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QUANTUM OF QUALITY CONTROL IN TRADEMARK LICENSING UNDER THE NIGERIAN LAW

By

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Abstract

Trademark is comprised of a message about the quality of the goods to which it is connected. Accordingly, the statutory sanction for trademark licensing is circumscribed with the duty on the part of the owner to control quality of the goods of the licensee sold under his mark. The aim of this article is generally to present the weaknesses and challenges of the Nigerian provisions on quality control relating to trademark licensing, and its specific objectives include to ascertain the quantum of quality control required for valid trademark licensing. Specific issues raised in the article include the actual purport of the provisions of the Nigerian Trade Mark Act relating to quality control, whether it is certain and predictable. In particular, the terms 'relationship' and 'control' by their ordinary meanings present possible interpretive challenges for the courts, registry and practitioners alike. Among the questions to which the article will seek answers is that relating to the nature and types of relationship and control intended by the Act. Based on the assumption that product quality is the focus of the control under the provision, further inquiries about the extent and dimensions of quality and quality control are made through the cases. Relevant provisions in other countries will be examined to identify useful lessons for Nigeria.

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Introduction

Trademark is perceived under the dominant narrative as comprised of a message that its owner has control of both the nature and quality of goods and services sold under the mark. However, where such quality control is lost, the narrative would not only lose its significance but the goods and services sold under the mark are rendered 'not truly genuine' or so deceptive as to erode the significance of the mark as an accurate indication of origin. It is against this background that quality control has been established as a central element of trademark licensing for goods or services sold under the mark to retain their quality in consonance with the licensor's values and consumer protection. This may not necessarily accord with the best interest of the licensee whose main concern is speedy recovery of profits and costs of the licence even where standards of the goods would have to be compromised. It is probably for this reason that the mechanism of quality control has been instituted in order to enable the licensor ensure the continuity of the quality of his products and that the function of guarantee of quality originally associated with the mark is not compromised. Hence, the responsibility for 'quality control' has been foisted on the licensor under the Nigerian Trade Mark Act such that the validity of trademark licence is subject to the relationship between the licensor and licensee, and the former's degree of control over the permitted use.¹

However, no further indication is contained in the Trade Mark Act concerning the type of relationship and even the level of control contemplated by the relevant legal provisions. This raises a number of questions including whether such licensing is valid only between parties in a pre-existing relationship, or whether a licensor can validly permit the use

of his mark by a third party who is a stranger. Further, whether the control expected of the licensor is in relation only to licensee's management or production concern, and whether such control needs to be established merely by written document or actual exercise of control.

The aim of the article is to underscore the significance of quality control and clearly defined standard of control to trademark licensing in Nigeria. In particular, the article seeks to demonstrate that the terms used to require control in the relevant provisions of the Nigerian law are imprecise, vague and ambiguous, and to provide a basis for the need to rethink the current provision and effect appropriate amendment. Preliminary investigation reveals that the operative 'terms' in the provisions relating to control of trademark licence are so vague and nebulous as to allow the Trade Mark Registrar and judges too much discretion to define the standard of control required in validation of licensing in Nigeria.

The article is divided into five sections with section one providing the introductory and general background to the article and section two focused on the examination of the nature and rationale underlying the requirement of quality control in trademark licensing transactions. Section three sets out and examines the statutory provisions relating to quality control as a condition for valid trademark licensing in Nigeria, and raises questions relating to their imprecision. In section four, quality control is examined from the perspective of possible standards associated with the term and examples cited particularly of American judicial decisions showing how similar provisions have mostly attracted attacks. Section five contains an appraisal of relevant enactments in other jurisdictions which could serve as model of best practices open

1. Trademark Act s 34(1)(a).

for adoption by Nigeria. Finally, the article recommends useful lessons to be drawn from the foreign frameworks.

Nature and Rationale of Quality Control

(a) Nature of Quality Control

Quality control relates to the test of validity imposed on trademark licensing by common law and statute. The modern form of trademark licensing was not legally allowed under the old order when trademark was considered to have one primary function of identifying the physical source of a product in connection to which the mark is used. The only conceivable form of trademark licensing during that era was perhaps such as took place where the business to which it related had also to be transferred. It could not have been otherwise if the single source claim of trademark were to remain valid.

However, the growing realisation that customers' perspective about trademark indicating source of product relates more to the nature and quality of the product as opposed to its physical origin necessitated a shift in the legal position to a more flexible approach whereby a product under a particular trademark could have more than one physical origin provided that its nature and quality remain the same. Thus, regardless of actual physical source of a product in terms of its producer or manufacturer, a trademark could indicate commercial origin in terms of consumer expectation by guaranteeing that all products bearing the mark have the same nature and share the same quality.² The imposition of the quality control obligation on the licensor is therefore to underscore the need to maintain the nature and quality of such product. In effect, what may seem to have been eroded by licensing in terms of the trademark function of guaranteeing

2. JT McCarthy, *McCarthy on Trademarks and Unfair Competition*, (4th edn. OUP 2007) 18 .48.

quality production is replaced by the duty of quality control imposed on the trademark owner. Hence, some have viewed trademark as comprising a message that its owner controls the nature and quality of the products bearing it and in the absence of such control the products become counterfeits and the message deceptive.³ Accordingly, quality control is a peculiar feature of trademark licensing which is not obtainable under the licensing arrangements of other intellectual property devices.⁴

Thus, quality control can be said to be an essential part of trademark licensing having the purpose of ensuring that the goods sold under the licensed mark are of a quality consistent with the licensor's interest,⁵ and goodwill among customers.

