

Interpretation of Distribution & Licensing Agreements & Disputes Arising Thereunder

Presentation by

**Anand Desai
Managing Partner
DSK Legal**

COMMERCIAL DISPUTE DEFINED

- Section 2 (1) (c) (ix) of the Commercial Courts Act, 2015 defines commercial dispute as *inter alia*:

a "commercial dispute" means a dispute arising out of – distribution and licensing agreements.

DISTRIBUTION

- Required in the following sectors, amongst others:
- Supply
 - Food products
 - Pharma products
 - Convenience products
 - Steel, cement, petrol etc.
- Supply and service
 - Electronics
 - Automobiles
- Service
 - Travel services (hotels, flights, cars)
 - Technology
 - Accounting and legal
 - Internet websites, apps, television signals etc.

LICENSING

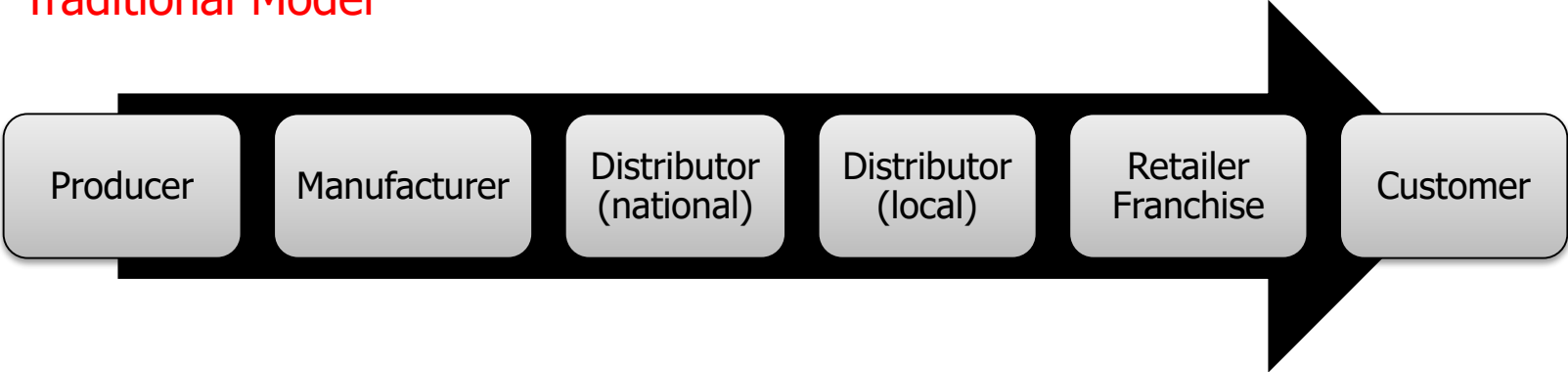
- Found in the following areas, amongst others:
 - Manufacture of branded goods under a trademark and/or technology transfer license
 - Contract manufacturing agreements
 - Working a patent for manufacturing
 - Copyright exploitation – films, music (sub-dividing rights)
 - Format exploitation for television
 - Franchises – for sale of goods or services
 - Technology / software
 - Internet connectivity, websites, apps etc.; links to websites
 - Information
 - Celebrity / brand endorsements and association

KEY TERMS

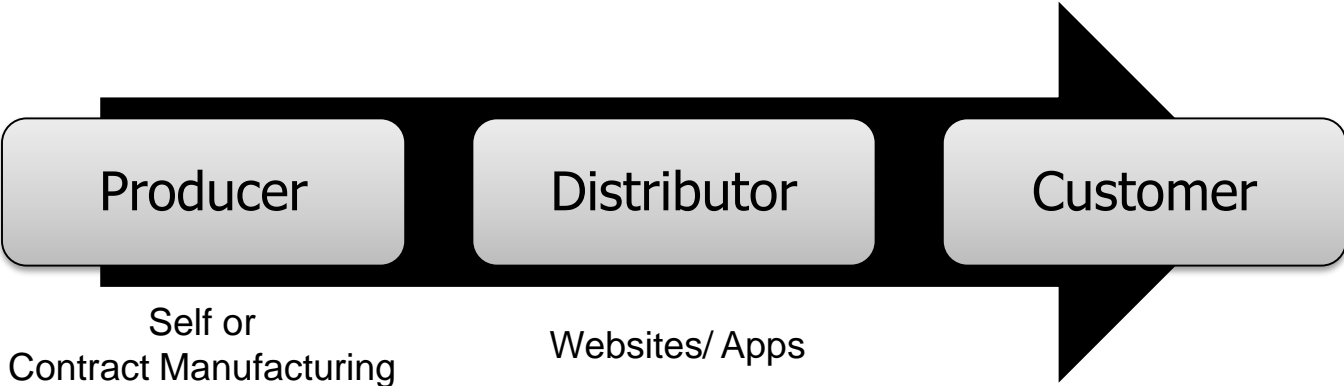
- Parties, and right to assign
- Scope in detail, including advertising & promotion etc.
- Consideration
- Responsibilities of parties, time of performance, reputation etc.
- Representations / warranties
- Liability / indemnities – security to meet liability?
- Geographical coverage
- Exclusivity
- Period / Tenure
- Breach / infringement and effect
- Termination and its consequences
- Dispute resolution
- Applicable law and jurisdiction (multiple jurisdictions)
- [Equal vs unequal bargaining position]

