

## Certification Marks—Are They Really Worth The Hassle? An Australian Perspective

By Peter Hallett

### Key Points

- Registering a certification mark can involve considerable time and cost.
- In many instances, licensing an ordinary trade mark can achieve an equivalent commercial outcome to licensing a certification mark.
- Whether a certification scheme for products or services should be implemented by way of ordinary mark or certification mark will depend on the nature of the proposed scheme.

### Introduction

At first sight, the distinction between trade marks and certification marks seems clear enough. Trade marks are a badge of origin, whereas certification marks indicate that products or services have been certified as having a particular characteristic. Some examples of well known certification marks are the Heart Foundation's "tick" logo, the Woolmark and the "Australian made" kangaroo logo.

However in a licensing context the distinction between certification marks and ordinary marks can be difficult to draw. This article considers whether an organisation wishing to establish a certification scheme for products or services should choose to license a certification mark or an ordinary trade mark. In particular, it examines the factors that might be taken into account when deciding whether to implement a certification scheme via an ordinary trade mark or a certification mark.

### Trade Marks and Certification Marks Compared

The Trade Marks Act 1995 (Cth) defines a trade mark as a sign used, or intended to be used, to distinguish goods or services dealt with or provided in the course of trade by a person from goods or services so dealt with or provided by any other person (section 17).

The traditional view is that a trade mark indicates the trade origin of products or services sold under the mark. This view of the function of a trade mark has recently been explained by the High Court, approving the Full Federal Court in *Coca Cola v All-Fect*<sup>1</sup>:

*"Use 'as a trade mark' is use of the mark as a 'badge of origin' in the sense that it indicates a connection in the course of trade between goods and the person who applies the mark to the goods... That*

*is the concept embodied in the definition of 'trade mark' in s 17—a sign used to distinguish goods dealt with in the course of trade by a person from goods so dealt with by someone else."*

A trade mark is not necessarily a representation as to quality—instead a trade mark indicates that goods are of a standard that the trade mark owner is content to market "under his banner."<sup>2</sup> As such, despite being a "badge of origin," a trade mark does not necessarily indicate the trade origin of goods or services sold under the mark. A trade mark might be better described as indicating the "origin of quality" of the goods or services provided under the mark. In other words, a trade mark indicates that the products or services provided under the mark are of a standard that is acceptable to the trade mark owner, whether that standard be high or low.

A **certification mark** is a sign that is used, or intended to be used, to distinguish goods or services that have been certified as having a particular quality or characteristic from goods or services that have not been certified (section 169). Certification marks do not indicate trade origin. Instead, a certification mark indicates that products or services have been certified as having a particular characteristic. The relevant products or services may have been certified by someone other than the owner of the certification mark.

The procedures for registering a certification mark

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1. See *E&J Gallo Winery v Lion Nathan* [2010] HCA 15, in which the High Court of Australia held that the importation and sale in Australia of trade marked goods, without the knowledge of the trade mark owner, constituted use of the trade mark by the registered owner sufficient to defeat a non-use action. The case of *Coca-Cola Co v All-Fect Distributors Ltd* (1999) 96 FCR 107 involved the sale of a confectionary product in the shape of a bottle, with the word "cola" printed on it. It was held that the shape of the confectionary functioned as a trade mark.

2. See *Glaxo Group v Dowelhurst Ltd* [2000] FSR 529, per Laddie J at 540-541. Glaxo Group claimed that Dowelhurst infringed its registered trade marks and engaged in passing off by repackaging Glaxo Group's goods for importation and sale in the UK. The goods in question still bore Glaxo Group's registered trade marks. Finding in favour of Dowelhurst, Laddie J noted that the repackaging of Glaxo Group's goods did not interfere with the quality of the goods and did not interfere with the essential function of the trade marks applied to those goods, being to guarantee the origin of the goods.

are significantly more onerous than those for an ordinary trade mark. An applicant for registration of a certification mark must file rules governing use of the certification mark. Those rules must specify:

- (a) the certification requirements that goods and/or services must meet for the certification trade mark to be applied to them;
- (b) the process for determining whether goods and/or services meet the certification requirements;
- (c) the attributes that a person must have to become a certifier approved to assess whether goods and/or services meet the certification requirements;
- (d) the requirements that a person, who is the owner of the certification trade mark or an approved user, must meet to use the certification trade mark in relation to goods and/or services;
- (e) the other requirements about the use of the certification trade mark by a person who is the owner of the certification trade mark or an approved user;
- (f) the procedure for resolving a dispute about whether goods and/or services meet the certification requirements; and
- (g) the procedure for resolving a dispute about any other issue relating to the certification trade mark.<sup>3</sup>

The rules are assessed by both the Registrar of Trade Marks and the Australian Competition and Consumer Commission (ACCC—<http://www.accc.gov.au>) for compliance with the Trade Marks Act and the Competition and Consumer Act.

The owner of a certification mark, like the owner of an ordinary mark, has the exclusive right to use and license others to use the mark. However, the owner of a certification mark is bound by the rules that govern the mark's use to the same extent as licensees.

## Trade Mark Licensing

Trade mark licensing separates the “badge” from the “origin,” and for this reason trade mark licensing was historically considered inherently deceptive and unlawful. As the law developed (for example in cases such as GE<sup>4</sup> and Pioneer<sup>5</sup>), trade mark licensing came to be permitted provided that (1) a sufficient connection in the course of trade was maintained between the trade mark owner and the licensee's

products or services, and (2) the licensing was not otherwise deceptive. Aickin J in Pioneer stated the requisite connection could be slight, such as selection or quality control, or control of the licensee in the sense that a parent company controls its subsidiary.

This position is reflected in the Trade Marks Act 1995, which provides that a licensee is an “authorised user” of a mark if the licensee uses the mark under the control of the trade mark owner. The Act does not define “control,” but states that the exercise of

- (a) “quality control” over goods or services dealt with or provided by the licensee; and
- (b) “financial control” over the licensee's relevant trading activities both constitute the exercise of control.

Neither “quality control” nor “financial control” are defined in the Act. The term “quality control” is typically used in a manufacturing environment to describe procedures intended to ensure that a manufactured product meets defined quality criteria.

There are only a few cases that have considered the meaning of “quality control” under the 1995 Act, but those cases follow the approach of Aickin J in suggesting that the requisite connection between trade mark owner and licensee need only be slight.<sup>6</sup> A historical perspective suggests that “financial control” means control sufficient to enable the owner to determine, in a practical sense, the quality of the licensee's products or services.<sup>7</sup>

## Licensing Ordinary Marks and Certification Marks Compared

In most respects, the licensing of a certification

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3. Trade Marks Act, section 173.

4. See *GE Trade Mark* (1969) RPC 418. The case was in part concerned with the use of a registered trade mark by a licensee on goods not covered by the owner's registration. Graham J found that such licensing was *prima facie* permissible, provided the registered owner maintains a sufficient degree of quality control over the way in which its trade mark is used and ensures that such use does not lead to consumer confusion.

5. See *Pioneer v Registrar of Trade Marks* (1977) 137 CLR 670. Aickin J held that trade mark licensing is permissible where the licensee's use of the mark indicated a connection in the course of trade with the owner (however slight), and was not otherwise deceptive. Aickin J cited selection, quality control, and control of the user as being examples of a sufficient connection in the course of trade.