(b) Rationale of Quality Control

With the claims that trademark's main function is to identify the commercial origin of a product, symbolise commercial goodwill and inform the public, it is only plausible that it be required to guarantee continuity in terms of quality and characteristics of the marked products otherwise, it could provide inaccurate information to the public and so lose its significance as a distinctive sign. It is this thinking that underlies the legal position that trademarks could not be unconditionally licensed without being subjected to the control of their owners.

The requirement of quality control is founded upon two major underpinnings of public and private interests with the

3. *Ibid.*

4. Frank Schechter, 'The Rational Basis of Trademark Protection' (1927) 40(6) *HLR* 813-833.

5. *Ibid.* See also Mathias Strasser, 'The Rational Basis of Trademark Protection Revisited: Putting the Dilution Doctrine into Context' (2016) 10(2) 1-50.

former constituting the most basic consideration. First, it is believed that with such a control the public is provided a greater guarantee that product quality would remain the same. This becomes necessary as owners' lack of control could create a breach in product continuity with the ultimate result of causing confusion to consumers and deception to the public where consumers continue to patronise the marked products based on reliance upon previous quality. Secondly, the requirement that trademark owners control the 'nature and quality' of licensed use of marked products is necessary as an effective mechanism against defrauding the public. The requirement serves to check unscrupulous licensors and licensees from using licensing arrangement as a ploy to change product quality and take undue advantage of the unwary consuming public.

Thirdly, there is the economic argument based on the assumption that change in product quality caused by uncontrolled licences could lead to market failures. One major economic goal of trademark is that it is capable of reducing consumer search cost by providing accurate information about the nature and quality of marked products, this would no longer be the case as any uncontrolled changes to quality of products entail inaccurate information that could increase consumer search cost,⁶ even where such changes inure to the benefit of consumers.⁷

Moreover, both parties to a licensing arrangement ordinarily have a deep commercial interest in maintaining the value of a brand name or mark. A trademark derives its value from its reputation with the public. There is therefore the need to maintain the quality of the product sold under the

6. Andrew Griffiths, *An Economic Perspective on Trademark Law* (Edward Elgar Publishing 2011) 132.

7. Permitted use may be cancelled on this ground. See S 34(5)(c)(i).

trademark, to protect the brand value from declining. This underlies the interest of the trademark owner in reserving the power of quality control without which the licensee risks uncontrolled use of his trademark and a decline in its property value. Accordingly, consumers' reliance on trademark is not only placed on a legal guarantee of quality but on the fact that the trademark owner has an economic interest in maintaining the value of his mark.⁸ It is not normally in the interest of the trademark owner to allow the quality of the products sold under his mark to decline. Therefore, the legal requirement on quality control is targeted at protection of both public interest and the self-interest of licensors and licensees.⁹

Legal Provisions Relating to Quality Control

The Trade Mark Act,¹⁰ is the applicable law regarding the workings of and transactions involving trademarks in Nigeria. Neither 'trademark licensing' nor 'quality control' has been specifically or expressly mentioned under the Act, but certain provisions have been identified as having relevance,¹¹ in so far as the two concepts are concerned. For instance, trademark licensing has been considered a temporary permission granted by a mark proprietor to another to use the mark.¹² First, this corresponds with the term 'permitted use' employed under the

8. *Scandecor Development AB v Scandecor Marketing AV & Ors* (2001) UKHL 21, 39 para 22.

9. Raman Mittal, 'Analysis of the Mysterious Element of Quality Control in Trade Mark Licensing' (2010) 15 *Journal of Intellectual Property Rights* 1, 285-292.

10. Trademark Act Cap T13 Laws of the Federation of Nigeria 2004 [hereinafter referred to as TMA].

11. Olatunji, OA and Adam, KI 'Revisiting The Requirements of Goodwill and Quality Control in Trademark Commercialisation under the Nigerian Trademark Act' *African Journal of Intellectual Property* (2016) 1(1) 51-66.

12. See s 33(1)(b).

Act, particularly as the term 'licence' itself has been variously defined as a permit or permission to own or use something, do something, or carry on a business,¹³ or more narrowly as a 'revocable permission to commit some act that would otherwise be unlawful'.¹⁴ Various mention of the term 'permitted use' in the Act, whether as a stand-alone term or along with the term 'registered user', has been made in a manner that justifies the perception of it as reference to trademark licensing. For instance, according to the Trade Mark Act, 'the permitted use' of a trademark refers to the use of a trademark by a registered user of it in relation to goods of which he is connected in the course of trade and for which the trademark remains registered.¹⁵ Again, the use of a registered trademark by 'a registered user thereof using it by way of the permitted use' is not deemed an infringement of the exclusive rights of a trademark proprietor.¹⁶

Based on the general standpoint, quality control is a fundamental component of trademark licensing, scholars are inclined to read this requirement into statutory provisions relating to trademark licensing in Nigeria. However, some others hold, apparently from pure practitioners' point of view, that quality control is not part of the conditions for trademark licensing.¹⁷ This controversy must have stemmed from the equivocal words used in the relevant provisions of the Act.

