

Character Merchandising: International Experience And Indian Perspective

By Raman Mittal

I. Introduction

Merchandising of intellectual property (IP) is the marketing technique where the goods or services are decorated and embellished with established IP with an aim that such embellishment will induce the public to buy them. A coffee mug carrying the image of Spider-man, a toy made in the shape of He-man, a T-shirt with a logo of Harvard University, a rakhi in the shape of Donald Duck are all instances of merchandising of various forms of IP. In all these examples, IP such as trademarks, copyrights and designs belonging to others have been used by the producer of goods/services. The producer could, however, do that only through licensing of relevant IP rights.

It was with the appearance of Mickey Mouse and other Disney characters in the 1930s that the concept of merchandising became a significant licensing business practice. The concept of 'characters' was fuelled by popular magazines and comics. With the arrival of radio, films, television, and advertising, the concept of merchandising became an industry in its own right. In recent years, the business of so-called 'merchandising' of names and images of fictional characters and celebrities has become commonplace, and is 'probably a multi-billion industry in the Western World.'¹

This article, on the one hand, seeks to dissect the practice of character merchandising so as to find out its true meaning and scope and, on the other hand, it analyses the practice from various different angles of laws implicated, licensing of intellectual property rights, together with its commercial potential and associated legal risks. The meaning of this law is best illustrated by principle cases on the subject—therefore the article looks into various interesting controversies and leading cases that this practice has generated. This article draws on the commercial practice of character merchandising, the related legal disputes and the consequent jurisprudence that developed in the Western World and transposes the same in Indian settings, and tries to examine the Indian legal framework in this context.

II. Character Merchandising: Meaning and Definition

Character merchandising refers to the licensing of characters, such as words, names, titles, symbols, designs, fictional characters, college insignia, logos of sports teams, etc., for use in association with products or services. The term 'character' covers both fictional humans (for example, Krish, Tarzan or James Bond) and non-humans (for example, Donald Duck or Bugs Bunny). In addition to fictional humans, characters may also be aliens, animals or gods.

Character merchandising is the secondary exploitation, by the owner of a fictional character. Such secondary exploitation will be entirely a different way of using the character than its primary use or activity; though it will be dependent on such primary use or activity in a way that without the primary use the secondary is impossible. Christopher Morcom has defined character merchandising as:²

The commercial exploitation of any name, symbol or other sign which has acquired or has the potential to acquire popularity, for the purposes of selling or enhancing the sales of goods or services of any description, not being goods or services for which the name, symbol or other sign has been established as a brand with the public or might reasonably be so established by the extension or development of a range of goods or services.

Merchandising aims to build upon an established image or reputation by means of the halo effect. Attributes or qualities associated with the image or reputation in question may be associated with or ascribed to the products or services to which it is symbolically attached.

III. Forms of Merchandising: Character vs. Personality Merchandising

Character merchandising involves the use in the

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1. *Tony Blain v. Splain* [1994] FSR 497 [HC (NZ)], per Anderson, J.

2. Christopher Morcom, *Character Merchandising 2* (Common Law Institute of IP, UK 1991).

marketing or advertising of goods or services of a fictional personality or situation. While personality merchandising involves the use of true identity of an individual in the marketing or advertising of goods and services.

From a commercial or marketing point of view, merchandising can probably be dealt within a single category. However, from the legal point of view it is important to differentiate between these two forms of merchandising since the availability of legal rights, their scope and duration may vary according to the subject involved. Character merchandising is confined only to IP laws, but personality merchandising definitely involves issues of privacy and defamation apart from relevant IP rights.³

IV. Sources of Characters

Successful merchandising relies on characters that are popular either inherently or through promotion. The subject of merchandising should be acceptable in terms of a corporate image, be quickly and easily recognized and understood, and arouse favorable and appropriate emotions.⁴ The main sources of fictional characters are:

- Fiction books (Pinocchio, Tarzan, Harry Potter, Winnie the Pooh, Peter Rabbit, Sherlock Holmes, James Bond, Alice in Wonderland, Feluda)
- Strip cartoons (Tintin, Astérix, Smurfs, Superman, Rupert the Bear, Peanuts, Chacha Chaudhari, Betal)
- Film cartoons (Mickey Mouse, Bugs Bunny, Nemo, He-man)
- Artistic works (Mona Lisa, Irises, Vase with Fifteen Sunflowers)
- Buildings and statues (Eiffel Tower, Taj Mahal, Tower of Pisa, Bahai Lotus Temple, Statue of Liberty)
- Logos of organizations and events (Panda of WWF, Bull of Free Software Foundation, mascot of Olympics, university logos, Playboy Bunny)
- Cinematograph films (Star Wars, Crocodile Dundee, King Kong, Rambo, Krish, The Lord of the Rings)

3. The focus of this article is on character merchandising rather than on personality merchandising.

4. Bhavin Pandya and Mitesh Jayswal, "Merchandising Domestic Cricket League Brands: Discernible Way to Keep the Brands Productive and Alive" at 125 (14) *European Journal of Social Sciences* 1 (2010).

- Television series (Teletubbies, The Simpsons, Sesame Street)
- Video games (Pokemon, Mario, Luigi, Donkey Kong, Mega Man)
- Apart from the above, sometimes an image is created purely as an icon, without necessarily having any narrative development or linkage. In such cases the 'personality' is revealed, not through familiarity with the character's story, but purely through the representation of form. This design-driven, visually-led icon has no back-story or overacting narrative.⁵ So, a character is created only for the purpose of merchandising.

V. Reasons for the Practice of Character Merchandising

"You can buy a T-Ford in any colour you want, as long as it is black" was Henry Ford's famous quote in the 1920s, which illustrates the role of marketing at that time. It was a seller's market and people would buy whatever industries would produce, such was the demand for new products. But time transformed seller's markets into buyer's markets of today, where competition is global and the battle for markets is influenced more than ever by value addition.⁶ Soon companies realized the importance of trademarks, copyright and industrial designs in marketing strategy. The whole aspect of merchandising is cashing in on this 'marketing factor' which plays a dominant role in the purchasing process, more than ever before. No doubt we are prepared to pay a premium for a coffee mug which has the picture of our favourite character printed on it.

A brand of a product could achieve enough recognition and respect that simply putting its name or images on a completely unrelated item can sell that item. A common article like a coffee cup or a pencil may be very similar to another of the same quality. But an image of a popular character embedded on it will increase its beauty and marketability. The main reason for a person to buy a particular low-priced mass consumption product (mugs, scarves, badges, T-shirts, pencils, toys, etc.) may not be because

5. See, "Character Merchandising in Japan—The First Eight Decades," <http://helenmccarthy.wordpress.com/2009/08/01/character-merchandising-in-japan-the-first-eight-decades/> (May 10, 2010).

6. See, Hans Verhulst, "International Trade in Technology - Licensing of Know-How and Trade Secrets," http://www.wipo.int/sme/en/documents/trade_technology.htm (April 4, 2010).

of the product itself, but because the image of a character appealing to that person is reproduced on the product. Merchandising, that way, enhances the commercial value of the product by making it more eye-catching, glamorous, or funny. It may also make an implied statement about quality of the product bought. Since the purchaser identifies the character with the article bought, he feels that because the works behind it were 'well done' the article marketed under the respective character must also be of good quality. Further, mass marketing requires that the consumer overcome his fear of the unknown. Associating a new product with a well-known character or name achieves it.⁷ Because of these reasons merchandising has become a well known feature of modern marketing.

VI. Commercial Potential of Character Merchandising

Although a secondary form of exploitation, yet a successful merchandising programme may even be more profitable than the work from which the property is derived.⁸ The world is full of such success stories of creative licensing of characters.