Trademark	Certification Mark	Comments
Registrable if capable of distinguishing – s.41	Registrable if capable of distinguishing – s.177	These tests are essentially the same, but the context in which the assessment is made is somewhat different. There might, for example, be greater scope to register a mark containing a place name as a certification mark than as an ordinary mark.
Registered owner may use the licensed mark, subject to terms of licence.	Registered owner may only use certification mark in accordance with rules.	A licence agreement could require the trade mark owner to comply with same quality standards as licensees.
Trade mark owner can refuse to grant licence.	ACCC requires that rules contain a dispute resolution process to ensure that a prospective licensee will not be refused a licence for reasons beyond the Rules.	This is a matter of policy for the licensor. IP rights are often licensed on RAND (reasonable and non-discriminatory) terms. Trade marks could also be licensed on RAND terms.
Trade mark owner free to license mark on different terms to different licensees.	Standard rules apply to all users of the certification mark.	A licence agreement could prohibit the trade mark owner from licensing the mark to others except on identical terms.
Trade mark licence terms not reviewed by IP Australia or ACCC.	IP Australia and ACCC both assess rules.	Trade mark owner could elect to publish its licence terms for public scrutiny.
Trade mark owner may alter quality standards and conditions for use of mark.	Any change to rules for use of certification mark requires consent of ACCC.	Licence agreement could prohibit licensor from altering quality standards except after consultation with licensees, etc.
Trade mark licence terms, owner's quality standards and criteria for selection of licensees can be kept confidential.	Rules for use of certification mark are published.	Trade mark owner could elect to publish its licence terms and quality standards.
Trade mark owner must exercise control over licensee's use of mark.	Certifier need not be the owner of the certification mark. Possible to have multiple certifiers.	Trade mark owner must exercise control over licensee's use of mark to constitute "authorised use." But trade mark owner could contract out aspects of control function, such as product testing or quality audits.
Trade mark owner may assign mark, subject to terms of licence.	Certification mark may only be assigned with consent of ACCC.	Licence agreement could restrict licensor's ability to assign trade mark.
Authorised use of mark deemed to be use of mark by trade mark owner.	Authorised use provisions do not apply to certification marks.	Approved users of certification marks do not have the rights of authorised users under section 26 of the Act. However those rights can be excluded by agreement and are typically excluded under a trade mark licence.

mark is similar to the licensing of an ordinary trade mark. A person wishing to use a certification mark will typically be required to sign a licence agreement and pay licence fees. The licensee (“approved user”) will be permitted to use the relevant mark subject to compliance with various conditions, notably (in the case of a certification mark) the relevant rules. In both cases, it will be necessary for the trade mark owner to set standards in relation to use of the licensed mark, and to monitor compliance with those standards.

The Trade Marks Act 1955 required that the rules for a certification mark include a right of appeal to the Registrar against a refusal to certify goods or services, or to license use of the mark in accordance with the rules. This reflected the policy that certification marks are open to be used by any trader that meets the standards set in the rules. There is no equivalent requirement under the Trade Marks Act 1995. However, the rules must specify a dispute resolution process and the ACCC will assess proposed rules to provide comfort to prospective licensees that they will not be denied use of the certification mark for reasons beyond the rules.<sup>8</sup>

As an aside, the legal status of the rules governing use of a certification mark is somewhat unclear. The rules will typically form part of the contractual terms upon which an approved user is permitted to use the certification mark. However, the rules also govern pre-contractual aspects of the relationship between the owner of the certification mark and prospective users, such as the process that governs applications for a licence. In a sense, the rules comprise a series of public representations by the owner of the certification mark in relation to the operation of the certification scheme.

The key differences between licensing trade marks and certification marks are set out in the included table. In many cases, as set out in the comments

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6. See *CA Henschke v Rosemount Estates* [2000] FCA 1539 and *Yau’s Entertainment Pty Ltd v Asia Television Ltd* [2002] FCFA 78. In both cases, an issue arose as to whether the registered trade mark owner had exercised control over a licensee’s use of the mark. In *Henschke*, the Federal Court suggested that a mere revocable authority would not be sufficient to establish the existence of quality control. In *Yau’s Entertainment*, the court found that a licensee’s use of a trade mark on videos of programs made by the trade mark owner was an authorised use where the licence terms stipulated that all title selections were subject to the approval of the trade mark owner.

7. As opposed to, for example, the degree of financial control that might be exercised by a lender over its customer.

8. Certification Marks —The Role of the ACCC (2011), published at [acc.gov.au](http://acc.gov.au).

column, the differences can be minimised by the adoption of appropriate licence terms.

## Why Adopt A Certification Mark?

Given the extra regulatory burdens placed on owners of certification marks, it might be asked whether an organisation wishing to implement a certification scheme would be advised to license an ordinary mark instead of a certification mark.

