

Is there a fiduciary claim in relation to licences?

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Besides the usual, already daunting rights and obligations involved in a licence agreement, a recent decision revisits the claim that a fiduciary relationship may exist between licensors and licensees

The interweaving of proprietary and contractual considerations can be daunting for anyone seeking to explain the rights and duties of the licensor and licensee to a trademark licence. On occasion, however, attempts are made to impose additional types of legal duties on the parties. The argument being made that, in some circumstances, a fiduciary relationship is created between the parties to the licence. This claim was recently revisited in the Canadian case of **Bluefoot Ventures Inc v Ticketmaster** (Ontario Superior Court of Justice, 2007). There, in addition to allegations of infringement, passing off and breach of the licence agreement, the plaintiff argued that the licensee had violated its fiduciary duty to the licensor.

According to the **Bluefoot Ventures** court, there exists a fiduciary duty “where the other party is entitled to expect that the fiduciary will act in the other person’s interests, or in the interests of both parties (where those interests coincide), to the exclusion of the fiduciary’s own interests (where those interests are opposed), and where the fiduciary has the power to affect the other party’s interests in a legal or practical sense, giving rise to a position of vulnerability in the other party.”

On this basis, the court established the following three-part test:

- The fiduciary can exercise some discretion or power.
- The fiduciary can act in a unilateral manner, affecting the interests of the beneficiary.
- The beneficiary is vulnerable or at the mercy of the fiduciary.

In most circumstances, no fiduciary relationship will arise in a mere commercial relationship. In the case at hand, no fiduciary relationship had been created since, according to the court:

- the relationship between the parties was defined solely by the commercial terms of the licence;
- there was no special duty of loyalty or trust; and
- there was no inequitable exercise of discretion of power or authority.

Well and good – up to a point, because it seems reasonable that the court should not deviate too far afield from the commercial foundations of a trademark licence. Nevertheless, the court’s decision left me with a certain unease, because it recognized that there are circumstances in which a fiduciary duty may arise in connection with the registration or use of a trademark. Specifically, the court refers to another Canadian judgment in which an exclusive distributor registered the mark on its own

behalf, apparently to enable the distributor to combat unauthorized “flow of the product” into Canada.

In that case, while the court dismissed the action as having not been timely brought, it did suggest that a fiduciary relationship might have existed between the parties. This was so because “of the duty owed by a ‘distributor or agent to its foreign principal’”. The suggestion was, therefore, that in certain circumstances, a fiduciary relationship might exist.

Three points can be made. First, it is a bedrock legal principle that merely characterizing a party in a certain way does not **ipso facto** create a legal relationship or status. Thus, calling a distributor 'an agent' does not necessarily make it so nor does it create a fiduciary duty.

Second, there are cases in various common law jurisdictions that have held that a local distributor is entitled to register the foreign manufacturer’s mark in the distributor’s local jurisdiction, even when challenged by the manufacturer. Usually, such a result follows from a finding that the mark has come to be identified with the distributor in the local jurisdiction. If, however, a distributor/agent has a fiduciary duty, as suggested above, then it is difficult to see how the court can permit the distributor to register the mark. These two lines of decisions cannot be readily reconciled.

Third, the court did not address the special characteristics of a trademark licence and especially quality control. Focusing on common law jurisdictions, the development of quality control was to accommodate the source theory of trademarks. More recently, common law jurisdictions have taken more diverse views, culminating in the English decision in the **Scandecor Case**, which points to uncoupling the quality control requirement from the source theory of trademarks.

Use of the mark by the licensee may be deemed to be use by the licensor, thereby defeating a cancellation claim for non-use. Where quality control is more strictly required – for example, in the United States – the failure to establish the requisite quality control can lead to cancellation. Whatever the scope of the quality control requirement, from the point of view of the integrity of the mark, commercially – if not necessarily for legal reasons – the licensee can be expected to exercise quality measures with respect to the goods or services under the licensed mark.

If this is true, the relationship between a trademark licensor and licensee differs from that between the parties to a patent or copyright licence. Assuming that there are circumstances, despite my reservations, in which a distributor can be said to have a fiduciary duty to a foreign manufacturer and the distributor can be found to have breached that duty when it registers the mark, even to prevent “the illegal flow of the product”, then there seems to be no less reason to recognize such a fiduciary duty by the trademark licensee in carrying out the quality control function. This is especially so when there are consequences for the value and even validity of the mark by virtue of the quality control requirements.

Or perhaps the opposite conclusion is true. That is, based on the foregoing, all judicial attempts to impose a fiduciary duty on a distributor, agent, or licensee with respect to

use or registration of a mark are ultimately artificial and bound to lead to inconsistent and unsatisfying results. Under this view, since it is already difficult to describe the legal metes and bounds of a trademark licence and the relationship between the parties, it is surely preferable to refrain from venturing into the uncharted legal terrain of a fiduciary duty in a trademark licence relationship.