INTERNATIONAL TRADEMARK LICENSING AGREEMENTS: A KEY TO FUTURE TECHNOLOGICAL DEVELOPMENT

A trademark is a symbol, in any form, which identifies a product as belonging to the manufacturer who produces the product to which the trademark is attached.[1] The trademark was created so that a product could be identified according to its producer or distributor.[2] Due to its potentially unlimited life, it is said that the trademark "like good wine, often tends to get better with age."[3] The value of the trademark is derived from its dual purpose.[4] First, it enables consumers to distinguish particular products.[5] Second, it protects the trademark owner's goodwill and the trade or business to which the trademark is connected.[6]

Often the trademark enters a foreign market through the use of a licensing agreement.[7] Although the trademark is not a direct conveyor of technology, it becomes an integral part of the transfer of technology because it is a mark which identifies products manufactured through the trademark licensing agreement.[8] A licensing agreement is defined as the authorized use of a trademark owner's

1. V. NANDA, THE LAW OF TRANSNATIONAL BUSINESS TRANSACTIONS 6-14 (1982).

2. UNCTAD, *Annex I*, 7 WORLD DEV. 747 (1979) [hereinafter cited as Annex I]; Soberanis, *The Need to Establish a Policy Restricting the Use of Foreign Trademarks in Developing Countries: The Case of Mexico*, 7 WORLD DEV. 713, 714 (1979); L. HOLMQVIST, DEGENERATION OF TRADEMARKS 300 (1980).

3. R. GOLDSCHEIDER, TECHNOLOGY MANAGEMENT HANDBOOK 155-56 (1984). Unlike patents, the lives of which are limited to seventeen years in the United States (twenty years in many other countries), trademarks can live virtually forever. Generally, upon the payment of a licensing fee to the trademark registry in the country in which the trademark is used, the trademark's life is automatically extended.

4. U.N. CONFERENCE ON TRADE AND DEVELOPMENT, THE ROLE OF TRADEMARKS IN DEVELOPING COUNTRIES 1 U.N. Doc. TD/B/C.6/AC.3/3/Rev.1 (1979) [hereinafter cited as UNCTAD]. *See also*, Soberanis, *supra* note 2, at 714; Annex I, *supra* note 2, at 747.

5. UNCTAD, *supra* note 4, at 1. By serving the function of identifying a particular manufacturer's products, the trademark protects the interest of the public. It enables a consumer to repeatedly select a product with the assurance of similar or consistent quality being guaranteed. *See* Soberanis, *supra* note 2, at 714.

6. UNCTAD, *supra* note 4, at 1.

7. Ball, *Attitudes of Developing Countries to Trademarks*, 74 TRADEMARK REP. 160, 163 (1984). The licensing agreement is a common device implemented in developing States between international firms and domestic manufacturers but, with respect to the trademark, it is a relatively new creation. GOLDSCHEIDER, *supra* note 3, at 124.

8. NANDA, *supra* note 1, at 6-14.

trademark by a licensee.[9] Until a decade ago, the trademark owner was virtually unrestrained in business dealings with foreign licensees in developing States.[10] Frequently, these transactions were too hastily negotiated by the licensee in the developing State.[11] Not surprisingly, the result has been that many developing States have acquired technology ill-fitted to their domestic needs.[12]

Developing States claim that trademarks hinder the acquisition of technology while causing a form of cultural and commercial dependence on foreign trademarked goods.[13] For example, consumers in Mexico have made a radical switch from local to foreign soft drink products, specifically, Coca-Cola.[14] Today, Coca-Cola dominates the Mexican soft drink market place.[15]

Another example clearly depicting the harsh effect of the presence of foreign trademarks is the Mexican consumers' preference for refrigerators sold bearing a foreign trademark.[16] The same manufacturer produces an identical refrigerator with a domestic trademark which costs less. Consumer preference is so slanted because of the advertising efforts of foreign trademark owners that consumers will spend more merely to acquire the foreign label.[17] This problem is aggravated by the fact that roughly one-half of the trademarks in force in developing States are owned by foreigners.[18] Since the foreign licensor ordinarily has the greater bargaining power, the domestic licensee ends up bearing a disproportionate share of the risks and

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9. Gabay, *The Role of Trademarks in Consumer Protection and Development in Developing Countries*, 3 INDUS. PROP. 102, 108 (1981).

10. M. FINNEGAN & R. GOLDSCHEIDER, THE LAW AND BUSINESS OF LICENSING 520.33 (1980).

11. Until about ten years ago, licensees in developing States acted with naive ambition. This was due to their lack of education and understanding in the fields of technology and the law of antitrust. *Id.*

12. *Id.*

13. Through the use of advertising, trademarks have created an illogical brand of loyalty which in turn has raised prices. *See* Shanahan, *The Trademark Right: Consumer Protection or Monopoly?*, 72 TRADEMARK REP. 233 (1982); DEP'T OF STATE., THE UNITED STATES AND THE THIRD WORLD (Discussion Paper 56, 1976).

14. UNCTAD, *supra* note 4, at 36. Coca-Cola export controls over forty-two percent (42%) of all Mexican soft drink sales. *See infra* note 61 and accompanying text.

15. *Id.*

16. Soberanis, *supra* note 2, at 715.

17. *Id.*

18. Shanahan, *supra* note 13, at 233. In 1977, developing States accounted for less than one-third of the registered trademarks in the world. Of those, about half were owned by foreigners. *See also UNCTAD, Annex II*, 7 WORLD DEV. 751 (1979) [hereinafter cited as Annex II].

costs in the trademark license agreement.[19]

Developing States have responded by providing increased preferential treatment to local industries at the expense of foreign firms.[20] This is being done through the use of drastic national measures.[21] In response to this, the foreign trademark owners are becoming increasingly reluctant to market their trademarks in those States having policies which preclude them from obtaining a reasonable return on their investment.[22] The foreign trademark is perceived by developing States as a conduit through which much needed technology and marketing skills can be acquired.[23] As the local producer benefits from these transfers, the foreign trademark is being diverted for local industry.[24]

The dark side of this is that developing States are finding themselves with restricted access to new technology and restricted means with which to acquire it.[25] Consequently, the developing States are often depriving themselves of much-needed technological assistance.[26]

This Comment maintains that the trademark is a major mechanism through which the transfers of new technology to developing

19. Ball, *supra* note 7, at 163. The foreign licensor retains ownership and control of the trademark. The success of the foreign trademark is entirely dependent on the efforts of the local licensee. UNCTAD, *supra* note 4, at 22. The licensee is at the mercy of the foreign trademark owner. Either the trademark license expires once sales have reached levels satisfactory to the trademark owner, or he can terminate the license. The local licensee can then opt for renewal at a cost. The licensee can, however, market products under a domestic trademark which enjoys significantly less goodwill compared to the foreign trademark. O'Brien, *The International Trademark System and the Developing Countries*, 19 IDEA 89, 93 (1978).

20. Ball, *supra* note 7, at 160.

21. *Id.* at 164. For example, the pharmaceutical industry has been the target of many developing States in their fight against the effects of the foreign trademark. In 1972, Pakistan banned all use of trademarks for pharmaceutical products. In 1971, Sri Lanka proposed a similar measure. Although both of these policies were reversed several years later, they have had somewhat of a deterrent effect on the use of foreign trademarked products. *Id.* at 167.