13. *Cambridge Dictionary*,
<<https://dictionary.cambridge.org/dictionary/english/license>>

14. See *Black's Law Dictionary* (9th edition 2009) 1002.

15. TMA s 33(2).

16. TMA s 5(2).

17. Dayo Adu and Olaluwoye Famojuro, 'Nigeria: Trade mark Laws and Regulations 2020' *The International Comparative Legal Guides and the International Business Reports* (Global Legal Group: London 2020) <<https://iclg.com/practice-areas/trade-marks-laws-and-regulations/nigeria>> accessed on 14 December, 2022.

The operative parts of the provision of section 34 of the Act,¹⁸ in relation to permitted use refer to the 'relationship' existing or proposed between the proprietor and the proposed registered user; and particulars showing the 'degree of control by the proprietor' over the permitted use. For ease of understanding the relevant part of the provision states:

Section 34(1) Where it is proposed that a person should be registered as a registered user of a trademark, the proprietor and the proposed registered user shall apply in writing to the Registrar in the prescribed manner and shall furnish him with a statutory declaration made by the proprietor or by some persons authorised to act on his behalf and approved by the Registrar:

- a. Giving particulars of the relationship existing or proposed between the proprietor and the proposed registered user including particulars showing the degree of control by the proprietor over the permitted use which their relationship will confer.

Apart from the fact that no mention has been made of quality control in the above provision, the mention of 'relationship' and 'degree of control' could suggest different meanings to different people without particular advertence to quality control. For instance, while some might limit the scope of the relationship intended between the proprietor and the proposed registered user, within the narrow confines of a parent company and any of its subsidiary (as with definition of

18. TMA s 34.

relationship under Family law), others may construe 'relationship' in broad term as reference to such as generally exists between contractual parties. While the former basically characterise traditional trademark licensing practice, the latter represent the modern licensing reality where good brands attract producers and distributors globally and essentially outside the circle of related enterprises. Instances of the former exist even today as would later be seen in section four dealing with weakness and challenges of the term 'control' and 'quality'. Suffice to note at this point that where related enterprises are concerned, quality control issues would hardly arise from trademark licensing arrangement between the parties as the licensee is ultimately an extension of the trademark proprietor. This is particularly so as there would normally be some kind of exchange of product information between them, including that of workers and the trademark owner may extend supervision of product and others to her. If such an arrangement subsists between a trademark proprietor and the user, the parties' relationship seems to have provided sufficient indication of the continuity of product quality such that the need to show that the proprietor exercise control over the licensee may no longer be necessary. However, the express provision to furnish particulars of the degree of control by the proprietor in relation to the permitted use of the mark seems to suggest that more is required than a mere relationship. Thus, it is significant to inquire about what is meant by 'the degree of control' under the provision. Furthermore, the modern global trading reality trademark licensing has assumed a different dimension with unrelated enterprises having sustained interests in good brands of others. This much has manifested in various decisions and cases across the globe. The question is whether it is appropriate to read quality control requirement into the provision of section 34, if answered in the affirmative the

questions would then arise as to the quantum of quality control, which the proprietor can or is expected to exercise over the product of the licensee. The issues raised under the various assumptions will be addressed together in the next section under the challenges confronting the Nigerian provisions.

Weaknesses of and Challenges Confronting Nigerian Provisions

As earlier noted, the 'degree of control' is the operative term of concern to the Trade Mark Act where licensing is in issue. Although parties are required by law to state the degree of control conferred by their relationship, in practice, no particular degree of control is required to get the license registered.¹⁹ However, this does not accord with the principles and basis of trademark licensing. It is therefore pertinent to inquire about the nature of control contemplated by the Act even where the parties are related enterprises. For the avoidance of doubt, 'related enterprises' connotes the existence of a direct investment relationship between a direct investor resident in one economy and having ownership of not less than ten percent of the ordinary shares or voting power (in an incorporated enterprises) or its equivalent (in an unincorporated enterprise) of an enterprise resident of another economy.²⁰ So, what control can one have over the other? Ordinarily, control is a management term, which broadly classifies into financial and non-financial control. The former refers to procedures, policies, and means by which an

19. Information gathered from personal experience and observation.

20. Economic and Social Affairs Statistics Division, *Manual on Statistics of International Trade in Services* (United Nations 2003) Annex II Glossary <<http://www.oecd.org/dataoecd/32/45/2404428.pdf>> accessed on 14 December, 2022.

organisation monitors and controls the direction, allocation, and usage of its financial resources. Financial controls are at the very core of resource management and operational efficiency in an organization. On the other hand, non-financial controls are defined as controls where non-financial performance outcome are measured. One important instance of non-financial control is quality management.²¹ While these show that the term 'control' is imprecise, the failure of the Act to specify or elaborate on the nature of control intended makes it problematic.

Of course where by reason of an existing relationship between the parties the licensor has one form of financial control or the other over the licensee and is able to control its activities, it can be said that the parties have mutual interests to maintain the quality of the goods bearing the mark.²² However, this is not always the case as such control would normally cease when the proprietor ceases to hold equity control over the licensee since at that point each of the parties, if companies would have different management. In such a situation, the 'particulars of degree of control' which the proprietor is believed to have would thereby become illusory.

Non-financial control involves parties that are neither related nor associated and so may not necessarily have shared interest in maintaining the quality of the product. It could be that a special relationship exists between the parties whereby a certain amount of control over the licensee is reserved for the licensor. One notable example is where the licensor supplies the raw materials for production of the goods so marked to the licensee or exerted supervision over the production.²³

21. C Itner and DF Larcker, 'Coming Up Short on Non-Financial Performance Measurement' *Harvard Business Review* (2003) 81(11) 88-95.

