

The Obligation to Record a Trademark Licensee as an “Authorized User”: Israeli Law

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Use of trademarks by licensees is extremely common and constitutes a substantial part of modern trade. The conditions for attributing use of a trademark by a licensee to the registered trademark owner differ among jurisdictions: in some countries, like Israel, unless duly and timely recorded on the trademark register with respect to the relevant trademark registration, use will not accrue to the registered owner. In other countries, recording a licensee is not obligatory, but possible, and provides some advantages to both parties. In some countries, such a recordal is not at all possible. Different legal systems further provide different rights to trademark licensees (registered or not) but this is beyond the scope of this article.

The present article focuses on the obligation to record a licensee as an “authorized user” and the implications of the failure to do so, under Israeli law.

Challenges of Mandatory Recordal of Authorized Users

The legal requirement to record a licensee as an “authorized user” derives from the general purpose of any trademark register, which is to reflect, as precisely and accurately as possible, the commercial reality and the trademark rights existing in the relevant jurisdiction for the benefit of the public, including consumers, trademark owners, and their competitors. However, the need to apply, maintain, and cancel recordals of authorized users puts a burden on trademark owners, which can sometimes be quite significant. In some fields of trade and services, the business involves extensive licensing to many parties; for example, when the business model is based on franchising or on merchandising. The need to routinely record, or cancel the recordal, of numerous licensees involves considerable costs and cumbersome formalities. Furthermore, the need to cancel the recordal of an authorized user, in case of a lawfully terminated license, often requires the cooperation of the past licensee (unless agreed otherwise in advance), which might be abused by the past licensee and could be used to put pressure on the trademark owner and former licensor.

In addition, extensive licensing—whether in writing or de facto, explicit or implied—often derives from the fact that many companies operate as groups and concerns, in which one company holds some or even all the intellectual property (IP) assets of the group, including trademarks, while direct use of the trademark is made by other companies in the group. Consequently, not only are there significant challenges in recording straightforward license and franchise agreements, there are also difficult decisions for a business or practitioner to make about whether a license exists and if thus a recordal is necessary. As an example, within a group of affiliated companies, it is not always clear which company makes direct use of the trademark; that is, whether the manufacturer is a licensee of the registered trademark owner, or rather a subcontractor of the registered trademark owner, which company manufactures the products and

affixes the trademark for and on behalf of the trademark owner. In such cases, it is not easy to determine whether a recordal of an authorized user is at all required. Moreover, in the case of closely affiliated companies, such as a parent company and a wholly owned subsidiary, the legal obligation to record one of these companies as an authorized user of a trademark owned by the other company may seem redundant and artificial.

Israel—*Prima Facie*: a Strict Rule

Section 50 of the Israeli Trademark Ordinance provides that a registered trademark owner may authorize another person to use its trademark; however, the authorization shall not be valid unless the registered trademark has been duly recorded on the Israeli Trademark Register. Section 50 further provides that as long as the authorized user uses the mark in accordance with the terms of its license, such use would be considered as made by the trademark owner.

Section 50(d) of the Ordinance provides that the Registrar may record an authorized user, if that user is satisfied that use of the trademark with respect to the requested goods does not contradict the public order. Section 51(a) further requires the owner to specify in a request to record an authorized user, among other things, the relationship between the owner and the licensee, explicitly including the level of control of the trademark owner on the licensee's use of the trademark.

Prima facie, Section 50(d) of the Ordinance is very clear on the validity issue: no recordal means no validity. Indeed, the courts and the Trademark Registrars have traditionally determined from these provisions of the law several significant consequences, particularly for trademark owners.

Consequences: Non-Use Cancellation

One harsh consequence of the failure to duly record an authorized user on the Israeli Trademark Register might be the cancellation of the relevant trademark based on non-use, despite the non-recorded licensed use made by the licensee. Section 41 of the Ordinance provides that any interested party may apply for cancellation of a trademark in the absence of any use of the trademark, with respect to the goods for which cancellation is sought, for three consecutive years preceding the cancellation request. Accordingly, it was ruled by the Supreme Court in C.A. 364/74 *Davidowitz v. Miromit*, PD 29(1) 703 (Jan. 9, 1975), and repeatedly acknowledged by the courts and Registrars, that sole use by a licensee that is the subject of a non-recorded license would not be considered use by the trademark owner, and would not prevent the cancellation of the trademark based on non-use.

Consequences: Lack of Acquired Distinctiveness

The consequences of not recording a license of a trademark used solely by a licensee are not limited to non-use cancellation actions. Specifically, the failure to record a licensed use of a trademark may affect the trademark owner's ability to successfully claim acquired distinctiveness based on use. In a cancellation action brought by a third party, the mark CAPITAL, which the Registrar considered to be inherently nondistinctive in connection with services in the field of investments, was considered as not having secondary meaning based upon acquired distinctiveness. This is because the actual user of the mark was an entity other than the registered owner of the mark, and the entity had not been recorded in the Israeli Trademark Register as an authorized user. The trademark owner claimed that the mark acquired secondary meaning based upon use by affiliated companies. The Registrar held that in order for a company to be able to obtain registration based on acquired distinctiveness through use by affiliated companies, the affiliated companies actually using the mark must be recorded as authorized users. The request for cancellation of the mark CAPITAL was eventually granted, on the basis of the Registrar's finding that the word CAPITAL was a common term in the relevant field. The Registrar conceded that his decision was thus not based on the fact that the companies that used the mark were not recorded as authorized users, but the fact that the users were not recorded was considered as a factor that could affect the ability to assert acquired distinctiveness based upon the use by non-recorded licensees. *In Re*:

TM App. No. 121684 (Oct. 12, 2001). Similarly, it is possible that use of a trademark by a non-recorded licensee may not be taken into consideration in determining whether the mark has acquired the special status of a well-known trademark.

