

THE (CHILEAN PINK) LADY VANISHES, OPTIONS, ASSIGNMENTS, LICENCES AND TRADE MARK AGREEMENTS

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Legal Briefings - By **Amalia Stone, Kristin Stammer, Melanie Bouton**

When parties enter into option arrangements, it is always prudent to be clear about what circumstances can cause the option to be triggered.

This article looks at a case where as between a [trade mark](#) licensor and licensee an option was found to have been exercised, even though neither party undertook the formal actions needed to exercise it, and the severe consequences that followed for the licensor. We also examine some interesting points about trade mark licences that were explored in the case.

IN BRIEF

When you enter into option agreements, be clear about what can trigger the option.

If you don't intend to trigger an option, be careful not to undertake any of the acts that are triggers. You can try to agree with the other party at the time that the acts do not trigger the option, but it will be open to a court to find that you have done so.

If you license your trade marks, and you want the licensee not to be able to sub-license, you should explicitly define what sub-licences are permitted, and which are not.

If you want a licence to end if the contract under which it is granted ends, you should not call it 'perpetual'.

PINK LADY APPLES - WHERE DID THEY COME FROM?

The Cripps Pink is a Western Australian success story coming out of a plant cross between Golden Delicious and Lady William, back in the 1970s, when it was protected by plant breeder's rights. Apple & Pear Australia Ltd (**APAL**) hold the rights that came out of that project.

The Cripps Pink has been marketed around the world under the 'Pink Lady' brand, and is a family favourite in many households, mine included. Chile is a major growing region for Pink Lady apples.

The rights to grow the apples are not the subject of the current case. Rather, it is the rights to market them under the Pink Lady brand.

WHO OWNS THE PINK LADY BRAND?

In most jurisdictions, Apple & Pear Australia Ltd has registered trade marks for PINK LADY brands – but not in the USA, Mexico or Chile. In the USA and Mexico, Brandt's Fruit Trees Inc (**BFT**) is the registered proprietor. It is also the exclusive licensee of the Canadian PINK LADY brand rights from APAL. In Chile, Pink Lady America LLC (**PLA**) held relevant trade mark applications and registrations for PINK LADY, which it obtained after APAL had unsuccessfully applied for registrations of that mark.

APAL, BFT and PLA are all members of the International Pink Lady Alliance, and have all signed the IPLA Operating Agreement, which aims to promote consistency in marketing the Cripps Pink apples around the world. That agreement in effect provided for members of the alliance to informally agree variations to trade marks to be used by members of the alliance in relation to Cripps Pink varieties, and to determine which Cripps Pink derived varieties should be covered as products on which the trade marks should be used.

THE OPTION DEED

In 2007, APAL threatened to oppose PLA's Chilean PINK LADY trade mark applications, unless PLA entered into an option deed with APAL, which PLA did after some months of negotiations.

Under the option deed, PLA granted APAL an option to acquire any registrations that resulted from the Chilean trade mark applications. Under the deed, if APAL exercised that option, it had to grant to PLA an exclusive licence of the trade marks with respect to trade between Chile and North America (meaning USA, Mexico and Canada), on the basis that the licence would be perpetual subject only to quality control provisions.

Under that licence, PLA would have been granted the right to establish and maintain a 'pier to pier' licensing system. A 'pier to pier' licensing system is one where the import and export of a branded product is permitted by both the importing country and the exporting country rights holders, and which contemplates a quality control agent on behalf of the importing country but situated in the exporting country to administer export licence controls and export documents. In effect, a 'pier to pier' licensing system allows PLA to sub-license its rights to make that import / export system work.

The option deed included, as is normal, a provision setting out how the option holder could exercise the option, relevantly in a defined Exercise Period. That definition allowed the parties to agree that the Exercise Period would expire on any agreed date.

TAKING BACK THE RIGHTS - DID THIS EXERCISE THE OPTION?

In 2008, APAL took an assignment of the Chilean trade mark registrations from PLA without formally exercising the option. Over the years, the relationship between APAL and PLA continued to sour, and in 2013, APAL then purported to limit PLA's licence to cover USA and Mexico only, and not cover Canada.

Shortly afterwards, PLA sent letters to Chilean apple marketers and exporters notifying them that the arrangements between APAL and PLA had ended, and that PLA was once more the rights holder for Chile.

This resulted in proceedings between the parties in the Victorian Supreme Court¹, where, amongst other things, each party claimed that the other had repudiated the contract. PLA succeeded on most counts and in particular, was successful in establishing that it was entitled to hold the Chilean trade mark registrations.

