim his rights arising out of the registered trademark against the licensee.

The licensee's acts committed without the licensor's consent such as the transfer of license rights to third persons are regarded as infringement of trademark rights under Turkish law.

Charges and Payments

An important motive behind the licensor's licensing is to generate income out of his trademark. Establishing an arrangement where both parties benefit depends on the correct valuation of the licensed trademark by both parties of the agreement. The valuation of trademark is a complicated operation and professional assistance may be necessary.

There are two common methods of payments in trademark license agreements: royalties and lump-sum fee. Parties to the agreement

must look out for their economic interests during negotiations to decide which payment method suits them best.

Royalties may be calculated based on profits obtained from sales or a fixed amount for each product sold. Payment periods may be monthly, quarterly or for other time intervals depending on the agreement. Also, upfront payment may be decided by the parties. Amount of royalties may differ depending on the produced goods and services.

The second option is the payment of a lump-sum amount either at the time when the license right has been granted or by instalments over a certain period of time.

In order to prevent any dispute, if the licensor and the licensee are based in different countries and use different currencies, it is important to specify the exchange rate to be applied together with the agreed currency as well as to define payment terms clearly in the agreement.

Trademark Protection

In case of a trademark infringement by third parties, an exclusive licensee is entitled to take any legal actions that can be initiated by the trademark owner, unless otherwise specified in the agreement.

On the other hand, a non-exclusive licensee has to request from the licensor, through a notification, to file a lawsuit against third parties committing trademark infringement. If the licensor rejects such request or does not file the lawsuit within three months from the notification date, the licensee may file a lawsuit to the extent necessitated by its own interests. In such case, the licensee should notify the licensor that the lawsuit has been filed.

Termination of the License

If a trademark right is extinguished due to a reason such as expiration or waiver, the trademark license agreement automatically terminates as well. However, it should be noted that without the consent of the registered licensees, the trademark owner has no right to waive the trademark right.

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The parties may determine how or when the agreement will expire. If termination of the agreement is subject to a condition subsequent, it terminates with the realisation of such condition.

Parties may determine whether death, loss of capacity, absence or bankruptcy will terminate the agreement. If no such provision is found therein, it is determined according to the nature of the relationship between the parties.

Conclusion

The issue of trademark licensing eliminates the process of brand creation and recognition thereby creates a great economic relief for trademark users. At the same time, it supplies financial assets and gives opportunity to penetrate into different markets for licensors. That being said, crucial points such as the type of the license and payment obligations should be addressed and detailed in the agreement in order to protect the interests of the parties.

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