22. Mittal (n4).

23. *Coca-Cola Co v Bennett*, 3 F 513 (8th Cir 1916).

However, no particular degree or amount of control has been specified for the trademark owner under the Act. This portends serious danger of confusion, uncertainty and unpredictability to the law as revealed by the experience of the courts particularly in the United States since no direct case on the point could be found in Nigeria. Accordingly, an attempt is made to address issues relating to required amount of control in the next section.

Amount of Control by the Trademark Owner

The most compelling consequences of the failure of the Act to specify any clear degree of control to be exercised by the trademark owner over the licensee is to allow the Registrar or the courts either to exercise legislative power by setting the standard or to determine the standard on case by case basis in which situation standard may rise and fall between high, medium and low.²⁴ A possible third perspective is to subject the standard of control to parties' freedom to determine it for their transaction as deem fit from time to time.²⁵ Although there is no known Nigerian decision on the subject, it appears the approach of the American courts to application of similar statutory provision could be instructive. Meanwhile, scholars have in their discussions shown that the courts' approach to determination of whether appropriate control is maintained by trademark licensor over the licensee's product involves intensive fact analysis to be done on a case-by-case basis.²⁶

24. JT McCarthy, *McCarthy on Trademarks and Unfair Competition* (4th edn, OUP 1997) 18.55 [hereinafter referred to as McCarthy 4th edn]; *Barcamerica Int'l USA Trust v Tyfield Importers Inc et al* [9th cir 2002] 289 F3d (589, 595-598).

25. *Bostich Trademark* [1963] RPC 183.

26. IS Link, 'Trademark Licensing: The Problem of Adequate Control' [1968] *Duke Law Journal* 875-903.

The validity of trademark licensing is readily assumed where there is existence of such a special relationship between the parties as a close working relationship, familial relationship between owner of the parties (as per the case of related companies), and overlapping ownership and management between the parties.²⁷ For instance, trademark licensing was held valid in respect of contracts in which the licensor owned stock in the licensee's business and held to have retained its trademark rights and not to have released them to its controlled licensee.²⁸

Where no such relationship exists between the parties, courts have upheld the validity of licensing on the ground that the trademark owners exercised actual control over the licensees. For instance, the validity of trademark licensing was upheld in one case because the licensor supplied raw materials to the licensee. The assumption was that since the trademark owner supplied the basic material and exerted supervision over the production, there was little danger of the public mistakenly buying inferior goods.²⁹ It could become more complex where the courts hold that a certain percentage of the licensee's relevant recipe needs be supplied by the trademark owner.³⁰

There are instances where control is held to mean actual enforcement of quality control measures by the licensor.³¹ For example, the requirement that the licensee provide product samples to the licensor before sales and actual adherence by

27. *Paletaria La Michoacana Inc v Productos Lacteos Tocumbo SA* 188F Supp 3d 22 (DDC 2016).

28. *Vermont Maple Syrup Co v F N Johnson Maple Syrup Co* 272 F 47 (D Vt 1921).

29. *Coca-Cola Bottling Co v Coca-Cola Co* 269 F796, 806-808 (D Del 1920).

30. *Paletaria La Michoacana*, (n27).

31. *Halo Management, LLC v Interland, Inc* 308 F Supp 2d 1019, 1030 (N D Cal 2003).

the licensee to this approval process.³² This may especially be the case where the court considers how potentially harmful the product may be to the public. Similarly, an arrangement whereby the trademark was licensed along with licensing of patent was validated,³³ probably because the trademark continued to be associated with its traditional product and the patentee was able to supervise the proper use of the patent, and no problem of public deception would occur. This is particularly when put into consideration the extent the public expect local variation in the product,³⁴ and existence of any restrictions on the degree of modifications the licensee can introduce to the product to which the mark is attached.³⁵

However, questions often arise concerning how reasonable is the frequency of inspections by the licensor,³⁶ and such could be determined through a consideration of how regularly the licensor carries out inspection.

Furthermore, some courts limit the inquiry about standard of control to the provisions of the licensing agreement simpliciter. Cases have shown where provisions of the licensing agreements include stringent,³⁷ quality control procedures and others with substantial control of the licensee as for example where a licensor required the licensee to produce goods and submit sample for testing.³⁸

32. *Hawaii-Pacific Apparel Group Inc v Cleveland Browns Football Co* 418 F Supp 2d 501, 507 (S D N Y 2006).

33. *Adam v Folger* 120 F 60 (7th Cir 1903).

34. See *Hawaii-Pacific Apparel Group Inc* (n32) at 519.

35. *Sleptone Entm't Corp v Coyne* 141 F Supp 3d 813, 825 (N D Ill 2015).

36. *Barcamerica Int'l USA Trust v Tyfield Importers Inc* 289 F3d 589, 597-598 (9th Cir 202).

37. *Shell Oil Co v Commercial Petroleum, Inc* 98 F 2d 104 (4th Cir 1991).