Another example of such drastic measures, on a much broader scale, was adopted as a regional measure by the Andean Pact States (Bolivia, Colombia, Ecuador, Peru and Venezuela). These States flatly refuse a trademark license which contains any of the following provisions: (a) a limitation on the licensee's right to export; (b) a restriction, by the licensor, on the sale or resale of the trademarked product; or, (c) a requirement that the local subsidiary pay royalties to its foreign parent company. *Id.* at 169.

22. *Id.* at 161.

23. *Id.* at 160; *Cf.* Williams, *The Transnational Transfer of Technology to Developing Countries*, MADRID CONFERENCE ON THE LAW OF THE WORLD 24 (The World Peace Through Law Center, No. 72, 1979).

24. Ball, *supra* note 7, at 160.

25. *See* Lanahan, *Trademarks in Mexico*, 66 TRADEMARK REP. 205 (1976).

26. *Id.*

States are accomplished.[27] Harsh national legislative measures implemented by developing States discourage foreign trademark owners from engaging in licensing agreements with licensees in such States.[28] Such measures significantly curtail the developing State's access to, and use of, new technology, and also deprive the trademark owner of the economic benefit of ownership.

To demonstrate this proposition, the definition of a trademark will first be discussed. A brief history of the major international trademark agreements will then be reviewed. This discussion will demonstrate how these agreements overlook the area of international trademark licensing agreements. Next, the developing States' point of view with regard to licensing agreements will be examined. This will be demonstrated by way of a comparative analysis of selected developing States' circumstances and the measures which they have taken. Finally, an approach to, and suggestions for, a model code for international trademark licensing agreements will be recommended. Once the inequities of the present trademark licensing system are overcome, the licensing agreement will prove to be a major conveyor of new technology to developing States.

I. TRADEMARK DEFINED

Although the primary role of the trademark is to identify a product, it has also developed into a marketing tool by which a manufacturer or producer acquires economic and market strength.[29]

The role of the trademark has evolved throughout history and has taken on various forms and meanings. No one really knows how or why the trademark was first created.[30] From branding cattle and other animals by primitive man, to indicating the maker's name or factory mark on pieces of Greek, Roman and Chinese pottery, such marks or inscriptions have existed since the beginning of mankind.[31]

The development of the modern trademark occurred during the industrial revolution.[32] With the advent of mass production of goods

27. Ball, *supra* note 7, at 161.

28. *Id.* at 166.

29. *Id.*

30. Diamond, *The Historical Development of Trademarks*, 73 TRADEMARK REP. 222 (1983). One possible explanation is that early man wanted to suggest ownership or recognition of something he had created.

31. *Id.* at 223-24. The earliest identified markings on bricks and tiles come from Mesopotamia and Egypt. Many Roman terracotta tiles and bricks have survived. Typically, these bear either the maker's names or a factory mark. *Id.* at 225.

32. *Id.* at 237-39.

for public consumption, trademarks became a necessity in order that the origin of goods could be identified.

Today, the trademark has two significant functions. First, it distinguishes and identifies goods originating from a particular manufacturer or distributor.[33] Second, it serves as a quality identifier for consumers.[34] Once a manufacturer's goods are identified with a trademark, the consumer can either purchase them again or avoid them altogether depending on whether he was satisfied the first time.[35]

A. Trademark's Function in the Creation of Goodwill

Goodwill has been defined as "the attachment of buyers to, and their propensity to purchase, the product of the particular firm."[36] Goodwill can be generated through the advertising efforts of the trademark owner or by consumer satisfaction with the product's quality.[37]

Goodwill is borne from, and is embodied in, the concept of brand proliferation.[38] It develops when consumers identify the producer as being satisfactory, and it thereby stimulates subsequent purchases by the consuming public.[39] Hence, the trademark is not only a symbol of goodwill, it is a method for the actual creation and perpetuation of goodwill.[40]

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33. UNCTAD, *supra* note 4, at 2; *see also supra* note 5 and accompanying text.

34. The primary purpose of the trademark is to identify and distinguish goods from one another, thereby serving the interests of the consumer. *See* Annex I, *supra* note 2, at 747. However, its secondary function, promoting the trademark's goodwill, has acquired an overriding importance. The trademark owner's economic benefits derive from this secondary function. Without these benefits, the trademark's identifying function would become non-existent. *See* Shanahan, *supra* note 13, at 238-41. *Contra* Annex II, *supra* note 18, at 751. Among other countries, Cuba and India have enacted legislation which allows the use of only the generic names, not brand names, in the pharmaceutical industry. Through the use of generic names, consumers are still able to identify different products.

35. UNCTAD, *supra* note 4, at 2.

36. H. EDWARDS, COMPETITION AND MONOPOLY IN THE BRITISH SOAP INDUSTRY 26 (1962).

37. UNCTAD, *supra* note 4, at 2, 7-9. A trademark owner's advertising efforts influence the purchasing public. When effectively done, such efforts persuade consumers to select one brand over another. Equally important is the concept of brand loyalty which can either create or destroy goodwill, whether such is due to advertising or consumer selection. *Id.*

38. Brand loyalty is an artificial concept whereby consumers repeatedly select or avoid one brand over another. *Id.* at 7. Through the use of sharply focused advertising, certain brands become more desirable than others. This results in brand proliferation. *See* Morein, *Shift from Brand to Product Line Marketing*, 53 HARV. BUS. REV. 56 (1975).

39. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 818 (1927).

40. *Id.*

Unusual ties have developed between consumers' behavior patterns and brand selection.[41] This is true not only in developed States but also in developing States where consumers are provided with a diversified selection of products.[42] In many families, about ninety percent of their purchases have been of the same brands for over three years.[43] This is especially so where the quality of goods, or their utility, cannot be examined before purchase. Brand selection is a major element in consumer selection, and in the development of goodwill.[44]

The trademark further serves to distinguish between trademark owners' products. This separate function is known as product differentiation.[45] Thus, the consumer has the advantage of refraining from always purchasing products on a trial and error basis. This affords the trademark owner with an even greater advantage in two respects: the trademark differentiates one brand from another and it serves to distinguish similar products.[46]

Consumers develop a preference for certain brands over others as a result of brand specific advertising.[47] The more persuasive the advertising, the greater the trademark owner's market power becomes. The greater the market power, the easier it becomes to enter foreign markets. This ultimately leads to greater profits for the trademark owner.[48]

Each of these factors aids in the creation of goodwill. Besides creating goodwill, the trademark alerts the buying public to the goods' quality.[49] Although this secondary function is not emphasized, its purpose is closely related to the goodwill function.

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41. UNCTAD, *supra* note 4, at 2.

42. *Id.*

43. Cunningham, *Brand Loyalty-What, Where, How Much?*, 11 HARV. BUS. REV. 116 (1956). This pioneering study focused on the types of goods which cannot be examined for their quality and usefulness until after purchase. The study revealed that brand selection is virtually unrelated to the consumer's use, needs and socio-economic background.

44. UNCTAD, *supra* note 4, at 7. Such goods are commonly called experience goods because the consumers must experience the product before they can formulate an opinion about the product's qualities, including its usefulness and desirability.

45. *Id.* at 6.

46. Some brands may have identical counterparts under a different brand name, yet consumers may show their preference by repeatedly purchasing one brand over another. *Id.* at 6-7.

47. UNCTAD, *supra* note 4, at 9. Through the use of persuasive advertising, trademark owners create market demand for their particular brands. Generally, successful trademarks will be found among products which have had the greatest and most persuasive advertising effort put into them.

48. *Id.*

49. *Id.* at 2.

