LEGAL REGIME OF THE PLEDGE OF ABSOLUTE RIGHTS TO TRADEMARKS: THEORETICAL AND PRACTICAL ISSUES

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Annotation

This article examines the civil law regime governing the pledge of absolute rights to trademarks as one of the most commercially significant intellectual property assets. It analyses the legal nature of trademark pledges, the procedures for their state registration, the rights and obligations of the pledgor and the pledgee, the use of pledged trademark rights under licence agreements, and mechanisms for preserving the commercial value of pledged trademarks. Particular attention is devoted to the legal consequences arising from the expiry of trademark protection, the creditor's right to monitor the quality of goods produced under the pledged trademark, and the legal issues associated with sublicensing. Based on a comparative analysis of the legislation of the Republic of Uzbekistan and foreign legal approaches, the article identifies existing legislative gaps and proposes amendments aimed at strengthening the legal framework governing the pledge of absolute rights. The proposed reforms seek to improve the protection of creditors' and right holders' interests, enhance legal certainty in secured transactions involving intellectual property, and ensure the effective commercial exploitation of trademarks.

Keywords

trademark, absolute rights, intellectual property, pledge of intellectual property rights, trademark pledge, security interest, state registration, licence agreement, sublicence, quality control, civil law, secured transactions, creditor protection.

The rapid development of the innovation-driven economy has resulted in intellectual property assets, particularly trademarks, becoming some of the most valuable intangible

assets of business entities. Today, a trademark is recognized not only as a means of distinguishing goods and services, but also as an object of civil rights possessing independent economic value. In this regard, the use of such rights as collateral in credit relations is becoming increasingly widespread in international legal practice.

The pledge of absolute rights to a trademark enables the right holder to attract financial resources without alienating the relevant right, while serving as an effective legal instrument for securing the performance of an obligation in favour of the creditor. However, unlike the pledge of tangible property, the pledge of a trademark has specific legal characteristics and therefore requires comprehensive legal regulation of such matters as the creation of the pledge right, state registration, the procedure for using the trademark, licensing relations, quality control over goods, and the preservation of the economic value of the pledged right. At present, a number of relations concerning the legal regime of the pledge of absolute rights to trademarks are not fully regulated by national legislation. In particular, no uniform legal approach has been developed with regard to the procedure for state registration of the pledge right, the scope of the pledgee's right to use the trademark, the mechanism for controlling the quality of goods, and the rights and obligations of the parties. This gives rise to divergent interpretations in law-enforcement practice and may disturb the balance of interests between the participants in credit relations. From this perspective, analysing the legal regime of the pledge of absolute rights to trademarks on the basis of national and foreign experience, identifying its legal characteristics, and developing scholarly proposals aimed at improving the existing legislation are of considerable theoretical and practical importance. In this regard, most specialists in the field of trademark law emphasise that a pledge agreement concerning intellectual property rights should be subject to state registration[1].

[1] Demyanchenko D.A. State Registration of the Pledge of an Exclusive Right to a Trademark under Contemporary Russian Legislation. Severo-Kavkazskii Region. Social Sciences. 2014;(6):107.

V.E. Evdokimova argues that a pledge of absolute rights should not be included among the categories of agreements subject to mandatory state registration [2]. The principal legal condition giving rise to the rights and obligations of the parties under a pledge agreement concerning absolute rights is its state registration. State registration of a pledge of absolute rights serves, first, to ensure the reliability and stability of civil circulation and, second, to provide interested persons with access to information concerning the pledged absolute right[3].

The procedure and conditions for the registration of a pledge of absolute rights are not expressly regulated under the civil legislation of the Republic of Uzbekistan. Therefore, taking into account the content of the agreement, the nature of its subject matter, and the rights and obligations of the parties, analogous provisions of civil legislation may be applied to pledge agreements involving absolute rights. Accordingly, in light of the requirements of Article 270 of the Civil Code, Article 9 of the Law on Pledge, and Article 30 of the Law on Trademarks, an agreement concerning the transfer of rights to a trademark should be registered with the Intellectual Property Agency.

Under a pledge agreement involving absolute rights, unless otherwise provided by the agreement, the pledgee acquires only the right to hold the pledged trademark right for the purpose of securing the performance of the underlying obligation. The pledgee may not, without the pledgor's consent, grant third parties the right to use the trademark under a licence agreement. The pledgee acquires the right to dispose of the pledged absolute right only where the debtor fails to perform the obligation secured by the pledge.

