

Coexistence agreements

Why coexist?

The world of business and commerce is a crowded world where a vast and growing number of traders offer an even bigger number of branded goods and services. In this crowded world it is not surprising that different businesses should sometimes want to use the same names or signs to attract the attention and keep the loyalty of their customers or clients.

The flexibility of the trade mark system enables different businesses to use the same trade marks without problem, since it lets them own marks just within the own commercial sectors in which they trade. That is how, for example, the same word POLO could be reserved for quite unrelated businesses that sold confectionery, clothing and cars respectively,

The system is equally flexible in that it allows businesses to register and use similar trade marks even for goods and services in the same commercial sector. This is so for as long as that similarity does not confuse consumers into being unable to identify which goods or services are which, while at the same time protecting them against later businesses that want to use similar trade marks if confusion is likely to result.

The UK-IPO does not act as a policeman to stop the registration or use of a later mark that might cause confusion. But, where someone applies to register a mark that might cause confusion, the UK-IPO may notify the owner of an earlier registered trade mark, giving that owner the chance to consider whether the later application is too close for comfort. If the owner of the earlier mark is anxious to avoid a risk of likely confusion, an opposition may be filed. In very many cases though, either because the marks are not too similar or because the nature of the later applicant's business is too remote from that of the owner, the later mark may not be seen as a threat to the owner's business.

It is always possible that the business using the later mark will grow very quickly and expand into new products or services, with the result that the owner of the earlier mark finds it difficult to expand his own business into those areas without risking confusion in those areas; for example, a manufacturer of industrial clothing may be initially content to let another business use a similar mark for leisurewear, but if it should later wish to expand into the market for leisurewear it may be forced to select a new brand name. The same thing can happen where a business, originally trading from a single location (for example a burger bar), becomes the basis for a regional chain of burger bars and seeks ultimately to become a national franchise.

Where the possibility of conflict and confusion exists, a business has several options. It can sit back and hope that no problems arise. While in many cases this failure to act causes no inconvenience, it is not recommended for expanding businesses or for those that are averse to taking commercial risks. A second course is to take legal action. The owner of the earlier mark can do this either by opposing an application to register a later mark or by waiting until it is used and then seeking an injunction or other legal relief; even if he does not choose to do this, a court action may be sprung on him against his will if the later business seeks a declaration that its choice of name or logo does not infringe any earlier rights. A third option is for the businesses to discuss together the likelihood of any problems arising and to see if they can agree on how to prevent those problems happening at all. This is the path of coexistence.

What is a coexistence agreement?

At its simplest, it is any agreement between two (or sometimes more) parties that, when they carry on their businesses, one or both of them can do so without fear of infringing the other's intellectual property rights.

Most coexistence agreements involve business names and trade marks, so that people who have the same or similar names—or whose businesses do—can go about their daily activities without worrying that they will be sued for passing off or trade mark infringement. Other coexistence agreements may involve designs, copyrights and even patents.

When should you enter one?

A coexistence agreement can iron out a lot of uncertainties and difficulties before they occur. This may arise

- If you are aware that another business is trading, or about to do so, in a way that might confuse your customers or damage your business, or
- If you are worried that someone else is seeking to register a trade mark that might make it difficult for you to continue or expand your business.

The same considerations may apply if a bigger business is selling off a subsidiary or being broken up into smaller units, each of which wants to be able to make some use of the original business name.

As a rule of thumb, whenever you think that you might at some stage want to sue someone for using your name, trade mark, goodwill or business get-up—or whenever you think that they might want to sue you for the same reason—a coexistence agreement may be a very good idea.

When should you not enter one?

In principal, coexistence agreements are always desirable, since they enable businesses to protect their own legal interests and to shape their own commercial destiny, rather than leaving disputed matters to a court ruling that may be expensive, unfavourable and slow in coming. But you should not enter into a coexistence agreement in the following situations:

- If you have not yet sorted out your own business plan (since you may find that you have unduly limited the natural scope for expanding your business);
- If you cannot understand its terms and they have not been fully explained to you;
- If you do not own, or have no absolute right to control, the rights that you are agreeing not to enforce.