B. Trademark's Function as a Quality Identifier

Trademarked goods can be traced to their source by virtue of the trademark.[50] Thus, the consumer is able to assume that the quality of the trademarked goods will remain constant.[51] Even so, it is argued that trademarked goods do not guarantee quality per se.[52] Rather, the consumer can expect a degree of consistency when purchasing goods under a particular trademark.[53] In this sense it guarantees that a product will be manufactured and produced with the same level of quality as before.

The quality identification function is significant in that it reduces purchasing errors by alerting consumers to the goods' history to quality.[54] As a result, consumers reduce possible costs related to purchasing errors.[55]

One of the main weaknesses of the trademark is its limited ability to guarantee quality.[56] This is due to the nature of the trademark. Its primary purpose is to protect the trademark owner's, and not the consumer's, interests.[57] Nevertheless this function continues to be helpful to the consuming public.

The trademark, through its identification and goodwill functions, has become an invaluable asset in national and international markets.[58] Still, developing States are increasingly confronted with restrictive licensing agreements which disproportionately inure the

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50. *Id.*

51. *See supra* note 5 and accompanying text.

52. *Id.*

53. *See* Diamond, *The Historical Development of Trademarks*, 65 TRADEMARK REP. 289 (1975).

54. Greer, *The Economic Benefits and Costs of Trademarks: Lessons for the Developing Countries*, 7 WORLD DEV. 683 (1979).

55. *Id.* This is especially true with products known as experience goods. All goods which cannot be tested by the consumer prior to purchase fall into this category. Examples of experience goods are a bar of soap, a can of soup, a bottle of wine, a bag of dog food, a set of dishes, a lawnmover, or even a set of luggage. In reality, most consumer products are categorized as such. Consequently, until a consumer finds a specific product which conforms to his needs and desires, his purchases will quite often tend to be on a trial and error basis. The cost of trial and error buying is the reason why the trademark has made such a significant contribution in reducing purchasing errors.

56. UNCTAD, *supra* note 4, at 3. In the United States, measures have been taken in this area. Courts are reluctant to grant a trademark owner equitable relief against infringers of the trademark when the product is shown to have been secretly altered by the trademark owner. *See* Note, *UNCTAD; Trademarks and Developing Countries*, 14 J. WORLD TRADE L. 80, 84 (1980) [hereinafter cited as TDC].

57. UNCTAD, *supra* note 4, at 2.

58. *See supra* note 55 and accompanying text.

benefits to the trademark owner.[59] Present international law does not address these problems.

II. DETRIMENTAL IMPACT OF PRESENT INTERNATIONAL LAW

During the nineteenth century international trade began to grow significantly and the need for an international regime for the protection of property rights increased accordingly.[60] The trademark, being a form of protection for intellectual property, needed international protection.[61] However, as will be demonstrated, none of the major international agreements address the one sided licensing arrangements frequently favoring foreign trademark owners.

A. Paris Convention

The Union Convention of Paris (Paris Convention) is the leading international arrangement for trademarks.[62] Originally concluded in 1883, the Paris Convention is based on the principle of national treatment, that is, trademarks valid in one State are accorded the same protection as a national mark in any other State.[63]

The Paris Convention lays down the protections, conditions and limitations afforded trademarks which are eligible for registration in other foreign States.[64] The only disadvantage is that it allows each member State to determine the substantive content of the protection to be granted to foreign trademark owners.[65] This has produced a variety of nationalistic approaches in the areas of the registration and protection of trademarks in foreign States.

The provisions of the Paris Convention are, however, quite flexible.[66] It sets forth provisos concerning:

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59. *See supra* note 7 and accompanying text.

60. NANYENYA-TAKIRAMBUDDE, TECHNOLOGY TRANSFER AND INTERNATIONAL LAW 60 (1980).

61. TDC, *supra* note 56, at 84.

62. Union Convention of Paris for the Protection of Industrial Property, Mar. 20, 1883, 25 Stat. 1372, 161 Parry's T.S. 410 (French Text) (*Revised at* Brussels on December 14, 1900; *at* Washington on June 2, 1911; *at* the Hague on November 6, 1925; *at* London on June 2, 1934; *at* Lisbon on October 31, 1958; and *at* Stockholm on July 14, 1967) [hereinafter cited as Paris Convention].

63. *Id.* art. 2.

64. *Id.* Specifically article 6 pertains to the protection afforded trademarks in member States. These limitations include prohibiting the registration of trademarks which are reproductions or imitations of well-known marks, or marks which would be likely to create confusion or marks which would impose unfair competition.

65. NANYENYA-TAKIRAMBUDDE, *supra* note 60, at 66.

66. O'Brien, *supra* note 19, at 106.

> (1) equal treatment of nationals when in other member States; (2) right of priority for six months to anyone who has filed an application for a trademark in a member State while applying for protection in other member States; (3) cancellation of a trademark in any member State may be effected only after a reasonable period if use is a compulsory condition for registration in a particular State; (4) trademarks registered in member States shall be regarded as independent of marks registered in other member States; (5) nationals are assured that their own member States will afford them protection against unfair competition; and (6) member States are permitted to enter into special agreements for the protection of industrial property among themselves, as long as they do not contravene the provisions of the Paris Convention.[67]

Although the Paris Convention provides for trademark protection in the context of registration privileges, it does not create an international trademark.[68]

Were an international trademark to be created, the problems confronting developing States would still remain. In fact, these problems would be aggravated because each trademark would receive international protection by virtue of its registration.[69] Any international protection would inure almost exclusively to the benefit of the trademark owner.[70] The protection the Paris Convention currently bestows on trademarks in a member State is extended only after the trademark is individually registered in that particular member State.[71]

The Paris Convention also advocates equal treatment for all member States,[72] but it overlooks the fact that developing States, as a whole, are not on an equal footing with developed States.[73] The Paris Convention therefore fails to recognize the interests of developing States in two respects. First, the agreement fails to provide developing States with preferential treatment in the area of trademark use and registration. Second, by the terms of the agreement, developing States are prevented from entering into separate agreements outside

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67. *See*, Paris Convention, *supra* note 62, arts. 2, 4, 5, 6, 10 and 19.

68. Spitals, *The UNCTAD Report on the Role of Trademarks*, 11 N.Y. SCH. INT'L COMP. L. 369, 373 (1981).

69. *See infra* notes 77, 83 and accompanying text.

70. *See supra* note 18. Because the majority of trademark owners are found in developed States, such protection would bolster the strength of foreign trademark owners. Policies of this kind give the trademark owner more preferences and further increase the imbalance between developing and developed States. *See also infra* note 97.

71. Spitals, *supra* note 68, at 374.

72. O'Brien, *supra* note 19, at 107.

73. *Id. See also* Paris Convention, *supra* note 62, arts. 3, 13, 16.

the Paris Convention which would better protect their interests but run contrary to the terms of the agreement.[74]

It should be noted that the Paris Convention does not allude to trademark licensing agreements. However, this is not the only international agreement which fails to do so.

B. Arrangement of Madrid

The Arrangement of Madrid was originally concluded in 1891[75] as an agreement providing for the international registration and protection of trademarks.[76] It was created to alleviate the burden on the trademark owner of having to register a trademark in each individual State.[77]

The Arrangement of Madrid advocates that the international trademark system be just and that member States be treated equally. The International Bureau grants an approved trademark a registration period of twenty years.[78] Renewal of a registered mark can easily be effected by the payment of a basic fee.[79]

The Arrangement of Madrid was a revolutionary concept. It was, however, unsuccessful. It has proven to be ineffective as demonstrated by the small number of States which have become members of the agreement.[80] In 1976 membership only increased to twenty-four.[81]

In its attempt to create an international mark, the Arrangement of Madrid focused only on the area of international registration. (This focus has subverted the interests of developing States, as a whole, because of the lack of any preferential treatment which they require.) The arrangement of Madrid fails to provide for licensing agreements. Even the most recent endeavors of this kind omit reference to trademark licensing agreements.