Under a pledge agreement, the pledge of absolute rights to a trademark may extend to all or only part of the goods for which the trademark has been registered. This

[2] Evdokimova V.N. Legal Qualification of Technology Transfer Agreements: Problems and Solutions. Patents and Licenses. 2004;(8):32–44.

[3] Bevzenko R.S., Egorov A.V. Amendments to the Law on Pledge: New Opportunities for Legal Flexibility. Moscow: Aktion-Media; 2015. p. 43.

approach is justified because the commercial reputation and market value of individual goods marketed under the same trademark may differ significantly. Where the debtor fails to perform or improperly performs the secured obligation, the value of the pledged trademark right must be sufficient to satisfy the creditor's pecuniary claim. If the value of the pledged trademark becomes insufficient, Article 276 of the Civil Code entitles the creditor to require the debtor to replace the pledged asset. Such replacement may concern all or only part of the goods covered by the trademark registration. This right exists irrespective of whether it has been expressly stipulated in the pledge agreement, and the debtor is obliged to comply with the creditor's request.

Unlike tangible property, the value of absolute rights is inherently unstable and subject to market fluctuations. The emergence of new competing products may significantly reduce the market value of goods marketed under a particular trademark, as consumers gain access to alternative products of a similar kind. Consequently, the commercial value of the pledged trademark may decrease, thereby weakening the security interest of the creditor. The exclusive right to a trademark is granted for a fixed period and may be renewed only by the right holder in accordance with the procedure established by law. This characteristic also affects the effectiveness of the security interest. If the debtor fails to renew the term of protection of the trademark, the pledged absolute right is terminated pursuant to Article 283(1) of the Civil Code, and the trademark consequently loses its legal status as the subject matter of the pledge. Where the debtor possesses no other assets, or where the value of such assets is insufficient to satisfy the secured obligation, the creditor's claim may remain unsatisfied. This significantly limits the practical effectiveness of pledge agreements involving absolute rights and weakens the creditor's legal protection.

By contrast, the ownership of tangible property is not subject to a fixed statutory term. Therefore, in pledge agreements involving absolute rights, the legal protection of

the trademark should not be allowed to expire until the secured obligation has been duly performed by the debtor in accordance with the principle of fairness. Such a rule should be expressly incorporated into the relevant legislation.

Pursuant to Article 27 of the Law on Trademarks, the holder of an exclusive trademark right may use the trademark on the goods for which it has been registered, as well as on their packaging, or may authorise another person to use the trademark under a licence agreement. In accordance with Article 1036 of the Civil Code, a licensee may also grant a sub-licence to a third party, provided that such authority is conferred by the licence agreement. One of the essential terms of a licence agreement is the requirement that the quality of the goods produced by the licensee must not be inferior to that of the licensor. Where this condition is absent, the licence agreement is regarded as legally defective and cannot be registered by the competent authority.

Under a pledge agreement, the pledgor may continue to use the trademark, provided that such right has not been restricted by the agreement. A distinctive feature of a pledge of absolute rights is that the pledgee may monitor whether the goods produced under the pledged trademark comply with the applicable quality standards. Ordinarily, this obligation is imposed on the licensee under a licence agreement. Where the quality of the goods produced under the licensed trademark is inferior to that of the licensor's goods, the licensor is entitled to terminate the licence agreement unilaterally.

Where the right to use the trademark remains with the pledgor, the pledgee is entitled to request information from the debtor regarding the manner in which the trademark is being used. The debtor, in turn, is obliged to provide such information. This requirement is justified because the improper commercial exploitation of any intellectual property object capable of commercialization inevitably diminishes its commercial value.

Where absolute rights to a trademark are pledged, the pledgor is obliged to maintain the quality of the goods marketed under the trademark at the level existing at the time

the pledge was created. Any deterioration in product quality reduces the commercial value of the trademark and consequently increases the risk that the debtor will fail to satisfy the secured obligation. Regular reports submitted by the debtor concerning product quality enable the creditor to monitor whether the value of the pledged asset is being preserved and thereby protect the creditor against potential financial losses.