There are many examples of product certification schemes that have been implemented via licensing of an ordinary trade mark, rather than certification mark. For example, the well known apple label PINK LADY, which is registered and licensed as an ordinary mark, could conceivably be registered and licensed as a certification mark – *i.e.* the mark indicates that the apples bearing the PINK LADY mark are of the Pink Cripps variety. There are also numerous examples of marks registered in Australia that contain the word “certified,” but which are registered as ordinary marks not certification marks.<sup>9</sup>

The advantages of adopting a certification mark over an ordinary mark would appear to be few. The main advantage is perhaps largely one of perception - the licensing of certification marks is more open and less subjective than the licensing of ordinary trade marks. The owner of a certification mark can point to the assessment by the ACCC of the rules governing use of the mark, and the non-discriminatory nature of those rules, as safeguarding the integrity of the licensing scheme. On the other hand the licensing of ordinary marks is not typically subject to the same degree of independent scrutiny or openness, and there is more scope for the exercise of licensor discretion.

Whilst consumers may not appreciate the subtle differences between the licensing of certification marks and ordinary marks, many certification schemes are established and operated by industry bodies, for whom impartiality and independence are important concerns. Indeed perceived objectivity may be critical to industry acceptance of a certification scheme. The owner of an ordinary trade mark may elect to license its mark on reasonable and non-discriminatory terms, but perceptions of subjectivity may be difficult to overcome.

Another potential advantage of certification marks is that there may be scope to certify products or services in circumstances that would not constitute “authorised use” under the Trade Marks Act. In most

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9. See for example registration no. 731806—Certified Australian Angus Beef (logo).

cases, certification marks are concerned with the quality of products or services sold under the mark. However, certification marks are not limited to matters relating to “quality” – they can relate to matters such as location of production, material or mode of manufacture. For example, the “Australian Made” stylised kangaroo certification mark indicates that products have been made in Australia. But it does not otherwise indicate that the relevant products are of any particular quality or standard.

A trade mark owner who licences a mark to be used in relation to products produced in a particular location, but who otherwise does not set any standards for the products, might not be regarded as exercising “control” in the relevant sense. The fact that products have been grown or made in a particular location does not necessarily mean that the products are safe, healthy or otherwise of a particular quality. Although the degree of control required to constitute authorised use is slight, it is doubtful that merely specifying a place of production would be sufficient to constitute control. On the other hand, a requirement that products sold under a mark be made from particular materials, or be manufactured in a particular way, would most likely concern quality.

The non-discriminatory nature of certification marks is one of the potential downsides of choosing to license via a certification mark. It is possible that a licensee might meet the rules governing use of the mark in circumstances that might nonetheless dam-

age the overall credibility of the certification mark. For example, in 2007 the Heart Foundation licensed fast-food giant McDonalds to use its healthy “tick logo.” It was roundly criticised for doing so, as it allegedly damaged the credibility of its brand.<sup>10</sup> The Heart Foundation subsequently announced changes to its licensing program to end use of the tick logo in the takeaway food environment.<sup>11</sup>

It would be difficult, if not impossible, for the Heart Foundation to refuse to license its tick logo to a company whose products otherwise comply with the rules governing use of that logo. Any changes to the rules for the tick logo licensing scheme would require the approval of the ACCC, and the Heart Foundation’s failure to certify McDonald’s products under existing licences could trigger an appeals process. The Heart Foundation has sought to overcome this difficulty by ending its certification scheme in the food services (take-away) industry entirely once existing licences expire, and to confine the scheme to supermarket foods.

## Summary

An organisation wishing to establish a certification scheme would be well-advised to consider adopting and licensing an ordinary mark instead of a certification mark. In the licensing context, ordinary trade marks are in most cases able to operate in a manner similar to certification marks, but without the regulatory burden and additional costs associated with the registration of certification marks. ■

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10. See for example, *The Age* newspaper, “\$330,000 buys Maccas the tick of approval,” 6 February 2007.

11. Heart Foundation Media Release, 21 September 2011, “Changes to Heart Foundation Tick.”