SUPPLY CHAIN HAS CHANGED

Traditional Model



Present/Modern Model



DISTRIBUTION NETWORKS

- **PARLE-G - the biggest biscuit brand in the world**
- Key: Strategic location of its manufacturing units, which are closer to rural and suburban areas
- Distribution channels consist of:
 - Parle Depots
 - Wholesalers and Distributers
 - Retailers
- Marketing strategy – pricing, advertising, deep inroads in markets etc

DISTRIBUTION NETWORKS

PARLE'S GLOBAL PRESENCE



<http://www.parleproducts.com/global-presence>

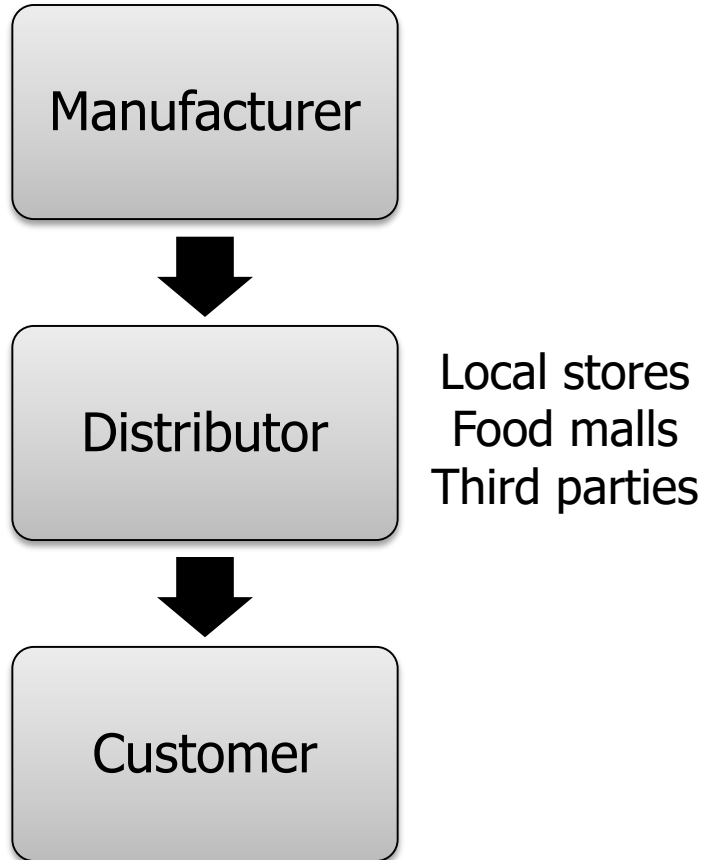
DISTRIBUTION NETWORKS

- **PATANJALI**
- Consumer goods available in a multitude of product categories ranging from shampoo and toothpaste to biscuits and noodles, and now desi jeans
- Manufacturing through self owned & third party factories
- Currently, the distribution channel consists of*:
 - 1200 Patanjali Chikitsalayas (medical centers)
 - 2500 Aarogya Kendras
 - 7000 stores in villages
 - Tie-ups with Big Bazaar, Reliance Retail, Star Bazaar, etc.
 - Tie-ups with e-retailers such as Amazon, Big Basket & Grofers
 - 250 mega stores in tier 1 & tier 2 cities (to be launched)

*<http://economictimes.indiatimes.com/magazines/brand-equity/could-distribution-be-patanjalis-achilles-heel/articleshow/52306425.cms>