When the character of 'Winnie the Pooh' was first created for the books of AA Milne, it was neither iconic nor a commercial golden hen. But when Disney bought the rights to the character and 'Disney-fied' it for a children's television series and comic strip, it suddenly became popular as every child's best friend. A feverish spate of licensing in the form of character merchandising followed and it was put on cloths, cups, toys, toiletries, etc. and Disney earned millions of dollars.⁹ Winnie the Pooh became one of the company's most successful franchises worldwide, but it is definitely not the only one. Mickey Mouse, another icon of the Walt Disney Company became popular in the 1930s and 1940s which resulted in an explosion of toys, books, and consumer products with the lovable rodent's likeness on them, none of which were manufactured by the Walt Disney Company.

Created by Georges Remi, the Belgian artist, Tintin has become one of the best-known cartoon strip characters around the world. The first strip appeared in 1929 in a Belgian newspaper. Tintin went on to

feature in a number of animated films for television and cinema, and had an influence on the art world. Tintin has appeared on a Belgian postage stamp and on Euro coins. There is also a tremendous merchandising empire surrounding Tintin: wallpaper, bed linen, kitchenware, furniture, shower curtains, alarm clocks, watches, key rings, underwear, etc. The relentless marketing of Tintin has become the centre of a multi-million Euro industry and has made him a symbol of value.¹⁰

The company that owned rights in Spider-man was declared bankrupt and some of its most valuable assets were sold off only a few years back. However, by licensing the Spider-man mark Marvel Entertainment Inc. was able to generate \$155 million. The Spider-man mark is used in connection with toys, games, clothes, hotels and theme parks. The company is now the fourth biggest licensor in the world.¹¹

A James Bond film could give rise to toy James Bond rocket-firing cars. A space adventure could give rise to a range of toy spaceships and plastic reproductions of film characters. So, the way characters could be exploited commercially is limited only by the imagination of their owners. For these owners of IP, merchandising is a very popular source of revenue, due to the low cost of letting a third party manufacture the merchandise, while the IP owners simply sit back and collect the merchandising fees. Companies like Harley-Davidson and Nathan's actually make more money from licensing than from manufacturing. Merchandising is particularly effective in out-of-doors and point-of-sale promotions. A successful merchandising partnership offers benefits for both the licensor and the licensee. A licensee company investing in merchandising may not only gain from association with a particular character but may also do a great deal to promote the character which adds value to the licensor's property.

Apart from generating significant revenues, merchandising can also maintain consumer awareness of the licensor, the character and its properties. For the owner of a character which is a trademark, merchandising provides continuing 'use' in commerce, which is also useful in order to maintain trademark protection.¹² The owner of a character may acquire trademark rights by virtue of its 'use' as a result of

7. Joanna R. Jeremiah, *Merchandising IP Rights 4* (John Wiley & Sons 1997).

8. See, Richard Raysman *et al*, *Intellectual Property Licensing: Forms and Analysis* 9.01 (Law Journal Press, New York 2007).

9. See, Shwetaree Majumder, "Valuation of IP Assets of Publishers" in S.K. Ghai (ed.), *IP—Issues in the Publishing Industry* 70 (The Federation of Indian Publishers 2008).

10. Lien Verbauwhede, Savvy Marketing: Merchandising of IP Rights, <http://www.wipo.int/sme/en/documents/merchandising.htm> (July 10, 2010).

11. See, *Licensing Magazine* (April 2006).

merchandising it.¹³ The technique of merchandising is rather similar to brand extension, which spreads a good name across a family of products.

VII. IP Laws Implicated in Character Merchandising

The term 'merchandising' is quite often used in the business world but there is no *sui generis* system of laws particularly created for the practice of merchandising either at the national or international level in the form of a specific legislation or an international treaty. Therefore, reliance has to be based on different forms of legal protection contained at various places in various different legal texts.

Character merchandising potentially involves the licenses relating to copyright, trademarks and industrial designs. In case of unauthorised use of characters, recourse could be made to any of the following laws depending on individual protection status of the character in question. It is important to bear in mind that each such form of protection has its own limitations and should a dispute go to court; the parties would naturally like to rely on all the tools which support their cause.