Do I need a lawyer?

There is no legal requirement to instruct a lawyer to draw up a coexistence agreement. However, the bigger and more complex your business is, or the more substantial is the investment in the

businesses in question, the wiser it is to seek the professional advice of a solicitor, trade mark attorney or patent attorney.

If you do not use a lawyer, it may be useful to start with an 'off-the-peg' coexistence agreement in which you can fill the gaps, or at least to check that you have not missed any of the points listed below under 'What should a coexistence agreement have in it?'

Do I need any other professional advice?

When making a simple coexistence agreement, further professional advice will not generally be needed. An exception may be in the relatively uncommon case when a trade mark that is the subject of a coexistence agreement may at some stage be used as collateral for a loan, when it may be necessary to consult a financial adviser.

What should a coexistence agreement have in it?

- Clear identification of who is entering the agreement and who is supposed to be bound by it. A legal person, such as a human, a company or a partnership, can enter into a contract. A trading entity, such as a shop or restaurant, cannot. Both parties should make sure that the agreement is being made with someone on the other side who can be legally bound by it.
- Clear identification of what trade marks, logos or other things are being allowed to coexist. In the normal course of business, traders often rebrand or restyle themselves, bringing old logos up-to-date and dropping clumsy terms such as "& Sons". The agreement should specify whether it applies only to names, logos and other signs that exist or are in use at the time of the agreement, or whether either side has an unlimited discretion to redesign its livery without risk that the other party might object. In this context, colour should not be ignored. Logos of different businesses may be clearly unlikely to confuse consumers when one has a red background and the other has a blue one, which might not be the case if the red one were later changed to blue.
- An express understanding as to which domain names and, where applicable, alphanumeric telephone numbers, each is agreeable to the other using. This important factor in modern trading is sometimes overlooked. Two business names may coexist more easily in the real world in respect of similar businesses in different towns than they do in cyberspace, where inaccurate typing, poor spelling or a weak memory may lead a consumer to the wrong website.
- A list of areas of commercial activities and geographical locations in which coexistence is definitely allowed and/or not allowed. The less detail that goes into this part of the coexistence agreement, the greater is the room left for ambiguity and misunderstanding. For example, if one business is using its mark on "clothing" and the other business is planning to use its mark for "accessories", it may not be clear into which category items such as hats and shoes are meant to belong. Terms can also be too broad: if one business agrees not to use its mark on "computer apparatus", for example, does this mean merely computers, or does it include software or ancillary equipment such as computer printers or modems? Some thought should also be given to descriptions of goods and services which are complementary or ancillary to one other: if one business is

using a mark for pizza restaurants and the other seeks to use its mark for transport services, it may be thought that there is little ground for objection, but if the pizza mark is to be used on motorbikes used for home delivery services the position may be quite different.

- This agreement should also reflect the aspirations of the businesses as to the areas in which they operate and into which they expect their activities will expand. If one business produces goods for trade purchasers (for example a supplier of cooked foods for supermarket chains) and the other markets goods directly to the public (for example, burgers sold through burger bars), issues such as likelihood of confusion or 'dilution' of the consumer brand are easy to address—but the owner of the consumer brand will wish to protect its brand by preventing the owner of the trade brand subsequently using it in the consumer market in a manner that might undermine the object of the coexistence agreement. Particular care should be taken here to ensure that the agreement provides a bar only to the use of a brand or trade mark in the field of activity in which protection of goodwill is concerned. An attempt to prevent another business entering a market under any brand name at all risks being unenforceable as a restraint upon lawful trade.
- A starting date and—if there is one—an end date. This should ensure that anything done before the starting date will not be regarded as a breach of the agreement, and that the parties have to give some appropriate thought to what happens in the future.
- A statement as to which law applies to the agreement and in which country any legal action should be brought. These issues will not normally trouble businesses in the United Kingdom whose commercial activities are relatively local, though even in the United Kingdom it may be highly relevant for businesses that straddle the Scottish border since Scotland has its own legal system. Where one or both businesses have, or hope to have, a substantial interest in the European market, choice of law and choice of jurisdiction become more important issues—but at this point it is likely that professional advice will already have been sought.
- If possible, a term that lets the parties resolve disputes without going to court. If the parties want to avoid the cost and delay that are associated with litigation, they can agree that any dispute arising from the agreement should be settled by a binding arbitration. This may involve the nomination of a single individual who hears what each side has to say and then issues a ruling that can, if necessary, be enforced by the courts. The parties may also want to provide for a non-binding mediation, which involves a go-between who listens to the points raised by each side and helps them find common ground that enables them to solve their problems by themselves, without the need for a binding ruling. The UK-IPO provides a mediation service that specialises in intellectual property disputes and many other private-sector mediation services are also available.
- If necessary, an agreement to review how the agreement is working out and whether it needs any changes. In market sectors where there is a high degree of change, the point at which two businesses agree to coexist may rapidly shift to the extent that one business cannot function meaningfully. If this risk can be foreseen, it may be a good idea for a review clause to be included in the coexistence agreement after which either side may withdraw from the agreement within a fixed period of notifying the other.