38. *Joseph Bankroft and Sons v Shelley Knitting Mills Inc* 119 USPQ 463, 468

In another case, it was enough that there existed express provisions requiring the licensee to meet certain quality standards dictated by the licensor and permitting licensor to undertake inspections.³⁹ In other words, there need not be formal quality control where the particular circumstances of the licensing arrangement [indicate] that the public will not be deceived.⁴⁰ Thus, in one instance a licensing arrangement was found valid where the licensor justifiably relies on the integrity of the licensee to ensure consistent quality of the services performed under the mark.⁴¹ This may be strengthened by factors showing that the trademark owner has sufficient knowledge of the licensee's quality control procedures.⁴² However, such position can only be sustained where there is no actual evidence of lack of product consistency. Again, it matters whether there have been instance when the licensor raised any objections to quality deviations.⁴³

Furthermore, the effectiveness of contractual provisions in sustaining the validity of trademark licensing may be subject to such other factors. One, whether any instance has been established of actual decrease in quality compared to the trademark owners' products.⁴⁴ Also, whether the trademark owner is entitled to terminate the license on account of derogation from the quality control standards,⁴⁵ and whether

(E D Pa 1958).

39. *Palateria La Michoacana Inc v Productos Lacteos Tocumbo SA* 188 F Supp3d 22, 93 (D D C 2016).

40. *Moore Business Forms, Inc v Ryu* 960 F2d 486, 489 (55th Cir 1992).

41. *Woodstock Enterprises Inc v Woodstock enterprises Inc* 152 F 3d 942 (Fed Cir 1998).

42. *Barcamerica Int'l USA* n336 at 596.

43. *Starsurgical, Inc, v Aperta, LLC* 40 F 0 Supp 3d 1069, 1080 (E D Wisc 2014).

44. *Taco Cabana Int'l Inc v Two Pesos Inc* 932 F d 1113, 1121 (5th Cir 1991).

45. *Free Cycle Sunnyvale* 66 F3d at 516

quality control measures prescribed by the trademark owner are optional or mandatory.⁴⁶

The factor of reasonable balance in the requirement and exercise of quality control is paramount as excessive quality control has the potential to make the trademark proprietor liable under the product liability theories in the event that the operation of the licensee has resulted in harm. In *Kennedy v Guess Inc*,⁴⁷ the Plaintiff instituted an action against the licensor who is the owner of the Guess logo used on an umbrella the use of which caused damage to the Plaintiff. The latter sought to hold the licensor liable even though, he (licensor) was not the manufacturer of the product. The Plaintiff contended that the licensor was an 'apparent manufacturer' within the provision of S400 of the Third Restatement. While the court recognised the fact that licensors have the duty to exercise reasonable control in respect of licenses on their marks to detect and prevent misleading or deceptive use of the mark, the case demonstrates that licensor could be adjudged liable if control has been found to be excessive.

However, the ambiguity and inconsistency generated by the inquiry into standard of control caused a shift of judicial focus of inquiry to product quality as illustrated by the case of *Taco v Cabana International Inc v Ajac Transmission Parts Corp*,⁴⁸ where two brothers who have previously operated a joint restaurant completed a license agreement for one of them to operate a similar venture. The court found the license valid on the basis that, having worked together for long, the

46. *Ibid* at 517-518.

47. [2004] 806 N E 2d 776.

48. 932 F2d 111 (5th Circ 1991).

brothers are entitled to rely on each other to maintain product quality.

Similar to inquiry on control, a number of questions arise regarding what exactly trademark licensors are supposed to control in the quality of the product. This inquiry will constitute the focus of the next section.

Standard of Quality

An effective inquiry into the product quality would have to first answer the question regarding what is meant by quality. As scholars have noted, there are two broad conceptions of quality: absolute standard of excellence; and relative and variable standard.⁴⁹ The former is about the products being as good as it is possible for them to be (including ability to meet changing needs), while the relative or variable standard covers a range of characteristics which consumers expect in a product though and which they are willing to trade off against price in search of an optimal balance or overall 'value'.⁵⁰ In other words, quality standard is between a high level of quality and assurance that the product has the particular level of quality it purports to have.⁵¹ It would appear that the latter accords more with market reality because much as product excellence is a worthy standard, ensuring that products are reliable, consistent and free from defects matters more to consumers.⁵²

49. Andrew Griffiths, 'Quality in European Trade Marks Law' (2013) 11(7) *Northwestern Journal of Technology and Intellectual Property* 622 - 640.

50. Carol A Reeves and David A Bednar, 'Defining Quality: Alternatives and Implications' (1994) 19(3) *The Academy of Management Review* 419 - 445.

51. David A Garvin, 'What Does "Product Quality" Really Mean?' (1984) 26(1) *MIT SLOAN Management Review* 25-43; Carol A Reeves and David A Bednar, 'Defining Quality: Alternatives and Implications' (1994) 19 *Academy of Management Review* 419.

52. *Ibid.*

But, the question requires more because a product is said to have two different quality characteristics: 'actual quality characteristics' and 'perceived quality characteristics'. The former revolves around the functional and material performance of the product, while the latter is about the aesthetics, which is commonly of subjective appeal to some customers.⁵³ In fact, there are eight dimensions of a product quality, six of which have been identified as functional and material characteristics, and the other two as aesthetics of perceived quality. All of these represent quality, and even by international quality refers to the totality of the characteristics of a product that touch on its ability to meet stated and implied needs.⁵⁴

There is evidence of a tilt of judicial opinion towards the conception that consumers are entitled to believe that the nature and quality of products sold under the licensed mark remains the same. Thus, the level of quality refers to continuity or consistency⁵⁵ of the product in order to guarantee the predictability of the product. This is to ensure that nothing changes after licensing so long as the public gets the same quality of goods as before the license.⁵⁶ This gives rise to the observation that where the mark is used to sell a product of different quality whether that quality is higher or lower in the assessment of individual consumer, the public is deceived unless an explanation accompanies the change in the product.⁵⁷ It is precisely the responsibility for maintaining these

53. Garvin 1984 (n 0).

54. International Standard Organisation, ISO 8402-1986.

55. *Eva's Bridal Ltd v Halanick Enterprises Inc* 639 F 3d 78, 790 (7th Cir 2011).