VIII. Copyright Licensing in Character Merchandising

The characters that are subject to merchandising are copyright works, i.e. works that are the subject matter of copyright protection. Cartoons, photographs, animations, symbols, etc. are all copyright works and are protected as 'original artistic works.'¹⁴ Character merchandising is concerned with matter originating from copyright protected works, in particular films, television serials and literary and artistic works. Therefore, copyright licensing is required for character merchandising. In *King Features v. Kleeman*¹⁵ the owners of the rights in the 2D version of a newspaper cartoon Popeye the Sailor Man were able to prevent the marketing of unauthorized 3D versions of the character such as Popeye dolls etc.

Whether names of characters are subject to copyright protection independently of the work as a whole? The answer is generally negative,¹⁶ although

copyright protection may be recognised if the fictional character is sufficiently clearly delineated and has acquired such distinctiveness and notoriety as to be recognised by the public separately from the work in which he appears (for example, the character Tarzan in the work of E.R. Burroughs).¹⁷

IX. Licensing of Industrial Designs in Character Merchandising

An industrial design means only the features of shape, configuration, pattern, ornament or composition of lines or colours applied to any article whether in two dimensional or three dimensional or in both forms, by any industrial process or means, whether manual mechanical or chemical, separate or combined, which in the finished article appeal to and are judged solely by the eye.¹⁸ An industrial design is the aesthetic or ornamental aspect of a useful article appealing to the human sense of sight. The role of an industrial designer is to create and execute design solutions towards problems of form, usability, user ergonomics, engineering, marketing, brand development and sales.

Industrial design protection is mainly relevant for cartoon characters represented in the form of aesthetic designs for three dimensional articles which mainly belong to the toy and jewelry fields. Prominent examples include, dolls, robots, puppets, action figures, brooches, pins, etc. which generally originate in cartoons but sometimes in real persons as well.¹⁹ Therefore, licensing of industrial designs is involved in merchandising of such characters which are to be used for giving shape to articles.

X. Interface between Copyright Licensing and Industrial Design Licensing in Character Merchandising

A work may be protectable under both copyright law and design law. For example, a cartoon is an artistic work protected under copyright law but when it is applied to an article as per the requirements of section 2(d) of the Designs Act, it can be registered as a design also. But section 15 of the Copyright Act, read with section 2(d) of the Designs Act, has eliminated the possibility of such dual protection so that these two types of protections do not overlap. That

12. Richard Raysman *et al*, *Intellectual Property Licensing: Forms and Analysis* 9.03 (Law Journal Press, New York 2007).

13. Under s. 9(1)(Proviso), Trade Marks Act, 1999, the owner of a character may acquire distinctiveness by 'use' of the mark for the purposes of registration of the mark; and under s. 11(6)(ii), Trade Marks Act, 1999, 'use' of a character becomes relevant for it to become a well known trade mark.

14. See, s. 13(1)(a) and s. 2(c), Copyright Act, 1957.

15. *King Features v. Kleeman* [1941] AC 417.

16. See, *Du Boulay v. Du Boulay* (1869) LR 2 PC 430.

17. Report on *Character Merchandising* 18 (WIPO, Geneva 1994).

18. See, s. 2(d), Industrial Designs Act, 2000.

19. Report on *Character Merchandising* 20 (WIPO, Geneva 1994).

means, in India the two IP rights are mutually exclusive.

As soon as a copyrighted work is registered as an industrial design, it loses its copyright protection.²⁰ Further, a copyrighted work, which is capable of being registered under the Designs Act but which has not been so registered, loses its copyright protection once it has been exploited as an industrial design.²¹ 'Exploited as industrial design' means in essence that the article to which the design has been applied has been reproduced more than fifty times by some type of mass production process which does not necessarily involve machine production but may include massed produced hand made objects.

If the use of such a copyrighted work as an industrial design is done without first filing for its registration under the Designs Act, then such a design is no longer protected under the Copyright Act and it also cannot be protected anymore under the Designs Act. This is because it lacks novelty or originality, having been published prior to filing an application for its registration as an industrial design.²²

These nuances have significant implications for licensing activities. If a cartoon character begins its life as a copyright work then its drawings are artistic works in their own right and any attempt by a rival later to make three dimensional objects out of it would be an infringement of copyright.²³ However, if the artistic work has been exploited by the copyright owner either—

- himself, or
- through issuing licenses—

As an industrial design, then the owner will not be able to enforce the license if he has not first registered the work as an industrial design.

