

Review

Commercial & Dispute Resolution



Are your licences up to the job?

Licensing intellectual property (IP) forms the cornerstone for many businesses and although licensing is a useful business tool, licensing disputes are increasingly becoming more common and have the potential to have serious commercial consequences. Before entering into a licence you need to give careful thought to the nature of the licence, including the following:

- What is the IP being licensed?
- Whether the license will be exclusive (licensor may not use the IP or grant other licenses) or non-exclusive (licensor may use the IP and grant other licenses)?
- Whether the licensee can grant sub-licences?
- How much assistance the licensor will provide?
- Will the licensee be restricted to using the IP in a particular field of use, a particular distribution channel or a specific territory?
- The payment obligations

WHAT HAPPENS IF THINGS GO WRONG?

Hudson Bay v Umbro International concerned a dispute over an exclusive licence for the sale of soccer clothing in the US. Umbro had granted two separate licences:

- one to a retail company covering on-field soccer clothing (clothing worn on the field of play); and
- one to Hudson for off-field soccer clothing (clothing worn by fans off the field)

Hudson's licence was with Umbro UK and contained a definition of off-field clothing. The licence required Hudson to follow a set procedure to obtain written approval of design samples before production progressed. In practice oral approvals were given by employees of Umbro US and written approval would follow from Umbro UK. On a number of occasions the written approval was not obtained.

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Ultimately the relationship between Hudson and Umbro deteriorated and Hudson claimed that Umbro had allowed the other licensee (authorised for on-field soccer clothing) to market off-field clothing in breach of Hudson's licence. Umbro counterclaimed that Hudson had acted in breach of its licence by marketing items of clothing that amounted to on-field wear. The Court found in favour of both these claims.

Hudson argued that the approvals from the US employees were enough to bind Umbro UK and by virtue of these approvals Umbro UK had either waived the requirements for approval in writing or had otherwise modified the licence to include Hudson's on-field clothes. In coming to its decision the Court noted that:

- The oral approvals given by the US employees could not bind Umbro UK in modifying the licence because the employees:
 - were not directors or employees of Umbro UK and so although they may have had authority to bind Umbro US they had no actual authority to bind Umbro UK, the licensor; and
 - had no ostensible authority to bind Umbro UK because Umbro UK had never held them out as being able to bind Umbro UK, evidenced by the fact that signatures and written approvals had to come from Umbro UK
- The licence required that any modification to the licence be in writing – there had been no relevant, binding written modification to the licence
- The licence was limited to off-field wear. Hudson's on-field wear fell outside the scope of the licence and so could not have been approved without modification to the scope of the licence.

It is also worth bearing in mind that in this case, the Court looked at a number of factors to decide if the clothing was on-field or off-field wear. This included looking at the physical characteristics of the products such as the fabric but the Court also looked at how the products were marketed. In a particular catalogue, Hudson's clothing was being worn by models who were accompanied by soccer balls. The Court took this as an indication that the clothing was aimed at soccer fans while they are playing soccer and hence fell within the scope of on-field clothing, supporting Umbro's counterclaim against Hudson.

AVOIDING LICENSING PITFALLS

To avoid inadvertently falling foul of a licensing agreement, make sure that:

- The scope of the licence is appropriate and covers what you want to do
- You understand who the licensor is
- You understand the procedure for obtaining approvals under the licence....AND FOLLOW IT
- If the licensor is deviating from this procedure, get the licence amended (in writing) to reflect the new procedure
- You know which people can give approvals on behalf of the licensor. Consider getting these names included in a schedule to the licence.....AND STICK TO IT
- If you have any doubts, get the licence reviewed by someone specialising in IP licensing before you sign it

FURTHER INFORMATION

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