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Editorial

Trade mark licensing and Covid-19: why fashion companies have a duty to comply with their legal obligations

Irene Calboli*

For the past several months, Covid-19 has dominated the intellectual property (IP) debate. Most discussions have focused on the implications of patent protection on access to treatments against the virus and a hopefully soon to be found vaccine. In these remarks, I would like to focus on another Covid-19 crisis making headlines across the world and partially related to IP: millions of workers in the garment industry in developing countries have been fired or furloughed as fashion companies have cancelled orders due to plunging sales since the pandemic's beginning. Famous Western groups such as Inditex (Zara), C&A, Target, and Marks & Spencer are among the companies involved in this humanitarian crisis.

Why and how does this situation relate to IP?

These companies rely on trade mark licensing to outsource the manufacturing of their garments to low-cost developing countries. At the same time, they retain exclusive control over their trade marks, allowing them to portray the products as coming from a single source to consumers across the world as well as gaining the largest share of profits. Yet, trade mark licensing is a practice whose legal acceptance is based on the rule that the marks need to continue to represent a badge of consistent quality and cannot be used to confuse or deceive consumers. Under the Common Law, trade mark owners also need to exercise control over the quality of the products produced by licensees.¹ Much controversy has surrounded the acceptance of this practice in the past century. Trade marks were traditionally protected as indicators of the products' *manufacturing* origin. Licensing, it was argued, could confuse consumers on the identity of the products' actual manufacturers and lead to

differences in quality. As supply chains and production became more complex and globalized, this interpretation of trade marks' origin function was extended to indicate products' *controlling* origin, not only products' manufacturers.² This shift was prompted precisely in order to validate the practice of licensing and to facilitate outsourcing. In 1994, Article 21 of the Agreement on Trade Related Aspects to Intellectual Property Rights (TRIPS) clarified that this practice ought to be accepted and stated that "Members may determine conditions on the licensing . . . of trademarks . . .".

Outsourcing product manufacturing to developing countries is common practice in most industries today. In the fashion industry, apart from (some) high-end luxury brands, most garments are designed in one country, manufactured in another, and then sold in stores worldwide. Several legally independent entities participate in the supply chain, from textile producers, to garment manufacturers, transporters, warehouses, vendors, distribution centres, and retailers. A variety of different contracts link these entities throughout the manufacturing, delivering and, finally, selling stages. Consumers are aware that clothes are mostly manufactured abroad today, as the product labels generally indicate the origin. Yet, consumers ultimately rely on the trade marks as symbols of quality and badges of affiliation to guide their purchases.

Over the past several years, fashion companies have been able to pocket a large share of profits by saving on production costs for garments, thanks (also) to trade mark licensing. However, with rights come responsibilities. As mentioned, at least at Common Law, trade mark owners have a duty to control the quality of the products that are produced by third parties under their authorization. In this case, these parties are the manufacturing

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1 For detailed review, see I Calboli – J De Werra (eds), *The Law and Practice of Trademark Transactions* (Edward Elgar:2016).

2 *Id.*

factories in developing countries. Accordingly, I would like to argue that the control that trade mark owners need to exercise by law extends to the *whole production* of the products, including complying with their contractual obligations. Should they not do so, this could constitute a violation of the duty to control their licensed trade marks.

As Covid-19 started to wreak havoc across the world, fashion companies started to rescind contracts with manufacturing factories relying on *force majeure*, the contractual clause that permits the parties to be released from contractual obligations in exceptional circumstances. Covid-19 is certainly an exceptional event and these companies may be successful in claiming *force majeure* to cancel their obligations, if challenged in court. Still, this development is having catastrophic consequences for factory operators and, most relevant, for workers. Moreover, factory operators are not able to take any meaningful legal action, due to lack of resources and expertise, and because they would need to continue to produce garments for the same companies after the Covid-19 crisis. Factories fear that fashion companies may decide not to return even more than they fear the effects of the current crisis.

Thankfully, because of the pressure of public opinion, along with calls from governments and non-governmental organizations (NGOs), some companies have confirmed

that they would honour their previous obligations with these factories and their workers. This is not enough, however, as too many workers are still out of work and cannot provide for their families.

Trade mark law could possibly provide an additional deterrent for fashion companies and an incentive to honour their obligations: the fear to possibly lose their marks due to the claim that have not exercised the required control. Certainly, this claim may be difficult to support, and many would oppose it, as existing case law has never included the treatment of workers and whether trade mark owners comply with contractual obligations as part of the factors to find lack of quality control in licensing agreements. Yet, fashion companies have enriched themselves due to low-cost operations in developing countries for decades, thanks to trade mark licensing. Ultimately, how can trade marks continue representing a badge of consistent quality, and loyalty to consumers who have often an idealized image of the companies, if their owners do not comply with the legal obligations they have committed to? These obligations are a necessary part of a system—outsourcing through licensing—that trade mark owners benefit from and have pushed to be legally recognized. Why should they be allowed, under trade mark law, to profit from this system, but then abandon it when the wind changes and still retain their trade mark rights intact?