Where a copyrighted work is created with the intention of being exploited industrially and embodied in mass produced articles, which is an inherent quality

20. See, s. 15, Copyright Act, 1957: *Special provision regarding copyright in designs registered or capable of being registered under the Designs Act, 2000.*-(1) Copyright shall not subsist under this Act in any design which is registered under the Designs Act, 2000.

21. See, s. 15(2), Copyright Act, 1957: Copyright in any design, which is capable of being registered under the Designs Act, 1911, but which has not been so registered, shall cease as soon as any article to which the design has been applied has been reproduced more than fifty times by an industrial process by the owner of the copyright or, with his license, by any other person.

22. See, *Shaping the Future: A Guide on IP Rights for the Indian Machine Tool Industry*, V. 4 (UNIDO and WIPO, 2005).

23. See, s. 51, Copyright Act, 1957.

of works, such as drawings, puppets, dolls, robots, mugs, toys, etc. designed for merchandising, it is necessary for the owner of work to register it under the Designs Act.

XI. TradeMark Licensing in Character Merchandising

Trademark is perhaps the most important form of IP implicated in character merchandising and it is also the most controversial. Subject to the mark fulfilling the conditions of registrability, most of the essential features of a character can be subjected to trademark protection. The specific rendering of a character, the names of fictional characters like Tarzen, Batman, Krish, their appearance in the form of drawing or photograph, an organisation's logo, etc., can be registered as trademarks.²⁴ When such a character distinguishes the goods or services of one undertaking from those of others, it becomes a common law trademark even without registering the same.

It is a characteristic of modern day commerce that a cachet of a famous trademark will stimulate the sale of otherwise prosaic goods. Recognising this fact of merchandising life, manufacturers of such indispensable items as coffee mugs, t-shirts, bar-glasses, cricket bats, etc., constantly beseech the owners of well known marks for a right to prominently emblazon these marks on their goods.²⁵ From the trademark owner's perspective such licensing will increase the exposure of the mark in the marketplace and broaden the range of goods in respect of which the mark is protected and at the same time bring in valuable royalties. The licensee gains immediate brand identity for its products and services and shares the goodwill and consumer base already generated by the licensor.

Not only is it possible for the trademark element of a character to be licensed, it is also possible for the owners to restrain the unauthorized use of characters by using the law of trademark and passing off.²⁶ In the Australian case of *Twentieth Century Fox Film Corporation v. South Australian Brewing Co. Ltd.*²⁷, an application by the producers of a television cartoon program The Simpsons was made to restrain certain breweries from using the name 'Duff' in respect of beer. In the television serial Duff Beer was depicted as

24. See the definition of Trademark under s. 2(1)(zb), Trademarks Act 1999.

25. Alexander I. Poltorak & Paul J. Lerner, *Essentials of Licensing IP* 81 [Wiley 2004].

26. See, s. 29, Trademarks Act, 1999.

27. *Twentieth Century Fox Film Corporation v. South Australian Brewing Co Ltd* (1996) 34 IPR 225.

the favorite drink of the protagonist and appeared in nearly all episodes that were broadcast. The producers had also granted licenses for extensive character merchandising activities incorporating depictions of Duff Beer. The evidence showed that the consumers recognized Duff Beer as the beer from *The Simpsons*. Further evidence of the breweries' own market research showed that they were well aware of the immediate recognition of the beer by consumers as being from *The Simpsons*. Hence, it was held that the breweries had engaged in misleading and deceptive conduct and committed the tort of passing off. In *IPC Magazines Ltd v. Black*²⁸ it was held that the unauthorized use of the plaintiff's science fiction cartoon character 'Judge Dredd' on a gramophone record about the character was likely to cause people to wrongly believe that the plaintiff had endorsed the record.