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74. O'Brien, *supra* note 19, at 109.

75. Arrangement Respecting the International Registration of Trade Marks, Apr. 14, 1891, 175 Parry's T.S. 57. (*Revised* at Brussels on Dec. 14, 1900; *at* Washington on June 2, 1911; *at* the Hague on Nov. 6, 1925; *at* London on June 2, 1934; and *at* Nice on June 15, 1957) [hereinafter cited as Arrangement of Madrid].

76. O'Brien, *supra* note 19, at 102.

77. *Id.* at 110.

78. Arrangement of Madrid, *supra* note 75, art. 6.

79. *Id.* art. 7.

80. In 1957, seventeen countries signed the Arrangement of Madrid. Those were Austria, Belgium, Czechoslovakia, France, German Federal Republic, Holland, Hungary, Italy, Yugoslavia, Liechtenstein, Luxembourg, Monaco, Morocco, Portugal, Spain, Switzerland, and Tunisia.

81. *Id.*

C. *Conference of Vienna*

The Trademark Registration Treaty was concluded at Vienna in 1973.[82] This Treaty was to be drafted in the same framework as that of the Paris Convention. It was to provide for much simpler requirements and a reduced filing fee for the registration of an international trademark.[83]

An unexpected change from prior agreements was contained in article 40[84] which provided a type of preference to developing States.[85] Article 40 allows developing States to avail themselves of the right to file international registration of trademarks under the Treaty without becoming a signatory.[86]

Specifically, because of the provisions set forth in article 40, it is highly unlikely that developing States will adhere to the Treaty.[87] The reasons for this are fourfold. First, developing States are uninterested in obtaining international registration for their trademarks.[88] Second, they are wholly opposed to facilitating the expansion of foreign trademarks into their countries.[89] Third, article 40 grants them a "take your cake and eat it too" prerogative.[90] Furthermore, key States, such as the United States, the United Kingdom, the Scandinavian States, the Soviet Union, and Japan also have not acceded to the Treaty.[91]

Although some consideration was made for developing States their interests were again significantly under represented.[92] The most powerful participants in the Conference of Vienna were multina-

82. Trademark Registration Treaty Post Conference Information, 920 O.G. Pat. Off. 257 (1974) [hereinafter cited as Conference of Vienna]. This treaty did not enter into force because of the failure of enough States to accede to it. A review of some of its key provisions explains why most States do not favor it. *See infra* note 84 and accompanying text.

83. S. LADAS, PATENTS, TRADEMARKS, AND RELATED RIGHTS 1527 (1975).

84. *Id.* at 1526.

85. O'Brien, *supra* note 19, at 110-11. This provision, during an initial period of five, ten or fifteen years, gave nationals and residents of certain developing States the right to file international applications even if such States had not yet acceded to the Treaty. However, it is of no effect, since the treaty never went into effect due to the lack of signatories.

86. LADAS, *supra* note 83, at 1526.

87. *Id.* at 1528.

88. *Id. See supra* note 18 and accompanying text.

89. LADAS, *supra* note 83, at 1528.

90. Developing States would be granted similar protection without having to adhere to the treaty. By not having to adhere to it, developing States would not have to afford other member States similar protection.

91. *Id.*

92. O'Brien, *supra* note 19, at 110-11.

tional corporations rather than governmental entities.[93]

D. Summation of Agreements

In review, there have been three major attempts at creating an international system for trademark registration and protection.[94] Each merely provides for the registration of trademarks[95] and for the protection of trademark owners' property rights.[96]

This limited coverage is detrimental to developing States because none of the international agreements touch on the problems relating to their interests in international trademark licensing agreements. The most benefit any of these agreements can offer developing States is a system of automatic international trademark registration and protection. Due to the imbalance of trademark ownership between developed and developing States, this is of little value to the developing States.[97] Of greater importance is the manner in which new technology can be transferred from developed States to developing States.[98] This is accomplished via licensing agreements between the foreign trademark owner and the domestic licensee.[99]

III. TRADEMARK LICENSING AGREEMENTS: THEIR EFFECT ON DEVELOPING STATES

The trademark licensing agreement has been used by developing States to introduce new products, processes and technology into their countries.[100] This use is due to the fact that most of the valuable, useful and transferable technology is possessed by parties located in developed States.[101] The transfer takes place when the developing State enters into a licensing agreement to acquire technology it does not have. The licensor supplies technology and opens a plant in the

93. LADAS, *supra* note 83, at 1526.

94. See *supra* notes 62-93 and accompanying text.

95. LADAS, *supra* note 83, at 1528.

96. *Id.*

97. *Id. See supra* notes 18, 70 and accompanying text.

98. Ball, *supra* note 7, at 161.

99. *Id.* at 163.

100. *Cf.* Olofsson, *The Importance of Patents and Technology Progress in Developing Countries*, MADRID CONFERENCE ON THE LAW OF THE WORLD 11 (The World Peace Through Law Center, No. 58, 1979). In determining the relative costs and benefits in the transfer of new technology, developing States have concluded that the utilization of domestic resources including the employment and training of domestic labor is most desirable. Their goal is to obtain new technology at reasonable costs. The trademark makes use of domestic resources in a cost-effective way enabling them to achieve this end.

101. W. BROOKHART, CURRENT INTERNATIONAL LEGAL ASPECTS OF LICENSING AND INTELLECTUAL PROPERTY 38 (1980).

developing State so that the domestic licensee can manufacture the product in either the same or a similar way. This ensures that the quality of the product adheres to the same level as that of other products manufactured under that same trademark.[102]

Generally, the trademark licensing agreement is a component of a comprehensive arrangement involving the transfer of technology.[103] In recent years, the costs attributed to domestic licensees in developing States have increased so dramatically that licensing agreements have become a burden to the licensees.[104]

Developing States now look upon trademarks as symbols of the foreign business influence which inhibits their development.[105] This influence is expanded through the use of persuasive advertising.[106] The advertisement of foreign products diverts consumers' attention and allegiance from domestic products.[107] This results in a redefining of local consumption patterns, rather than conforming foreign products to the needs of the particular State.[108] Foreign influence has been so pervasive throughout all sectors of developing States that there has been a redefinition of basic needs.[109]

Consumers who are exposed to this type of advertising are preferring foreign trademarked goods over domestic counterparts.[110] This tendency also extends to the lower income sectors in developing

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102. *See supra* note 5 and accompanying text.

103. Correa, *Main Issues in the Regulation of License Arrangements on Foreign Trademarks: the Latin American Experience*, 7 WORLD DEV. 705 (1979). Included in these comprehensive arrangements are trademarks, patents and other industrial property rights.

104. UNCTAD, *supra* note 4, at 19. In most types of technology transfer agreements, royalty payments are an economic burden to the licensee. However, in most trademark licensing agreements, long-term costs are the obstacle to profit, rather than royalty payments.

105. Spitals, *supra* note 68, at 380. A frequent complaint echoes through the developing States regarding the ill suited technology conveyed by developed States. The discontent surrounds the claim that developed States transfer industrial technology which is inappropriate to the developing States' needs. *See* Helleiner, *The Role of Multinational Corporations in the Less Developed Countries' Trade in Technology*, 3 WORLD DEV. 161, 166-67 (1975).