56. *Digital Theater Sys Inc v Minter Digital Inc* [C D Cal 2004] 71 US PO 2d (1448).

57. Elmer William Hanak III, 'The Quality of Assurance Function of Trademarks' (1994) 43 *Fordham Law Review* 33.

consistent levels of the nature and quality of the product that is imposed on the trademark proprietor.⁵⁸

No doubt, the inquiry on standard of control is a tortuous one whether viewed from the perspective of control or product quality *per se*. It therefore shows that the regime of open notion of control is very hard to operate as it clearly has potential to cause inconsistency in the law and uncertainty for stakeholders. Accordingly, an attempt will be made in the next section to consider provisions from other jurisdictions.

Statutory Approaches to Quality Control in Foreign Jurisdictions

The above analysis of the nature of quality and amount of control presented in scholarly discussions and judicial decisions shows the depth of potential challenge for the relevant Nigerian trademark law in its current state. Accordingly, an attempt is made in this section to examine the provisions of foreign statutes on the subject of discussion. In particular, relevant statutory provisions for the United States of America (US), Australia and China are considered. The first two for sharing Nigeria's common law traditions, and the US more because of its many judicial decisions and scholarly expositions cited in the work. The consideration for Chinese law is based on the growing demands for China products and the country's growing profile as a production hub.

The United States

Sections 5 and 45 of the Lanham Act set forth the condition for the validity of trademark licensing in the US.⁵⁹ As a result of

58. McCarthy (4th ed) 18.55.

59. Carboli I, 'The Sunset of Quality Control in Modern Trademark Licensing' (2007) 57(2) *American University Law Review*. See also the Lanham Act (Act of July 5, 1946).

changes in manufacturing and distribution that characterized the early 20th Century, the Act took a different position to legitimise trademark licensing. It carefully crafted the conditions to be in line with the rationale of trademark law which is to protect the consumers. Specifically, section 5 states that:

Where a registered mark or a mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration and such use shall not affect the validity of such mark or of its registration provided such mark is not used in such a manner as to deceive the public.

Section 45 of the Lanham Act clarifies the extent and limit of 'such use' and also defines a 'related company' as 'any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used.'

The provision of the Act as regards control exercised by trademark owners over the nature and quality of the licensed products represents condition *sine qua non* for the validity of trademark licensing. However, it must be noted that neither section 5 nor 45 of the Act expanded on the amount of control that is necessary for the validity of licensing, nor define the meaning of 'quality' and 'control.' This lack of statutory guidance has caused inconsistencies when assessing the validity of trademark licensing.⁶⁰ In most civil law countries, the lack of quality control does not affect the validity of licensing.

60. *Ibid*.

However, in the US, quality control is a fundamental element in all trademark licensing agreements. This is because controlling the quality of the licensed product ensures that the trademark owner is the 'source' of those products. There is said to be a Naked Licensing where the trademark owner exercises insufficient quality control over the product.⁶¹ The purpose of quality control is to maintain a consistent and predictable quality for all goods and services for which the trademark is used. Thus, the mere right to control the quality is not sufficient as there must be an actual control by the licensor.⁶² In light of this, parties must pay particular attention when drafting quality control provisions to ensure that any product offered under the licensed mark enjoys a quality that is equal to if not better than the existing products offered by the licensor. The licensor may also keep record of his efforts to maintain quality control as evidence against any challenge in the future.⁶³

According to Carboli,⁶⁴ there has been a shift in focus in the US from quality control to product quality maintenance. Due to the ambiguities surrounding the concept of 'control' and in particular what represents 'adequate control', there has been a radical shift in focus over the years. Since protection of the consumers is the goal, rather than focusing on the control that licensors have supposedly exercised over their licensees, US Courts have looked at whether the quality of the products

61. Jessica Chiang and Bret Heavner, 'Teaching Foreign Companies the Language of US Trademark Licensing' (2009) < www.mondaq.com/unitedstates/trademark/74296/teaching-foreign-companies-the-language-of-us-trademark-licensing > accessed on 14 December, 2022.

62. *Alligator Co v Robert Bruce Inc* [1959] 176 F Supp 377 E D Pa.

63. Chiang and Heavner (n61)

64. Carboli I, 'The Sunset of "Quality Control" in Modern Trademark Licensing' (2007) 57(2) *American University Law Review* 341-407.

are consistent that is, whether all products bearing the same mark indeed share the same quality in a way that the public is not likely to be deceived or confused. Once this is established, the courts have assumed there to be a valid trademark licensing.⁶⁵

Australia

Section 8 of the Australian Trade Mark Act,⁶⁶ states that:

- i. A person is an authorized user of a trademark if the person uses the trademark in relation to goods or services under the control of the owner of the trademark.
- ii. The use of a trademark by an authorized user of the trademark is an authorised use of the trademark to the extent only that the user uses the trademark under the control of the owner of the trademark.
- iii. If the owner of a trademark exercises quality control over goods or services...the other person is taken for the purposes of subsection (i), to use the trademark in relation to the goods or services under the control of the owner.
- iv. If...the owner of the trademark exercises financial control over the other person's relevant trading activities, the other person is taken for the purpose of subsection (i), to use the trademark in relation to the goods or services under the control of the owner.