XII. Types of Character Merchandising from Trademark Perspective

When a trademark is used in a purely commercial sense on a merchandising product the trademark in effect becomes the property that is merchandised.²⁹ The trademark is no longer functioning as a source identifier, but is functioning to increase demand for the product. Three distinct types of character merchandising from the point of view of trademark law can be identified:³⁰

- The use on a variety of goods of a character, such as Tarzan, having no independent trademark significance. Such characters are subject to significant mass media attention.
- The use of a well-known mark, such as 'Coca Cola', on goods, such as clothes, distinct from its primary identification.
- The use of a mark, such as the figure of an alligator on clothing, which arguably serve to decorate the goods and to identify the source of the goods as well.

XIII. Character Merchandising *vis-à-vis* Trademark Licensing—and the Controversy

Commercially, character merchandising has become a successful practice but there are arguments that it should not be a trademark matter, since the characters are not trademarks in the first place, nor are they used as trademarks, instead they serve merely

to enhance the eye-appeal of the goods. Therefore, this is a matter more for the protection by copyright or design law than by trademark law. True, every instance of character merchandising may not involve trademark licensing. Only when a trademark is subjected to merchandising that character merchandising involves licensing of trademarks. But, even in these cases, the practice of character merchandising often involves the licensing of copyright as well.

Another difficulty is that in traditional trademark licensing a trademark is licensed for use by the licensee on the goods or services with which the licensor has some relationship. But in case of character merchandising, trademarks could be licensed for goods or services from which the licensor is far removed, thereby the trademark itself becomes a commodity to be traded.

Traditionally, trademarks have not been considered merchandising properties. Because the function of trademark is to identify the source or origin of a product, so as to vouch for its quality, trademarks are assumed to have no inherent value separate from products which they refer. Accordingly, the mark would not protect the rights in the fictional character per se, but only in relation to goods or services for which the mark is registered or used. The paramount question here is: whether such a use of a trademark without a trademark license would violate the trademark of the owner? For example, a company has a trademark 'X' for electronic goods. Does its use on a t-shirt infringe the trademark rights of the owner? Courts with a more activist bent have found ornamental uses of trademarks protectable under existing trademark laws by finding the relevant test to be consumer confusion as to sponsorship rather than as to source.³¹ Some courts have held that protection of trademark's business interests is the basis of such protection.³² Other courts have cited the acquisition of secondary meaning and trademark dilution as basis for protection.³³

The Indian Trademarks Act contains provisions which could be used to counter consumer confusion, adverse effect on business interests and dilution under the theory of infringement of trademarks.³⁴ In *Chorion Rights Ltd. v. Ishan Apparel & Others*,³⁵ the

28. *IPC Magazines Ltd v. Black* [1983] FSR 348.

29. Richard Raysman *et al*, *Intellectual Property Licensing: Forms and Analysis* 9.03 (Law Journal Press, New York 2007).

30. See, White Paper, "Reform of the Trade Mark Law," Cm 1203 (1990) para. 4.41.

31. See, *National Football League Properties v. New Jersey Giant* 637 F.Supp. 507 (DNJ 1986).

32. See, *Boston Professional Hockey Association v. Dallas Cap & Emblem Manufacturing* 510 F.2d 1004 (5th Cir. 1975).

33. *National Football League Properties v. Consumer Enterprises Inc.* 26 III App. 3d 814, 327 N.E. 2d 242 (1975).

plaintiffs were carrying on merchandising activities in the trademark 'Noddy' in India and around the world. But the plaintiffs were unable to injunct the defendants because even when they chose to bring their case under the Trademarks Act, they could not establish a prior user and a claim of dilution could not be sustained as the defendants had registered and used the same trademark Noddy in respect of apparels prior to the plaintiffs.