LESSONS FOR TRADE MARK LICENSORS

1. If parties to an option arrangement do the actions that would be required to be done if the option was exercised, does that mean that the option has been exercised even if the option process has not been strictly followed? In this situation, the Court found that it had.

The Court noted that the definition of the Exercise Period allowed the parties to agree on

an alternate date by which the option must have been exercised, and concluded that it had been open to the parties to agree on a different manner of exercise to the steps required under the option agreement. The Court also looked at how the parties had behaved towards each other at the time of entry into the option agreement, and the actions taken, and concluded that the option had been exercised, as the trade mark registration rights were assigned, and APAL and PLA proceeded towards others and each other as if the North American licence had been formally granted.

APAL argued that the assignment by PLA was not an assignment under the option deed in consideration of a grant back of licence rights, rather an assignment in a situation where PLA did not regard the Chilean trade mark registration and application as commercially important and wanted to get rid of them. The Court was not impressed by this, noting that APAL itself had been unable to secure the trade mark registration and had congratulated PLA at the time of registration on obtaining valuable rights.

The Court was also unimpressed by APAL's argument that PLA was not operating under the licence contemplated by the option deed, but operating under the more informal IPLA trade mark permissions, noting that it would be extremely unlikely that PLA would have agreed to assign the Chilean trade mark registration and application without consideration, which would be provided by the express licence rights contemplated under the option deed. An assignment without such consideration (ie if the licence PLA operated under was the IPLA permissions) would be uncommercial.

The lesson here is that if you wish to perform an act or make an omission contemplated as the result of an exercise of an option, you need to be very cautious to ensure that it is clear to all parties to the option that the option has not been exercised. Even then, it is open to a court to find that it has by looking at the commercial circumstances and the behaviour of the parties towards each other. If you behave towards another party to an option as if you have exercised the option, you run a high risk of being found to have actually exercised the option.

2. If an agreement is silent as to whether a licence includes a right to sub-license, can the licensee sub-license?

The Court held that in this situation PLA could sub-license, as the agreement expressly contemplated that PLA could put in place 'pier to pier' licensing arrangements for export of the apples from Chile under the PINK LADY marks to other jurisdictions.

If commercially a licensor does not want a licensee to be able to sub-license, other than in a prescribed way, it would be prudent to expressly define what rights the licensee has and does not have. Expressly dealing with one kind of sub-license without prohibiting other types of sub-license may leave the door open for a Court to find that all types of sub-license are permitted, without licensor control.

Sub-licensing that is not under the licensor's control may in turn damage the licensor's trade mark registrations. In many jurisdictions, if a trade mark the subject of a registration is used without licensor control, it is possible that a third party may challenge the registration on the basis that the trade mark has become misleading and

deceptive and consumers will become confused.

3. If the consideration for an contract is the grant of licence rights, and those rights are later partly brought to an end, does that mean that consideration for the original bargain has failed and it should be undone?

As part of the Court's finding that the option had been exercised, it found that the consideration for the assignment of the Chilean trade mark registration rights was the grant of the perpetual licence by APAL to PLA to use the PINK LADY trade marks for export from Chile to North America.

The Court went on to find that because of the importance of the Canadian export market to Chile, removing those rights from PLA's licence was sufficiently significant so as to amount to a repudiation of the agreement. That meant that the Chilean trade mark registration and application should also be in the same position as if the repudiated contract had not been entered into – back with PLA.

4. If a contract terminates under which a licence has been granted, does that automatically terminate the licence?

PLA argued that if the Chilean trade mark registrations were retained by APAL, then PLA would continue to enjoy its licence rights, as they had been granted 'in perpetuity subject only to the quality control provisions...'.

APAL argued that the licence right did not constitute a separate property right, and as it was conditional on compliance with the quality control provisions and so not separable from the contract itself. APAL also argued that the rights granted were personal in nature, and not acquired for all perpetuity.

Although the Court did not expressly refer to the arguments on whether the licence could constitute a separate property right, the Court held that the parties' intent under the contract was clear that once the licence was granted, it would continue regardless of termination except in the circumstance where PLA did not comply with the quality control provisions. If the Chilean trade mark registrations had been retained by APAL, they would have continued to be subject to the exclusive perpetual licence to PLA.

This article was written by [Amalia Stone](#), Special Counsel, Sydney.

ENDNOTES

1. *Apple & Pear Australia Ltd v Pink Lady America LLC* [2015] VSC 617.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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