106. Spitals, *supra* note 68, at 380.

107. *Id.* Since purchasing power is concentrated in the area of foreign products, there has been a redefinition of certain basic needs.

108. *Id. See supra* notes 13-17 and accompanying text.

109. Vargas, *Major Innovations Regarding Trade and Service Marks in the Newly Revised Mexican Law on Inventions and Marks: A Mexican Perspective*, 66 TRADEMARK REP. 188-89 (1979). For example, consider the following excerpt which supports this conclusion:

> The life of the middle to upper middle class bears a close resemblance to [their counterparts] in the [United States]. A Mexican male shaves every morning with a *Trac II Gillette* razor after applying an *Old Spice* shaving foam, or he connects his *Sunbeam* or *Remington* electric razor. . . . His clothes include *Arrow* shirts, *Countess Mara* ties, *Florsheim* shoes, *Hickok* cufflinks and *Hart Shaffner & Marx* suits. His food is stored in a *General Electric* or *Westinghouse* refrigerator. . . . (emphasis added).

110. Spitals, *supra* note 68, at 380.

States.[111] This hurts the developing communities in two ways. First, consumer expenditures focus on desired products rather than those which fulfill their necessities.[112] Second, production of goods bearing foreign trademarks often creates less employment, than does customary indigenous activity.[113] This is largely due to the required importation of resources and skill via technology licensing agreements.[114] Often, the technology transfer is conditioned on the developing State accepting such terms.[115]

In response to the developing States' continuing problems in the area of restrictive licensing agreements, the UN Conference on Trade and Developement (UNCTAD) has proposed several alternatives.[116] The proposals it suggests are as follows: (1) the complete abolition of trademarks in certain sectors; (2) the institution of compulsory licensing of trademarks; (3) the regulation of certain trademark related matters; (4) quality identification through trademark legislation; and (5) quality identification independent of the trademark system.[117]

Upon close examination, the first three UNCTAD proposals clearly frustrate the basic purpose of the trademark.[118] Under either a compulsory licensing system or a system without trademarks, the indications of the quality of specific goods would be nonexistent. Manufacturers and distributors will lose the incentive to produce and monitor the quality of goods sold under the trademark.[119] Without

111. Vargas, *supra* note 109, at 108. *See also supra* note 109 and accompanying text.

112. Spitals, *supra* note 68, at 380.

113. *Id.*

114. Often the developing State lacks the appropriate resources and skill needed to develop or manufacture a product according to the specifications of the licensor. This is not entirely detrimental, because generally speaking, this is the method by which technology is transferred to a developing State. Without the importation of skill and labor, the developing State could not produce the particular product involved in the license agreement.

115. UNCTAD, *supra* note 4, at 36. In some cases, however, the developing State simply lacks the kind of skill or resources necessary to produce or market the product. The real problem, therefore, lies in the misallocation of resources. In the past, many licensing agreements included the importation of skill and resources when the developing State already possessed those items. By not utilizing existing supplies, the cost of manufacturing or producing the item correspondingly increases for the domestic licensee. *See supra* note 7.

116. UNCTAD, *supra* note 4, at 36. UNCTAD was created in 1963. Its purpose is to aid developing States in promoting the regulation of international trade.

117. *Id.* at 38-41.

118. *See supra* notes 33-34 and accompanying text.

119. McCarthy, *Compulsory Licensing of a Trademark: Remedy or Penalty?*, 67 TRADEMARK REP. 197, 227 (1977). The trademark is primarily a marketing device by which the trademark owner can build economic and market strength. If the trademark were abolished, there would be no distinguishing feature between same or similar products. A manufacturer or producer might be tempted to take shortcuts in production or reduce the quality of the product if he, in turn, could save money. *See also supra* note 53 and accompanying text.

monitoring a product's quality standards, the trademark will cease to have significance and products will become either generic or deceptive.[120] Consumers in developing States will be deprived of any guarantee of quality. Producers, foreign and domestic, will be free to market items without proper checks and assurances. Therefore, implementation of any of the first three UNCTAD proposals would have devastating effects on the goals and interests of developing States.

UNCTAD's last two proposals, however, are too difficult to implement. First, the trademark already serves as a quality identifier for consumer purposes.[121] Second, the trademark was meant to guarantee a degree of consistency in the level of quality a product possesses.[122] Third, the trademark's primary function rests in its ability to distinguish similar products.[123] These were the sole and original aims of the trademark.

Many developing States are independently taking steps to confront this influence by providing local industry with preferential treatment.[124] In addition, domestic producers are taking advantage of the presence of foreign technology.[125] Foreign trademarks are viewed as vehicles by which developing producers can obtain access to new technologies.[126] Included in such a package is the goodwill surrounding the trademarked product. By enhancing ther domestic skills and technologies, developing States will acquire the benefits of the goodwill.[127]

An alternative step taken by developing States has been the institution of harsh national legislation. One of the most severe has taken place in Mexico. In 1976, Mexico enacted linking requirements.[128] The Mexican law required Mexican trademarks to be joined with all products manufactured under a foreign trademark.[129]

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120. *Id.*

121. *See supra* notes 50, 55 and accompanying text.

122. *See supra* notes 56-57 and accompanying text.

123. *See supra* notes 45-46 and accompanying text.

124. Ball, *supra* note 7, at 160.

125. *Id.*

126. *Id.* As mentioned earlier in this Comment, the trademark itself is not a conveyor of technology. *See supra* note 8 and accompanying text. However, it is generally a part of a larger licensing agreement. For example, in 1975 nearly half of all contracts for the transfer of technology entered into by Mexico included a trademark licensing agreement of one form or another. Soberanis, *supra* note 2, at 721

127. UNCTAD, *supra* note 4, at 15.

128. Ball, *supra* note 7, at 165. Linking is the coupling of a trademark owned by the local licensee with that of the foreign trademark owner.

129. When a domestic licensee produces or manufactures a product with a foreign license,

Moreover, foreign trademark license agreements had to specifically provide that a local Mexican trademark would be associated with the foreign trademark.[130].

The linking requirements are encouraged in some States in order to take complete advantage of the goodwill the foreign trademark has developed.[131] In addition, they ensure that the local licensees will have a buying market in the event the trademark license is terminated.[132] This could mislead the public into believing that they are buying the same quality product even after the trademark license is terminated.[133]

The effect of the Mexican legislation was that foreign trademark owners were reluctant to enter into licensing agreements with domestic producers. Due to its fear of losing a significant portion of the foreign market, Mexico enacted new legislation in 1982.[134] This new law gives effect to trademark licensing agreements in Mexico upon the recording of the agreement in the National Register for the Transfer of Technology and the Trademark Office.[135] Without proper recording of the licensing agreement, such agreements are given no effect.

Brazil has enacted a similar type of legislation.[136] However, instead of requiring joint use, it makes optional the joint use of foreign and domestic trademarks.[137] Colombia has followed these States by encouraging the joint use of foreign and domestic trademarks.[138]

Other developing States have adopted different measures to abolish trademark protection specifically in the pharmaceutical area.[139] Cuba, for example, encourages the sale of drugs under ge-

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the product would have to carry a domestic trademark together with the foreign trademark. *Id.*

130. *Id.* at 166. The linking provisions in Mexico were to become effective as of February 1978. Just prior to that date, the government announced the granting of one year extensions and continues to grant such extensions.

131. *Id.*

132. *Id.* This creates the possibly erroneous impression to consumers that they are still buying the same goods or goods of the same quality as those previously identified by the joint trademarks of the licensee and the licensor.