65. *Land O'Lakes Creameries Inc v Oconomowoc Canning Co* [1964] 330 F2d 667 (7th Circuit); *Transgo Inc v Ajac Transmission Part Corp* [1985] 768 F.2d 1001 (9th Circuit); *Taco Cabana Int'l Inc v Two Pesos Inc* [1991] 932 F2d 1113 (5th Circuit).

66. Australian Trademark Act of 1995 [hereinafter referred to as ATMA].

- v. Subsections (iii) and (iv) do not limit the meaning of the expression "under the control of" in subsections (i) and (ii)

The above provision shows how important the control of the licensee by the licensor is in trademark licensing in Australia. However, the law did not stipulate the degree or nature of the control.⁶⁷

The recent Federal Court of Australia decision in *Sky Spirits LLC v Lodestar Anstalt*,⁶⁸ helps to shed light on what constitutes control as used in section 8 ATMA in relation to trademark licensing in Australia.

As part of a long running dispute between Wild Turkey Bourbon and Wild Geese Rare Irish Whiskey about their rights in Australia with respect to the trademarks 'WILD TURKEY' and 'WILD GEESE', a non-use application was filed with IP Australia seeking the removal of Wild Turkey Bourbon's 'WILD GEESE' trademark registration. Meanwhile, 'WILD GEESE' had in fact been used in Australia before a perpetual license of it was granted an Australian Wine Making Company and the company had been using the mark in Australia since then. The question then became whether Wild Turkey Bourbon exercised any actual control over the wine company to make usage of the mark by it an authorised use.⁶⁹ Evidence showed that in practice, Wild Turkey Bourbon did not exercise any actual control over the way that the Australian Wine Company

67. E Mitchell, 'Control It or Lose It: Authorised Use under Trademark Licensing Agreements'

<<https://hardwoodandrews.com.au/news/2016/8/10/control-it-or-lose-it-authorized-use-under-trade-mark-license-agreements>> accessed on 14 December, 2022.

68. [2015] FCA 509.

69. Authorised use in Australia is the same as permitted use or trademark licensing.

used the "WILD GEESE" mark or any actual control with respect to the wine in relation to which the licensee used the mark. There was also no financial control in the circumstances.

The Court considered a number of previous Australian decisions including the case of *CA Henschke & Co v Rosemount Estates Pty Ltd*,⁷⁰ where the court held that control for the purpose of section 8 ATMA could be established solely on the basis of the existence of a license that can be terminated by the licensor.

In the case, Wild Turkey Bourbon had a written license agreement with the Australian Wine Making Company that included clauses that contractually imposed obligations to observe quality control measures. Notwithstanding that, Wild Turkey Bourbon exercised no actual control in practice, the possibility of control given by the license terms and conditions was considered enough to qualify the licensee as an Authorised User of the 'WILD GEESE' mark and so, the mark was not removed.

The implication of the Federal Court of Australia's decision in the above case is therefore that once the licensing agreements between parties include terms as to control, it does not matter whether the control is actually exercised for there to be a valid license in Australia. The control could be control of quality of goods produced under the licensed mark or financial control of the licensee's finances.⁷¹

70. [2000] 52 IPR 42.

71. Owens M, Smith D, and Gore V, 'IP Licensing and Structuring Considerations for Australian Registered Trademark Owners' <www.lexology.com/library/detail.aspx?g=089f9af2-5793-415f-aa90-6d943b172380> ;

<<https://www.gadens.com/publications/IPlicensingandstructuringconsiderationsforaustralianregisteredtrademarkowners>> accessed on 14 December,

Trademark Law of the Peoples' Republic of China

China is widely recognized as a promising licensing market for brand owners due to the rapid growth in its economy. According to article 43 of the Trademark Law of the Peoples' Republic of China,⁷² the owner of a registered trademark may by concluding a trademark licensing contract authorise another person to use his registered trademark. The licensor shall supervise the quality of the goods on which the licensee uses his registered trademark, and the licensee shall guarantee the quality of the goods on which the registered trademark is to be used.

Although, Chinese trademark law requires the licensor to exercise quality control, the law does not directly state the consequences of failure to exercise such control.⁷³ Trademark owners generally contract with Chinese manufacturers, retailers and distributors to launch their brands in China because the cost of labour and materials is low, and also because they know the market better than foreign trademark owners.⁷⁴ Despite the contractual nature of licensing, trademark owners have the duty to routinely monitor and control the quality of all products sold under their marks. This becomes even more important as there have been several cases requiring the recall of Chinese manufactured products because they posed health and safety hazards.⁷⁵ Sometimes, licensees

2022.

72. Adopted at the 4th meeting of the Standing Committee of the 12th National People's Congress on 30 August 2013 [hereinafter referred to as China TML].

73. Lieberstein M, Vogel J, 'Licensing Your Brand in China: Guidelines for Brand Owners' Kilpatrick Townsend & Stockson, LLP.

74. Lieberstein M, Vogel J, 'Licensing Your Brand in China: Guidelines for Brand Owners' Kilpatrick Townsend & Stockson LLP.