DISTRIBUTION NETWORKS

- **MAGGI**



<http://www.bbc.com/news/world-asia-india-33002261>

EVOLVING DISTRIBUTION CHANNELS

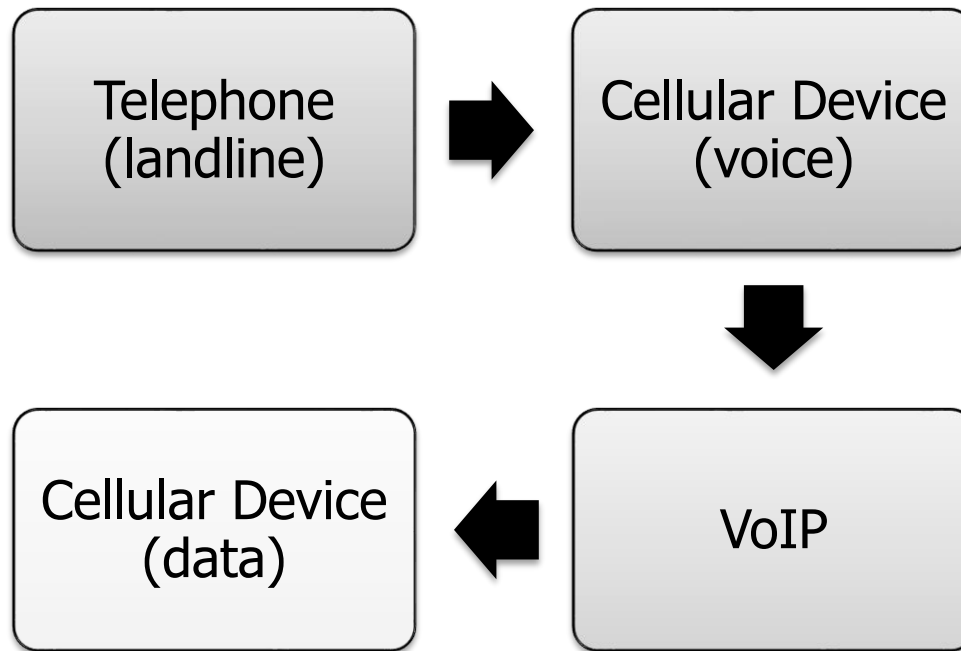
BANKING



<https://blog.appknox.com/infographic-evolution-of-banking/>

EVOLVING DISTRIBUTION CHANNELS

COMMUNICATION TECHNOLOGY



EVOLVING DISTRIBUTION CHANNELS

MUSIC



SOME RELEVANT CASE LAWS

- ***Mumbai Metropolitan Region Development Authority vs. Unity Infraproject Ltd. 2008 (5) Bom.C.R. 196***, Bombay High Court:
 - In interpreting a contract, the Court cannot place emphasis on an isolated provision divorced from the context and unrelated to the other provisions which govern contractual obligations.
 - Contracts represent business understandings between the parties.
 - The duty of the Court when called upon to assess where the balance lies in a contractual dispute, is to read the contract as a whole in order to understand the business meaning which the parties attributed to their obligations.
 - The law is not divorced from business realities nor can the vision of the judge who interprets the law be disjointed from the modern necessities to make business sense to business dealings.

SOME RELEVANT CASE LAWS

- ***Cadbury India Ltd. vs. L. Niranjan, I (2007) CPJ 40 (NC)*** before the National Consumer Disputes Redressal Commission
 - Case of worms in Cadbury chocolates.
 - It was the case of the manufacturer that the liability was with the retailer/vendor under the distribution agreement.
 - However, the NCDRC held the following:
 - Not only Local Authority should take action and verify such chocolates but also it is the duty of the manufacturer that such things do not occur.
 - To prevent this practice, we hope that petitioner, in their advertisements, as a matter of routine, should make it clear that consumer shall not purchase such chocolates from a retailer who is not having fridge or visi-cooler.

SOME RELEVANT CASE LAWS

- The Hon'ble Supreme Court of India, in the case of ***Gujarat Bottling Co. Ltd. & Ors. vs. Coca Cola Co. & Ors., 1995 SCC (5) 545*** held:
 - A negative stipulation in an agreement for grant of franchise viz. a commercial agreement where under both the parties have undertaken obligations for promoting the trade for their mutual benefit is enforceable if it operates only during the period the agreement, except in cases where the contact is wholly one sided

SOME RELEVANT CASE LAWS

- In the case of ***Ozone Spa Pvt. Ltd. vs. Pure Fitness & Ors., 222 (2015) DLT 372*** decided by the Hon'ble Delhi High Court, the facts of the case were:
 - The Plaintiff was engaged in the business of providing services in relation to fitness, spa, salon, etc. and in furtherance of the same, it entered into a Franchise Agreement.
 - A dispute arose between the Parties when the Defendant started a competitive salon business under the name of 'Hair Masters' for which it adopted the entire look and feel, layout, choice of colour combination etc. of the Plaintiff's salons.
 - In addition to the breach of confidential information and trade secrets of the Plaintiff (part of the operation manual provided to franchisees), the Defendant diverted customers, poached well-trained staff and used the uniforms of the Plaintiff's salon.
 - The Court injuncted the Defendant.

