

Turkey

ATG Law Firm

Turkish licensees' obligation to use

Rights holders can significantly benefit from a proficient licensing agreement, provided that both parties uphold their end of the bargain. Depending on the type of agreement, licensees must fulfil various obligations before they can reap the rewards of a well-established trademark

One of the most significant problems faced by businesses is the question of how to remain profitable. Entering into new sectors requires great courage and financing. For this reason, creating new opportunities and revenue streams from existing assets is a much preferred solution. Thus, many brand owners choose to license their trademarks to third parties. Licensing acts as a means of sharing or teaming up with other companies for mutual benefit. It offers many advantages, including additional revenue streams, territorial expansion, the benefit of another's manufacturing, distribution of sales or marketing capacity, new channels of distribution and increased consumer recognition and advertising.

Through licensing, the trademark owner (licensor) permits another party (licensee) to use its trademark without transferring ownership of its IP rights, generally in exchange for payment. Under the scope of the licence agreement, the licensee uses the trademark on mutually agreed terms and conditions. As such, both parties are subject to various obligations – this article focuses on those of the licensee.

Trademark licensing agreements are regulated under Article 24 of the Industrial Property Law (6769), which entered into force on January 10 2017. However, there is no substantial change between the regulations of the decree period and those of the new law.

Types of licence agreement

The Industrial Property Law creates two types of licence agreement. These are distinguished by the scope of rights granted to the licensee and the use of the trademark by third parties. The licence type is key to the licensee's obligations to use the mark.

Non-exclusive

Through non-exclusive licence agreements, the licensor can appoint multiple licensees. As such, the licensee cannot monopolise use of the mark. Under this licence type, the trademark can be used by numerous parties; therefore, goods and services of varying quality may be available on the market bearing the same trademark. To prevent customer inconvenience, the Industrial Property Law obliges the licensor to guarantee the quality of the services offered. It must also conduct quality control periodically on the licensee, to ensure that its use is consistent with the licensor's interest in the mark and that consumers receive essentially the same quality of goods or services wherever the product is purchased.

Exclusive

An exclusive licence agreement provides the licensee with the right to use the trademark to the exclusion of all other parties, including the licensor. Therefore, the licensee is the only user of that mark in the relevant market. However, the licensor maintains ownership of the mark. In order for a licence agreement to be accepted as exclusive, it must be clearly stated in the agreement text.

Sole

The sole licence exists between exclusive and non-exclusive licence agreements, although it is not specifically mentioned in the Industrial Property Law. It is typically

used when the licence is exclusive but the licensor reserves full rights to use the licensed mark. Under this type of agreement, the licensor cannot license the mark to third parties, but may retain the right to use it itself.

Obligation to use

Under a licence agreement, the licensor's primary obligation is to grant the licensee the right to use its trademark. The basic obligation of the licensee is to pay the licensing fee. In addition, there may be obligations pursuant to Turkish law or the content of the agreement. The most important of these is the licensee's obligation to use the trademark.

Under non-exclusive licence agreements, as a rule it is assumed that the licensee is not obligated to use the trademark. Instead, the obligation varies according to the payment method. Where there is a lump sum payment, the licensee pays the full price of the agreement at the time the licence is granted. In this case, the licensee need not use the trademark. However, if the agreement requires payment of royalties based on sales, the licensee must use the trademark – otherwise, it cannot perform its basic obligation (ie, to pay the licensing fee). In this case, use of the trademark is not only an obligation, but is also considered a liability.

Under exclusive licence agreements, the licensee must use the licensed mark,

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Whether engaged in exclusive, non-exclusive or sole licensing, trademark owners remain responsible for cancellation due to non-use



even if the agreement provides no specific obligation to do so. Through licensing, the licensor aims to evaluate and market its trademark, which would be hindered by non-use as the mark would be forgotten among the public – thereby decreasing its reputation.

Under sole licence agreements, even if the licensee does not use the trademark, the licensor may fulfil this obligation itself. However, the obligation may again vary according to the method of payment.

Licensee obligation to use as grounds for invalidation

Pursuant to Article 9 of the Industrial Property Law: “If the trademark is not used by the trademark rights holder for five years from the date of registration or if the trademark is paused to be used for five years without interruption on the goods or services for which it is registered in Turkey without a justified reason, the trademark will be cancelled.”

As such, rights holders are obliged to use their trademarks. In practice, the criteria for determining whether a licensee is obliged to use a mark vary greatly.

Under exclusive licence agreements, whereby the licensor relinquishes the right to use, non-use of the mark is not considered a justified defence against



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cancellation pursuant to Article 9 of the Industrial Property Law. Therefore, a licensee must use the licensed trademark. If the licensee fails to do so, it will be contrary to the licence agreement and the trust relationship between the parties. In this case, the licensor can terminate the agreement for good cause and the licensee must compensate the licensor for any damages.

Detailed provisions regarding the obligation to use the trademark should be

included in the agreement, and the will and intent of the parties must be taken into consideration.

The most significant effect of non-use is the risk of cancellation. The trademark owner must have a good cause for non-use and, in practice, the existence of an exclusive licence agreement is not considered a satisfactory defence.

Generally, exclusive licensing agreements are preferred by licensees. Therefore, for a licensee to accept a sole licence agreement, the licensor must be in a strong position during the negotiation phase. If preferred, the licensor may be entitled to use the trademark after a specific term following execution of the agreement.

Consequently, whether engaged in exclusive, non-exclusive or sole licensing, trademark owners remain responsible for cancellation due to non-use and therefore should also use the respective trademarks. Under exclusive licences, the licensor cannot argue that the licence agreement is a reason not to use the mark; thus, such arguments are not a defence against cancellation. As such, licensors should follow strict use and take the necessary precautions within the licence agreement to encourage further use. With advance preparation and the right clauses, trademark licence agreements are an essential business tool that can benefit both parties. **WTR**

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Licensees can pay a lump sum at the time of the agreement or royalties based on sales