XIV. Quality Control in Character Merchandising Contracts

In the beginning of trademark law, licensing was considered conceptually inconsistent with the basic function of trademark and hence it was not permitted.³⁶ Because the sole function of a trademark was to indicate the source of origin of the goods, a license of it to another entity i.e. a different source, would be deceptive and confuse the consumers. Quality control was the basis on which trademark licensing was actually permitted for the first time. As long as quality control is exercised by the licensor over the use of the mark by the licensee, the trademark is deemed to function as an identifier of the source of goods or services by distinguishing them from those of others. Absence of quality control could bring into question the very validity of the trademark. Because in the absence of quality control the trademark ceases to perform its essential function as an identifier of source of goods. The trademark then could be said to be deceptive and misleading and hence is open to be revoked. Absence of quality control signifies that the proprietor has abandoned the mark.

Under the Trademarks Act, 1999 the grant of registration as registered user (licensee) is subject to the exercise of proper control by the registered proprietor over the use of the mark by the licensee. The Act requires that the licensor must furnish an affidavit indicating "the relationship, existing or proposed, between the registered proprietor and the proposed registered user, including particulars showing the degree of control by the proprietor over the permitted use which their relationship will confer...".³⁷ Further, it is not enough to simply write such terms into the license and leave it at that. It is incumbent upon the licensor to enforce proper quality control as

per the contract over the use of licensed trademark. If the licensor fails to do so, the Registrar, either on his own motion or on an application by any person, may cancel the registration of the license agreement.³⁸

Apart from these legal requirements both the licensor and the licensee have a deep commercial interest in maintaining the value of a brand name. The pursuance of this self interest leads to the exercise of quality control by the licensor for if the licensor fails to enforce quality control, the brand value of the trademark will decline. Therefore, the necessity of quality control is a function of legal requirement and safeguarding self interest.

In character merchandising the trademark is not primarily an indicator of source but has become a valuable property right in itself. So, the emphasis of quality control is not on tracing the source of the product but on enhancing the proprietary interest of the proprietor of the trademark. Here the quality control takes the shape of enforcing high quality and avoiding confusion to public is now only a secondary or non-existent concern. So, the underlying rationale of quality control undergoes a shift in case of character merchandising.³⁹

The rationale of the entire concept of quality control is brought in question by the practice of character merchandising.⁴⁰ How is it possible for the licensor, who may be far removed from the products on which he has permitted his mark to be placed, to practically monitor quality? In order to give a practical outlook to the trademark law and to accommodate the practice of character merchandising within its fold, it is proposed that the licensor should not be legally burdened with mandatory quality control under the Trademarks Act. Even without the licensor being forced to control the quality of the licensee's use of his mark the inducement to control quality would naturally arise from commercial considerations of maintaining the brand value of the mark. Moreover, if because of the practice of character merchandising, the licensed mark becomes deceptive for whatever reasons, the licensor may lose his mark itself.⁴¹

XV. Character Merchandising and Trafficking of Trademarks

Trafficking is commodification of trademarks. In

34. See, s. 29, Trade Marks Act, 1999.

35. *Chorion Rights Ltd. v. Ishan Apparel & Others*, IA No. 8042/2009 I CS(O)S No.1154/2009 (Delhi 2010).

36. *MacMahan Pharmacal Co. v. Wahl Co.* 113 F.468 (8th Cir. 1901).

37. See, s. 49(1)(b)(i), Trade Marks Act, 1999.

38. See, S. 50(1)(d), Trade Marks Act, 1999.

39. See, Wilkof, Neil J., and Burkitt, Daniel, *Trade Mark Licensing*, 113 (Thomson, II Ed. 2004).

40. See, *Scandecor Development AB v. Scandecor Marketing AB* [2002] FSR 122, HL.

41. See, ss. 57 and 9, Trade Marks Act, 1999.

trafficking, the trademark itself is traded as commodity without any reputation attaching to the mark for goods concerned. In *Star India Private Ltd. v. Leo Burnett (India) Pvt. Ltd.*,⁴² it was stated:

It is necessary for character merchandising that the characters to be merchandised must have gained some public recognition, that is, achieved a form of independent life and public recognition for itself independently of the original product or independently of the milieu/area in which it appears. Only then can such character be moved into the area of character merchandising. This presumes that the character has independently acquired such reputation as to be a commodity in its own right independently of the goods or services to which it is attached or the field/area in which it originally appears.