Moreover, in C.A. 364/74 *Davidowitz v. Miromit* PD 29(1) 703 (Jan. 9, 1975), the Israeli Supreme Court applied a much broader reading of Section 50 of the Ordinance, based on old English law, when it refused to hold valid a non-recorded license. The majority in that judgment held that where the parties to a license agreement did not intend to record the license, the whole agreement is illegal. The court indicated that in order to be recorded, the agreement should not contradict the public order and should not be misleading. A license agreement executed with no intention of meeting these conditions of the law would thus be deemed illegal; it may not be enforced and may not constitute basis for any cause of action. Yet, it is important to note that in the *Davidowitz* case, as well as several subsequent lower court decisions, it has been clarified that the non-validity of the license in the context of Section 50 does not deprive the licensee of its contractual rights vis à vis the trademark owner. In other words, the validity of a non-recorded license is limited to the contractual relationship and obligations between the trademark owner and the licensee.

Creative Interpretation and Implementation by the Courts and Registrars

In spite of citing the strict rule of “no recordal – no validity,” the courts and registrars have in many cases made exceptions to this rule by creative interpretation or finding other separate grounds to justify the desired result, while often leaving the issue of the effect of not recording the licensee undecided. Accordingly, in many cases, the courts and Registrars eventually gave greater weight to the actual commercial situation and to the level of control exercised by the licensor, than to the fact that the license had not been recorded, especially in the context of affiliated companies.

In C.A. 808/82 *Empisal v. Empisal*, PD 39(4) 421 (Dec. 1, 1985), it was ruled that a Registrar has wide discretion as to whether to record an authorized user or cancel such a recordal. Lack of details as to the level of control in the license agreement do not automatically disqualify the recordal of the authorized user if the parties demonstrate to the Registrar with external evidence that their relationship includes some control. Moreover, with respect to the required level of control, the Court indicated that “control” is a flexible term that should be interpreted on a case-by-case basis. In the *Empisal* case, it was ruled that minimal control (reflected by the mere choice to allow use of the trademark on products of a certain manufacturer) was sufficient. However, the general question whether the parties may agree on not having any such control was addressed, but not decided, by the Court.

A similar path of creative interpretation of the recordal requirement was taken in C.A. 7038/04 *Ms. EL v. Lagotte* (Mar. 11, 2007). In *Ms. EL v. Lagotte*, it was established by the Supreme Court that the registered trademark owner did not use the trademark directly. Rather, the trademark was used solely by an affiliated company, which had not been recorded as a licensee. Nevertheless, the Registrar denied the request for cancellation, and under appeal, the Supreme Court confirmed the Registrar’s decision. The Court indicated that Section 41 of the Ordinance provides a Registrar the discretion as whether to cancel a trademark not in use by the trademark owner even in the absence of special commercial circumstances which justify the non-use. In *Ms. EL v. Lagotte*, the Court ruled that there was a “mix and no separation” among the trademark owner and its affiliated companies. In fact, both the trademark owner and the party that requested the cancellation referred to the group of companies as one entity when they described their contractual relations, the termination of said relations, and even when they described the use of the mark per se. Since the Court accepted that the affiliated companies made use of the mark during the relevant period, the mark was not canceled, although there was no direct use thereof by the trademark owner and none of the affiliated companies had been recorded as an authorized user. However, the Court did not make an explicit rule regarding use of a trademark by non-recorded licensees within a group of companies. Rather, the Court considered the facts in *Ms. EL v. Lagotte* as having the special circumstances of “mix and no separation,” in the specific context of cancellation based on non-use, which does allow a Registrar the discretion not to cancel the mark despite use only by a non-recorded licensee.

Subsequently, an adjudicator at the Israeli Trademark Office refused to cancel a registered trademark although it had been used only by an affiliated company not recorded as an authorized user, but again emphasized that there were other circumstances justifying using the Registrar's discretion not to cancel a non-used mark. *In Re: Opposition to TM Nos. 124445-124450, 125287, 125288 and Cancellation of TM Nos. 26362, 58272* - Mar. 23, 2009. In another case, an adjudicator canceled a trademark on the grounds that it had been used only by a non-recorded licensee, but indicated that there may be circumstances in which use by a non-recorded licensee would accrue to the trademark owner; for example, when it may be proven that the companies are affiliated to the extent that any separation found between them would be artificial. *In Re: Cancellation of TM No. 169322* - Feb. 20, 2001).

As demonstrated above, in quite a number of cases, especially when the licensor and the licensee are affiliated companies, and particularly wholly owned subsidiaries, the requirement for recording a licensee has been relaxed by the Israeli courts and the Registrars, with respect to closely affiliated companies.

Practical Tip

Once a trademark is registered in Israel, if it is used or intended to be used by a licensee, the licensee should be recorded as an authorized user as soon as possible, even in case of affiliated companies, including wholly owned subsidiaries. The costs and efforts in doing so, as well as in canceling such a recordal when necessary, are often negligible compared to the possible consequences of failing to record.

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Ronit Barzik-Soffer

Adv., Senior Partner



Ronit Barzik-Soffer is a senior partner and also manages the trademark department of Reinhold Cohn & Partners

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