133. *Id.* Without express disclosure, the public is unaware of any change in the product's durability, use, safety and quality.

134. Ball, *supra* note 7, at 166.

135. *Id.*

136. Daniel, *Notes from Brazil*, 82 PAT. & TRADEMARK REV. 101 (1984).

137. TDC, *supra* note 56, at 86.

138. *Id.*

139. *Id.* at 85.

neric names.[140] Sri Lanka seeks a reduction in the number of drugs on the market and, like Cuba, encourages the use of generic names for drugs, rather than the trademarked brand names.[141] Afghanistan, on the other hand, has taken harsher and more immediate action in this area by requiring the use of generic names for drugs.[142]

Another method of regulating the use of the trademark is through quality certification or government control over advertising.[143] Both Venezuela and Mexico have enacted legislation against the use of misleading and false advertising.[144] A further method of curbing the influence and power of the foreign trademark is by placing a ceiling on the remittance of royalties by the domestic producer.[145] Members of the Andean Pact, as well as new members such as Brazil, India and North Korea have pursued this course of conduct.[146]

Each of these limitations restricts the bargaining powers of the parties to the licensing agreement. The foreign trademark owner may be harmed initially due to such restrictions. However, it is the domestic licensees in the developing State who truly suffer when the trademark owner refrains from marketing his products in that State.

Developing States make a fundamental mistake when they implement severe restrictions in trademark licensing agreements. In doing so, they overlook the primary function of the trademark. Without a doubt, the trademark plays a vital role in advancing the economies of many developing States.[147] Over the past two decades, it was via the trademark that developing States often created an indigenous technology.[148]

Domestic producers in developing States often lack the resources and skill to manufacture and market quality products.[149] This frequently leads to an increase in products with consistently low quality.[150] Although trademarked goods do not guarantee quality, it

140. *Id.*
141. *Id.*
142. *Id.*
143. *Id.* at 86.
144. *Id.*
145. *Id.*
146. *Id.*
147. Hansen, *Economic Aspects of Technology Transfer to Developing Countries*, 4 I. I. C. 429 (1980).
148. Ball, *supra* note 7, at 161. The resources referred to are capital, trained work force and research facilities. *See also supra* note 10 and accompanying text.
149. *Id.*
150. *See supra* notes 45-46 and accompanying text.

is suggested that they guarantee a degree of consistency in the quality of goods.[151] In many developing States, where literacy levels are low, the trademark becomes a recognized symbol.[152] Consumers purchase trademarked goods expecting to receive the same degree of quality as before. This is added motivation for a trademark owner to ensure that his goods are produced with a consistency in the quality.[153]

Ideally, the trademark licensing agreement serves the function of marketing a trademarked product which informs the consumer of the origin and the identity of the manufacturer of the product.[154] The restrictions implemented by the licensor ensure that the trademarked product is manufactured, produced and marketed in a manner acceptable both to the trademark owner and the consuming public.[155] Consequently, the trademark licensing agreement is vital to the continued existence of the benefits inurred to the foreign trademark owner.

IV. TRADEMARK LICENSING AGREEMENTS: THEIR EFFECT ON FOREIGN TRADEMARK OWNERS

A trademark licensing agreement is a conduit through which technology is transferred by authorizing the licensee to use the trademark.[156]

The licensee's authorized use of the trademark is strictly limited to the product(s) specified in the licensing agreement.[157] The licensing agreement indicates the manner in which the product is to be manufactured and/or marketed via the trademark. It also establishes the trademark owner as the one who is ultimately responsible for the product.[158]

There are two kinds of trademark licenses; passive and active.[159] Where the licensee maintains considerable control over the use of the trademark and is required to pay a limited amount in royalties, the

151. UNCTAD, *supra* note 4, at 36.

152. Ball, *supra* note 7, at 161.

153. *Id.*

154. Gabay, *The Role of Trademarks in Consumer Protection and Development in Developing Countries*, 3 INDUS. PROP. 102, 106, 109 (1981).

155. *Id.*

156. *See supra* note 9 and accompanying text.

157. Gabay, *supra* note 154, at 108.

158. *Id.*

159. *Id.* at 110.

licensor is said to have a passive license.[160] An active license is created when the exact opposite is agreed upon[161] and the licensor is actively involved in transferring technology, and assisting in the manufacturing, distributing and advertising of the product.[162]

In most States, the trademark owner is not required to license the use of his trademark in order for a domestic producer to make use of it.[163] However, in many States a trademark will lose its protection and classification as a trademark if it is used without permission, for example, if there is no trademark licensing agreement.[164] The trademark protection may also be destroyed if a trademark owner permits the trademark to be used without establishing the nature and quality of the goods in the agreement.[165]

Due to the increase in restrictive national legislation in trademark licensing by developing States, foreign trademark owners have intensified control over their ownership of the trademark. Consequently, many foreign trademark owners have entered into licensing agreements in which the licensee in a developing State is restricted in his right to use the trademark.[166] In order to maintain control over the use of the trademark, many licensing agreements specify that all use of the trademark by the licensee, including any registrations thereof, inure to the benefit of the licensor.[167]

An examination must be made into the importance the trademark and the trademark licensing agreement have on the foreign trademark owner. First, a trademark is seldom licensed alone but is usually one portion of an agreement for the transfer of technology.[168] Second, the trademark is readily identifiable by purchasers and com-

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160. *Id.*

161. *Id.*

162. *Id.*

163. *See* Coffey, *Trademark Considerations in International Trade*, 19 L. NOTES 27, 29 (1983).

164. *Id.*

165. *Id.* Some States require a trademark to be in continued use, some require a trademark and trademark licensing agreement to be registered in that State, still others require both before the State will extend protection to the trademark contained in the licensing agreement. The States only insuring protection of a trademark when both the foreign trademark and the licensing agreements are registered, are England, Canada, Australia, New Zealand, Ireland and South Africa.

If the licensing agreement is not specifically tailored to the needs of the licensor, the trademark becomes vulnerable to misuse. Such misuse will also lead to the termination of trademark protection by the State.

166. *Id.* at 28.

167. *Id.*

168. UNCTAD, *supra* note 4, at 23. *See also* Besso, *1982 Licensing Law Handbook* § 1.02 [6] (1982); *supra* note 8.

petitors of the product.[169] Third, it offers protection to the maker of the particular goods through national legislation in each individual State. The protection accorded the trademark owner is of potentially greater value when compared to the protection afforded the patent holder. This is due to the fact that the trademark is capable of existing externally.[170]

As noted earlier in this Comment, one of the trademark's important functions is as a quality identifier and distinguisher of goods.[171] These characteristics have a direct bearing on the product's goodwill, which, as far as the trademark owner is concerned, signifies its monetary value.

Take for example the computer software field. Patent, copyright and trade secret laws directly protect the contents of a particular technology.[172]

This means that the components, ideas, and overall technology are shielded from duplication. The trademark is incapable of protecting any of these elements. If the trademark is registered, the trademark owner can guard only against the unauthorized use of his trademark.[173] The trademark has, however, also developed into a kind of marketing device.[174] Long after a product's patent has expired, the trademark can still serve to distinguish the product and assure that the product is manufactured with a corresponding degree of consistency.[175] Further, a technology owner can use the trademark in addition to employing the use of other kinds of industrial property in order to reach a larger market. Hence, even in the computer software field, the trademark is used in order to further the proprietary interests of the technology owner.[176]

The economic lure of the trademark is that it is already an asset. By the time the domestic licensee acquires its use, the trademark

169. *See supra* notes 54-55 and accompanying text.