Character merchandising involves the practice of decorating goods with a character which may have a reputation in connection with quite different goods. Therefore, it could undoubtedly lead to trafficking in trademarks. However, character merchandising has become an accepted commercial practice. Legally, too, it could be justified because of various factors:

- Many unused trademarks, in which there is no question of any reputation, are granted registration.
- When goods are marketed featuring a popular character, they are of interest to the consumers because of the character. It is not necessary that the consumers believe that there is a connection in the course of trade.
- It is virtually impossible to construct a legal framework which would distinguish between straightforward character merchandising which is the practice of decorating goods with a trademark having a reputation in connection with quite different goods, and cases where a trademark simultaneously decorates and distinguishes their source.
- Every character such as a name, a title, etc., is not a trademark.

So, there should be nothing objectionable if the owner of the character wishes to merchandise it by licensing, and on the basis of such licensing he could in future stake claims of acquiring trademark by virtue of user. As Lord Bridge observed:⁴³

42. *Star India Private Ltd. v. Leo Burnett (India) Pvt. Ltd.*, 2003 (27) PTC 81 (Bom).

Character merchandising deceives nobody. Fictional characters capture the imagination, particularly of children, and can be very successfully exploited in marketing of a wide range of goods. No one who buys a Mickey Mouse shirt supposes that the quality of the shirt owes anything to Walt Disney Productions.

In India trafficking in trademarks had been explicitly mentioned as something prohibited under the Trade and Merchandise Marks Act, 1958.⁴⁴ The policy of the Act was that instead of removing confusion, trademarks should not themselves become a source of it through trafficking and play fraud on the public. But the present Trademarks Act of 1999, which has repealed the 1958 Act, has removed any explicit reference to a prohibition against trafficking. The licensor and licensee are absolutely free to enter into a license contract and if it satisfies the form, even the Registrar has no discretion—he has to register it.⁴⁵ The Trademarks Act, 1999 marks a shift in the policy behind trademark licensing and accordingly, it seems that trafficking has become acceptable now. The underlying tenor of the 1999 Act is that trademarks may be dealt with as commodities in their own right.⁴⁶ The upshot of the analysis is that the owner of a trademark can license the same to the extent to which it could sustain the mark itself.

XVI. Conclusion

The branded merchandise market in India is estimated at around Rs 10500 Million.⁴⁷ Considering the size of the retail market in India, it could be said that merchandising is not fully developed as yet. There is a huge opportunity in the country which has not been tapped to its full potential.⁴⁸ Viewed as a long term revenue source it is blossoming in the fast growing branded retail market of India.

Realizing the importance of the subject, this article has explored the international jurisprudence, including case law, relating to character merchandising and has drawn parallels to Indian legal framework. Char-

43. In re *Holly Hobby* [1984] RPC 329 at 350-51.

44. S. 48, Trade and Merchandise Marks Act, 1958.

45. See, s. 49(1), Trade Marks Act, 1999.

46. Comparing Indian position with UK, the 1938 Act of UK had similar provisions restricting trafficking but the 1994 Act of UK had omitted any reference to trafficking.

47. See, <http://www.neytri.com/emami-wants-more-of-disney/> (August 20, 2010).

48. K.V. Kurmanath, "Character Merchandising Yet Untapped in India," *Business Line* (October 25, 2005).

acter merchandising essentially involves the licensing of intellectual property in the form of copyright or industrial designs or trademarks, or a combination of all these. Therefore, a character license must clearly state what exactly is being licensed; that means which feature of the character is licensed—its name, pseudonym, symbol, image, appearance, etc., or all of these. The fields of activity for which the character

is licensed has also to be mentioned in the license together with the territorial scope of exploitation. The products or services of the licensee covered by the license contract have to be indicated. Finally it needs to be specified which legal form is used to license, *i.e.* whether it is trademark, copyright or industrial designs. Each legal form has specialised requirements and those have to be complied with. ■