SOME RELEVANT CASE LAWS

- The Hon'ble Bombay High Court, in ***Mahyco Monsanto Biotech vs. Union of India and Subway Systems vs. State of Maharashtra, W.P.(C) 9175 & 497 of 2015***, held on the difference between 'transfer of rights to use' and 'permissive use' in relation to the levy of sales tax and service tax:
 - Monsanto's case is that of licensing technology through the medium of seeds, which subsequently can be sub-licensed to third parties
 - Subway's case is of a franchising agreement through which it licenses its trademarks and other confidential information to run outlets in different territories

SOME RELEVANT CASE LAWS

- The principle difference between the two is the re-vesting of rights on expiration of the term of the agreement
- Held: The essential factor to determine taxation is the time for which use is granted. If the arrangement/ transaction has an expiry date, i.e. the licensor has divested his rights for a certain period of time and has been re-vested with them on expiration, it would qualify as permissive use. However, if the rights granted are not re-vested with the assignor, he shall be liable to pay VAT.”

SOME RELEVANT CASE LAWS

- In ***EuroKids International Pvt. Ltd. vs. Bhaskar Vidhyapeeth Shikshan Sanstha, 2015 (4) BomCR 734***, the Hon'ble Bombay High Court held:
 - The Respondent had agreed not to use any trade mark and copyright of the Petitioner upon termination of the Franchise Agreement and such right is enforceable in law and violation of any such negative covenant can be restrained by an order of injunction of this Court.

SOME RELEVANT CASE LAWS

- In the stay application of ***Chokhi Dhani Resorts Pvt. Ltd. vs. M/s. Essem Recreation, 2013 (4) CDR 1963 (Raj)*** before the Hon'ble High Court of Rajasthan (Jaipur Bench):
 - A clause in the agreement specified the effect of termination to the effect that the trade name 'Chokhi Dhani' permitted to be used by the Respondent-Franchisee during the tenure of agreement, shall revert back to the Appellant-Franchiser on the termination of the agreement, and that the Respondent shall not carry on the business under the said trade name after the termination of the agreement, the Respondent was injuncted from using the said trade name 'Chokhi Dhani' for its business, but not from carrying on the business or from providing the services, as such clause would be contrary to Section 27 of the Contract Act.

LIABILITY OF CELEBRITY ENDORSERS

- Backlash from the controversy on Maggi, which was endorsed by Amitabh Bachchan and Madhuri Dixit has led to the draft Consumer Protection Bill, 2015 which targets celebrities for misleading ads.
- The Standing Committee has recommended strict penalty on such offenders with classifications for first time, second time and subsequent offences.

CHANGING TECHNOLOGIES

- In the case of ***A&M Records, Inc. v. Napster, Inc.***, 239 F.3d 1004 (9th Cir. 2001), *affirming*, 114 F.Supp.2d 896 (N.D. Cal. 2000):
 - Napster, a peer to peer platform, assisted in repeated infringement of copyright law as users uploaded and downloaded copyright protected sound recordings
 - Napster contended “fair use” since the music exchanged was for personal use of the users
 - The Panel stated that the injunction must devise a remedy that takes into account the technological limits and recognize that Napster could not read files stored on the computers of individual users
 - This decision led to the temporary closure of Napster and change in the structure from a free to paid service for online streaming

CHANGING TECHNOLOGIES

- **NETFLIX ORIGINALS**

- Netflix's strategy for commissioning its own TV shows and films, i.e. exclusively helps maintain a competitive edge
- This strategy is preferred over content licensing largely due to the fact that the term for such licenses is limited
- Long term outlook is that original content could give global distribution rights which could increase Netflix's revenues
- The company is also focused on developing series in local languages so that it can attract users everywhere, with a focus on stories that have global appeal
- Investment in such content has enabled Netflix to both retain as well as increase its subscriber base

THANK YOU

Comments and feedback: anand.desai@dsklegal.com

Mumbai Office:

1203, One Indiabulls Centre, Tower 2,
Floor 12-B, 841, Senapati Bapat Marg,
Elphinstone Road,
Mumbai 400013
Tel +91 22 6658 8000
Fax +91 22 6658 8001

Delhi Office:

4, Aradhana Enclave,
R.K Puram, Sector 13,
Opposite Hotel Hyatt,
New Delhi 110 066
Tel +91 11 6661 6666
Fax +91 11 6661 6600

For more details: www.dsklegal.com

Disclaimer

The contents of this document are privileged and confidential and not for public circulation. This document is for general information of our clients and others to whom it is specifically provided. The information contained in this document is derived from public sources, which we believe to be reliable but which, without further investigation, cannot be warranted as to their accuracy, completeness or correctness and we are not obligated to update or amend the same. The information contained in this document is not intended to be nor should be regarded as legal advice and no one should act on such information without appropriate professional advice. DSK Legal accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

Mumbai Office (Litigation Group):

C-16, Dhanraj Mahal,
Chhatrapati Shivaji Marg,
Apollo Bunder,
Mumbai 400001
Tel +91 22 6152 6000
Fax +91 22 6152 6001

Pune Office:

301, Power Point,
Lane No.6, Koregoan Park,
Pune 411 001
Tel + 91 20 6900 0930