170. As previously stated, the trademark can be renewed simply upon the payment of a fee. *Cf.* White, *Trademark Protection of Computer Software*, 8 A. P. L. A. 279 (1980). Patents protect the contents of technology whereas trademarks protect the name of a manufacturer/producer. The same product could be manufactured by another under a different brand name, and not violate trademark laws.

171. *See supra* notes 33-34 and accompanying text.

172. White, *supra* note 170, at 279.

173. *See supra* notes 63, 71 and accompanying text.

174. *See supra* note 8 and accompanying text.

175. White, *supra* note 170, at 280, 281 and 287. *See also supra* notes 45, 46, 50 and 51. This relates to the trademark's primary and secondary functions. Its value to the trademark owner is enhanced by a potentially eternal life.

176. *Id.*

owner has already developed the product, its goodwill, and has established its level of quality.[177] These original costs are incurred by the trademark owner. However, once these are established, the trademark owner is not required to make much more investment toward developing his product.

The measures taken by several developing States resulting in endangering the protection of the foreign trademark directly usurps the trademark owner's proprietary interest. By restricting the trademark owner's access to a particular market, the trademark owner loses out on any potential licensing agreements and resulting profits. The measures do not, however, endanger the ownership interest in the contents of the technology. Without adequate remuneration for its use, however, the technology trademark owner will select a more favorable region in which to market his technology and commodities.[178]

V. RECOMMENDATIONS AND GUIDELINES FOR IMPLEMENTING A BALANCED SYSTEM FOR TRADEMARK LICENSING AGREEMENTS

There are several types of policy alternatives to consider in contemplating a better trademark licensing system. Some of the suggestions made during the 1979 UNCTAD Conference, however, would only serve to eradicate the protection of the trademark.[179] The need for an international system for trademark licensing is evident in several respects.

The majority of the trademarks in developing States are owned by transnational corporations located in developed market economies.[180] The technology connected with these trademarks is accordingly the property of individuals and entitites located in developed States. The domestic producers in the developing States have two options. They can either enter into a licensing agreement with the

177. Gabay, *supra* note 154, at 111; *see also* Ball, *supra* note 7, at 163. This is an attractive alternative to other forms of market entry, especially for developing States where trial and error is a difficult and costly way to introduce any kind of product into the market. By licensing an already existing trademark, the licensee enjoys the additional profits gained from the goodwill the trademark owner has already developed. This is generally in the form of international reputation.

178. FINNEGAN AND GOLDSCHEIDER, *supra* note 10, at 520.35. One view is that the multinational companies, which possess a considerable portion of world technology, are not to be blamed for the imbalance in the licensing agreements. It is claimed that the businessman out to make a quick profit is the one who has brought the multinationals into disrepute. *Id.* at 520.33.

179. UNCTAD, *supra* note 4, at 38; *see also supra* note 134 and accompanying text.

180. UNCTAD, *supra* note 4, at 45.

foreign trademark owners or compete against the foreign trademarks.[181] The latter option would require the domestic producer to single-handedly embark into the international market with his own product and trademark.

The trademark owners enter into licensing agreements for various reasons. Some of these reasons include the following:

a) to earn royalty income;
b) to buy required additional research and development for a potentially valuable technology;
c) to improve a foreign subsidiary's performance by lending it technical assistance;
d) to acquire market strength, capital and market assets, or an interest in them;
e) to help market products, services, raw materials or equipment;
f) to obtain technology by a grant-back of the technology developed by a licensee;
g) to test a market which may be assessed later either by manufacture-and-sale or joint venture operations;
h) to reach a market not otherwise reachable;
i) to reduce risk;
j) to sell a company;
k) to adapt a product to a local market.[182]

On the other hand, some of the domestic licensees' reasons for entering into a licensing agreement include the following:

a) to settle a patent or trade-secret dispute;
b) to avoid risk of research and development expense not producing a return on investment;
c) to acquire needed technology;
d) to acquire a needed right to operate;
e) to supplement the licensees' own research and development.[183]

It would appear from this list, that the trademark owner has more to lose with the eradication of trademark protection in developing States. This, however is misleading. The losers would also be the developing States' domestic producers, manufacturers and consumers.

The trademark owner would lose a portion of his market and potential for economic profit. The developing States would be deprived of the opportunity to acquire a significant amount of new and desperately needed technology.[184] The domestic licensees and manu-

181. *Id.*
182. ARNOLD, WHITE & DURKEE, 1984 LICENSING LAW HANDBOOK § 201 (1984).
183. *Id.* at 9, 10.
184. *See supra* note 126 and accompanying text. The trademark is an integral part of the

facturers would forfeit the economic profits associated with the trademark's goodwill.[185] Finally, consumers would be deprived of greater product selection and a corresponding guarantee of consistency in the quality of products.[186]

Following are guidelines by which a balanced licensing agreement could be created. Each proposal is a reasonable alternative to the present system of licensing. This is because both the trademark owners and the developing States must come to a compromise and spread the costs and risks in order to protect the trademark and save the trademark licensing system. Without compromise, trademark licensing agreements and the protection of trademarks as a whole will continue to deteriorate.[187]

First a ceiling on the amount of royalties a licensee must remit to the licensor must be implemented.[188] "Royalty" is just one common way of referring to these fees. Such fees often take the form of dividends, technical fees, interest payments, over-pricing of imports or under-invoicing exports.[189] These arrangements should be restricted in duration as well. The restriction should depend upon the type of technology involved and its value.

Second, the licensor must consider using whatever resources are available in the developing State, if such are appropriate for use with the transferred technology.[190] The resources the developing State has are often misallocated in the process of entering into the licensing

licensing of technology. It is licensed alone or with other kinds of industrial and intellectual property. If the trademark owners become reluctant to license their trademarked products, developing States will be unable to acquire the technology associated with the product unless it is available through other *unlikely* means.

185. *See supra* notes 36-37 and accompanying text.

186. *See supra* notes 54-55 and accompanying text. The purchasing costs increase because consumers would have no trademark to rely on. They would once again have to resort to a kind of trial and error purchasing.

187. *See supra* notes 7, 20-21 and accompanying text. Even if developing States were to continue mandatory harsh trademark legislation, as in the case of India, Mexico, Sri Lanka, Peru, Venezuela and others, the trademark owner would still be afforded protection in most other States. The issue then would be whether such protection would be of any significance. Most likely, it would not. If trademark protection in much of the world becomes impaired or diminished, other States would have very little incentive to continue such protection.

188. *See* UNCTAD, *supra* note 4, at 35. This can be done by calculating a percentage ceiling above which licensors can not require licensees to agree to and pay.

189. *Id.* at 36. Royalties tend to be one form of direct cost to the licensee. In order to acquire the desired technology and obtain a portion of the market, the licensee must pay the price for each. For example, U.S. licensors received over $4 billion in royalties and fee income from foreign licensees in 1978. This figure includes royalties from developing as well as developed States. *See* ARNOLD, WHITE & DURKEE, *supra* note 182, at 9.

190. In the interest of promoting efficient world trade, economic theory and practice are concerned with the most efficient use of resources.

agreement.[191] A more suitable allocation would defray part of the cost involved in the licensing agreement. In addition, it would enable the developing State to use its labor force and natural resources more efficiently.