- There should be a ‘who-does-what’ list. Most coexistence agreements do not contain a great deal of ‘who-does-what’. In fact, most of what they contain is negative—promises to live and let live. However, to the extent that any positive duty is imposed, for example a duty to inform the other side if, for example, trade mark applications are being filed for further classes of goods or services, or if signage, packaging and logos are being restyled, the agreement should make it plain as to who is responsible for conveying this information, in what circumstances and to what address. Ideally a coexistence agreement will contain a list of permitted variations of the marks to which it alludes. For example, is the use of the marks in certain colours excluded? Can the marks be used with additional terms such as “& Co” or “Bros”, or must the marks always be used with some other specified distinguishing sign, such as the name or one or both of the businesses? And can this change if the name of the business changes. Can adaptations (for example, the addition of .com) be made for use on packaging or on the internet? If sound is an issue, is the way that a mark is to be pronounced by a party in its promotion of the mark to be limited too? Where provisions of this type are made, the parties should ideally agree not to oppose any applications to register these accepted variations as trade marks—and not to seek to cancel any resulting registration once it has been granted.

What happens after the agreement has been signed?

Many coexistence agreements, once concluded, are filed away and forgotten about while the businesses that entered into it move forward and return from the negotiation table to their normal commercial activities. In most cases the fact that the coexistence agreement is forgotten about is the best proof that it has done its job properly. However it can be unwise to ignore it completely, because failure to keep it in mind can often lead to a sad scenario: one business does not discover that the other side to the agreement has broken its terms until it hears about it from a disgruntled or confused customer.

A good suggestion is that, when the agreement is signed, the parties diarise a future date at which they will speak to one another. This conversation has two objectives: (i) to confirm that the terms of the coexistence agreement are being respected on both sides and (ii) to diarise a date for the next occasion on which they will repeat this process. That way, both sides remain conscious of the fact of coexistence and of the potential problems that may arise if they do not respect the terms on which they have agreed to trade.

Are coexistence agreements binding in law?

Under the contract law of each country within the United Kingdom, a coexistence agreement will generally be binding if it consists of a seriously-made promise by each business that is made in return for some form of benefit received from the other. This mutuality of benefit is lacking if one business simply agrees to allow the other to trade under a particular name and receives nothing in return; in such cases that business may be able to retract its consent. For this reason, it is important to be able to show that both sides are clearly getting some benefit from the coexistence agreement. If you think that this may not be the case, a brief consultation with a professional adviser will soon clarify the matter.

Assuming that the coexistence agreement is binding, it may sometimes be unenforceable. This may occur in the rare event that the agreement is regarded as a disguised attempt to divide the

market or to impose a restraint upon trade, thereby reducing competition. Where a coexistence agreement seeks to cover countries other than those of the United Kingdom, it may extend to countries in which such agreements are treated with suspicion on the assumption that they seek to provide for a level of confusion of consumers by allowing for two different businesses with similar names to continue trading. In such cases, professional advice may be required.