75. Phillips J A, 'Does "Made in China" Translate to "Watch Out" for Consumers? The US Congressional Response to Consumer Product Safety Concerns' (2008) 27 *Penn State International Law Review* 217.

use cheaper materials and at other times, they sub-license the mark to third parties without the licensor's knowledge. It is in a bid to protect consumers against such harmful acts as may result from licensing that trademark owners have to incorporate strict quality control provisions into their agreement when licensing.⁷⁶ The degree of control will then depend on individual agreement as the law did not stipulate the extent and limit of quality control.

Lessons on Quality Control from other Jurisdictions **(I) Experiences from Non-African Jurisdictions**

Of the countries' statutory provisions, the US's version appears the most challenged perhaps because licensing appears permitted only to related companies, which have been defined as any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods. Thus, in the absence of statutory guidance as to the nature and quantum of quality control, courts seemed constrained to fall back on their common law background. The result was the ad-hoc and disparate principles generated in respect to the subject. While little or no difficulty is encountered with regards to parties having familial relationship, the same cannot be said concerning unrelated parties particularly with the associated challenge of actual control. If Nigeria were to experience a huge volume of trademark licensing quality control issues, the challenge would transcend the experience of the US because no clear provision is stated of either the nature of relationship or control (relating to the product, licensee per se or trademark itself or) intended by the Act.

Secondly, the Australian statute contains simple, clear and direct provisions elaborating that the intended 'control' refers

76. Lieberstein et al (n73)

to either quality control or financial control of licensees trading activities. In addition, there appears to be a consensus in judicial decisions that mere possibility of control is sufficient to validate trademark licensing. Meanwhile, it has been agreed that such can be established solely on the basis of the existence of a licensing contract that can be terminated.

A much simpler provision is contained under the Chinese law which simply requires parties to conclude a trademark licensing contract and further imposes the obligation on the licensor to supervise the quality of the goods to which the mark is attached, while the licensee is obliged to guarantee quality of the goods. It therefore follows that the provision of the law on quality control can be made simpler by adumbrating terms where necessary and using clear terms as 'supervise' where such is required. Only such an approach can ensure the avoidance of complex legal challenge as presently envisaged in respect of the Nigerian provisions.

(II) Relevant Statutory Provisions in African Jurisdictions

Generally, provisions relating to quality control in trademark licensing in countries of Africa are similar to the Nigerian provisions. For instance, the Kenyan trademark legislation requires parties to a licensing arrangement to make written application in a prescribed manner and furnish the Registrar with a statutory declaration made by the proprietor, or a person authorised by owner, showing the particulars of the existing or proposed relationship between the parties and particulars showing the degree of control conferred by the relationship on the proprietor over the permitted use.⁷⁷

There is no marked difference in the approach of the Ugandan legislation except that the verb 'may' has been used

77. Trade Marks Act 1982 s 31(4)(a) Cap 506 <www.kenyalaw.org> accessed on 14 December, 2022).

in place of 'shall', while requiring the parties to apply in a prescribed manner to the Registrar furnishing a statutory declaration made by the owner, or a person so authorised by the owner and approved by the Registrar, stating particulars of the existing or proposed relationship between the parties to the licensing arrangement and showing the degree of control conferred by the relationship over the permitted use.⁷⁸

On the part of the South African legislation, the licensee of a trademark may be registered as a registered user, and where it is proposed that a person should be so registered, the proprietor is simply required to apply in writing to the registrar in the prescribed manner giving, among other things, particulars of the existing or proposed relationship between the proprietor and the proposed registered user.⁷⁹

Conclusion

As the origin function of trademark increasingly gives way to quality assurance, the potential of the device is getting hugely realized essentially through licensing made possible by the relaxation of the former function. This has made expansion of brand sales and internationalization of products more meaningful. However, trademark licensing is circumscribed with the obligation for quality control which the proprietor must performed in order to prevent public deception. While there is no doubt that the Nigerian trademark statute recognizes trademark licensing, its provisions concerning quality control appears very vague, scanty and ambiguous. The article has therefore examined the provisions in relation to the

78. Trade Marks Act 2010 Act 17 No 7 s 49(7)(a) <www.ulii.org> accessed on 14 December, 2022).

79. Trade Marks Act 1993 Act No 194 s 38(4) & (6) <www.saflii.org> accessed 14 December, 2022.

requirement of quality control with a view to identifying the challenges and associated weaknesses.

The article found that the parties to a licensing arrangement are only required to furnish the 'particulars of their relationship' including 'the degree of control' by the proprietor over the permitted use conferred by the relationship. Further discussion in the article reveals that these provisions fail to clarify a number of issues. For instance, it found that both the terms 'relationship' and 'control' have different ramifications, and that there are several dimensions to the understanding of quality which has not even been mentioned at all in the Act.

The article also examined the various interpretations given to quality control, which reveal the complex web of judicial pronouncements on the subject. It provides an outline of instances that would or would not amount to quality control which are potential sources of controversy with regards to the Nigerian provision.

Moreover, similar provisions under the laws of other jurisdictions in particular, US, Australia and China, were examined and good lessons learnt specifically that simpler language such as 'product supervision' as financial control of trading activities could be employed to eliminate controversies surrounding the nature and types of control intended.

Legislations on the point of discussion are largely the same across countries studied in Africa, thus making the argument of this article and its recommendation suitable for them. However, the South African approach is less direct regarding the need for quality control in trademark licensing since it merely requires parties to give particulars of their relationship.