Third, even if advertising expenditures remain the responsiblity of the licensee, the licensor's involvement in the kind of advertising adopted must be qualified. The licensor should not employ advertising tactics which would overcome consumers and persuade them to abandon domestic products for the same or similar foreign trademarked product.[192] The developing State should have a proportionate involvement in selecting the kind of advertising it wants for the promotion of the product.

Fourth, the grant-back of technology developed by the licensee must be restricted to certain kinds of high technology. The developing State should not continue to develop technology for the trademark owner without a quid pro quo. At the very least, the developing State should acquire equal access to, and use of, the technology it develops for a licensor. If this is not acceptable, royalty fees and other costs should be reduced in order that the developing State pays only for what it receives.

Fifth, the licensee should enjoy a portion of the benefits resulting from the development of goodwill.[193] There might be limitations to

191. This misallocation of resources results from one of two possible causes. Either the technology that is being transferred is not suited to the developing State's needs or resources which are available in the developing State are not utilized. In both circumstances improper use of available resources harms the developing State. *See* UNCTAD, *supra* note 4. *See also supra* note 14 and accompanying text.

192. *See* Ball, *supra* note 7, at 173. *See also* UNCTAD, *supra* note 4, at 37. This is a significant consideration in developing States or lesser developed States where the emphasis is on satisfying the basic needs of consumers. This is why deference must be made to the consumers' needs. When such consideration is not given, the ultimate result is shifting of the additional cost upon the consumer. *See* Spitals, *supra* note 68, at 379.

The advertising agency is a firmly established entity employed in developed and developing States. It is present in developing States because of the significant foreign participation in the advertising industry. Since most agencies either originate in developed market economies or are composed of individuals from developed market economies, much of their advertising is geared toward that type of market, rather than the socio-economic levels of particular developing States. This type of advertising furthers the misallocation of the developing State's resources. *See also* Greer, *supra* note 54, at 690-91.

193. A common example is the arbitrary termination of the license to the domestic licensee after he has expended considerable amounts of resources over a number of years to build up the foreign licensor's goodwill. Without being permitted to use the trademarked product, the licensee suffers a complete loss. The developing State can also market a new domestic product which most certainly enjoys much less distinction or notability than its foreign counterpart or license another foreign trademarked product. Either way, the licensee has to start work anew.

this proposal depending upon the period of time over which the license is to be in effect.

Sixth, the linking of domestic and foreign trademarks should be mandatory under certain circumstances. For example, if a trademark licensing agreement provides for a long term arrangement, the linking provision should be implemented. This would ensure that if and when the license is terminated, the domestic licensee would be able to continue marketing the product under its own trademark. This type of linking provision has been employed with little success due to its harshness.[194] The key to its success is that it should not be employed unilaterally but selectively.[195] If the license is for a short term arrangement, the linking agreement should be entirely optional. In this kind of situation, the licensee usually does not invest considerable time, labor and money into a one-sided arrangement.

Seventh, export restrictions by the licensor should be eliminated in the case of a long term license. The Andean Pact countries have already implemented such a strategy.[196] When the parties enter into long term licensing agreements, more is invested and sacrificed by each. The domestic licensees must be given the opportunity to fully utilize the technology they have contracted to develop and market for the licensors.

Eighth, any fraudulent or illegal use of a foreign trademark by the licensor must lead to cancellation in the developing State.[197] This would also have the effect of voiding the trademark licensing agreement.

All of these recommendations could be brought before an international forum for thorough discussion and review by all member

194. Mexico's linking provisions were too harsh and unreasonable. It provided for an across the board mandate that foreign trademarked products could only be marketed jointly with a domestic trademark. *See supra* notes 128-30 and accompanying text.

195. If the license agreement sets forth a reasonable rationale for termination of the license, then linking may be unnecessary. However, in a long-term arrangement linking may still need to be considered as an alternative unless the licensee is provided with a fair lump sum compensation upon termination. *See* Ball, *supra* note 7, at 173.

196. The Andean Pact is in force, in Bolivia, Colombia, Ecuador, Peru and Venezuela. The Agreement is called the Andean Subregional Integration Agreement concluded in Cartegena, Colombia. The Treaty's objective is the economic integration of member States, and a mutually beneficial system for implementing trademark registration. Taylor and Bentata, *Trademark User Requirements in Latin America*, 74 TRADEMARK REP. 109, 123 (1984).

One of the provisions is concerned with export restrictions. *See supra* note 21 and accompanying text.

197. *Id.*

States. One such forum could be UNCTAD.[198] A possible obstacle is that UNCTAD tends to be a mouthpiece solely for developing countries. Another forum could be the World Intellectual Property Organization (WIPO), a recently created organ of the United Nations specifically providing legal and technical assistance in the area of intellectual property.[199] Its responsibilities also include assembling and disseminating information among member States. Because WIPO tends to take a more objective stance in this area, it might be a more viable choice for presenting and implementing these proposals. These proposals would be voted on by member States. Upon adoption, they would have the effect of international law, and would be legally binding.[200]

Codification of these proposals would be beneficial both to foreign trademark owners and domestic licensees. First, it would encourage licensees in developing States to enter into licensing agreements, because the costs would be shared with the licensor. Second, foreign trademark owners would not be reluctant to enter developing market economies because they would be protected from any future restrictive domestic legislation. Lastly, the likelihood of disseminating new technology to developing States would be increased thereby gradually decreasing the world technology imbalance.

V. CONCLUSION

The trademark is often licensed alone or in conjunction with other industrial property in a transfer of technology licensing agreement.[201] This type of arrangement informs consumers of the origin and identity of a product.[202] The trademark's purpose is to identify goods and individual levels by quality.[203] Both these functions have a significant impact on the development of the product's goodwill.[204]

In most licensing agreements, the foreign trademark owner retains all control over a product's goodwill. This is true even when the licensee in the developing State has exerted efforts toward devel-

198. Sittenfeld, *Sao Paulo Conference on the Law of the World* (The World Peace Through Law Center, 1981).

199. *Id.*

200. *Id.* at 10 and 11.

201. Ball, *supra* note 7, at 163.

202. Gabay, *supra* note 154, at 109.

203. *See supra* notes 33-34 and accompanying text.

204. *See supra* notes 38-40 and accompanying text.

oping it.[205] Over the years, the costs and risks of entering into a trademark licensing agreement have increased dramatically.[206] Consequently, developing States have been implementing increasingly harsh measures to restrict the foreign trademark owners from entering their markets.[207] Thus, the foreign trademark owners are becoming more reluctant to market their technology and products in those developing States implementing this kind of legislation.

Should the trademark licensing system remain as it is today, the trademark's protection would be seriously endangered. Yet without trademark protection the transfer of much needed technology to developing States would cease or be greatly inhibited.

Currently, no international agreement or treaty addresses the problems encountered with the licensing agreement. Without modification of the present system the protection afforded the trademark will continue to deteriorate.

Several proposals are recommended to be reviewed and codified into an international agreement. Recommendations include, implementing a linking option for the parties to a licensing agreement, a ceiling on royalties and other fees, a division of advertising costs, and the elimination of export restrictions under certain conditions.

An international agreement with respect to these peviously mentioned areas of trademark licensing agreements would encourage the proliferation of technology transfers from developed States to developing States through the use of such agreements. This would aid the developing States in their quest for new technology, and would benefit foreign trademark owners by reopening markets which have been virtually closed to them.[208]

Éva Csiszár Goldman

205. *See supra* note 167 and accompanying text.
206. *See supra* note 104 and accompanying text.
207. Ball, *supra* note 7, at 160.
208. *See* Williams, *supra* note 23, at 22; Ladas, *supra* note 83, at 1906.