The pledgor may not only use the trademark personally but may also authorize third parties to use it under a licence agreement. Such authorization is permissible provided that the pledge agreement does not expressly prohibit the granting of licences to third parties. Under civil legislation, the granting of the right to use a trademark to another person is governed by a licence agreement. Where such rights are granted to third parties, the pledgor remains liable to the pledgee for ensuring the quality of the goods produced under the trademark. If the quality of the goods manufactured by the licensee fails to satisfy the required standards, the creditor may require the debtor to terminate the licence agreement unilaterally or may treat the breach as a material violation of the pledge agreement and terminate that agreement accordingly. Furthermore, where the quality of the goods produced by the licensee is inferior to that of the licensor's products, and the licensor (the pledgor) was aware of this deficiency yet nevertheless permitted such use, the pledgee is entitled to regard such conduct as a material breach of the pledge agreement, terminate the agreement unilaterally, and claim compensation for the losses sustained. The pledgor is obliged to satisfy the creditor's lawful claims.

Pursuant to Article 277(4) of the Civil Code, the pledgee may use the pledged trademark only in the circumstances expressly provided for by the agreement and is required to submit regular reports to the pledgor regarding such use. The legal status of the parties within this civil-law relationship therefore varies depending on the contractual arrangements. In particular, the debtor acquires, within a limited scope of authority—namely, the right to require that the quality of the goods produced under the

trademark be equivalent to that of the trademark owner's goods—the legal position of a creditor vis-à-vis the pledgee.

The pledgee's report concerning the use of the pledged trademark should include information on the volume of goods produced under the trademark, their selling price, the geographical markets in which the goods are distributed, and the quality of the products. Where the quality of the goods produced by the pledgee differs from that of the trademark owner's products, the pledgor is entitled to require the pledgee to cease using the trademark. In addition, the pledgor may claim compensation for the losses incurred or request that the amount of such losses be deducted from the secured obligation.

The pledgee may also grant the right to use the trademark to third parties where such authority is expressly provided for in the pledge agreement. Current civil legislation, however, contains no specific provisions regulating the pledgee's right to authorize third-party use of pledged absolute rights. Nevertheless, by way of analogy, the provisions of Article 1036 of the Civil Code concerning sublicensing may be applied to these legal relations. Consequently, the legal positions of the parties under the pledge agreement become more complex. The pledgee and the pledgor simultaneously acquire reciprocal rights and obligations, and each party may, depending on the particular legal relationship, act both as creditor and debtor. Thus, within the framework of a single contractual relationship, two interrelated civil-law relationships coexist. Even where the pledgor assumes the position of creditor in relation to the pledgee with respect to the use of the trademark, the pledgor nevertheless retains the status of debtor regarding the performance of the obligation secured by the pledge. As noted above, a licence agreement requires that the quality of the licensee's goods be equivalent to that of the licensor's products. Within pledge relationships, however, the pledgor generally represents the weaker party. In practice, the debtor is primarily concerned with ensuring performance of the secured obligation and therefore may fail to supervise the creditor's

activities adequately, neglect to request reports concerning the use of the trademark, or overlook deficiencies in product quality. Such conduct may result in a deterioration in product quality, causing both material and non-material harm to consumers. Accordingly, the legislation should establish a clear legal framework empowering the competent public authority to exercise continuous supervision over the quality of goods produced under trademarks used by pledgees pursuant to pledge agreements.

Conclusion

The legal regime governing the duration of trademark protection in the context of a pledge of absolute rights is intrinsically linked to the conduct of the right holder. Consequently, the pledgee's ability to enforce its rights under the secured obligation depends upon circumstances that are beyond its direct control. This creates legal uncertainty and may ultimately result in financial losses for the creditor. In order to eliminate these shortcomings and enhance the legal framework governing the pledge of absolute rights, it is proposed to supplement Article 43 of the Law on Pledge with the following provision:

“Where absolute rights to the results of intellectual activity or means of individualization are pledged, the termination of such absolute rights shall not be permitted until the debtor has duly performed the obligation secured by the pledge agreement.

The extension of the term of protection of the absolute right shall be carried out by the competent authority upon the request of the pledgee or pursuant to a court decision”.

Furthermore, it is proposed to supplement Article 43 of the Law on Pledge with the following provision:

“Compliance of the quality of goods produced by the pledgee under a trademark subject to a pledge agreement with the quality of the goods produced by the trademark owner (the pledgor) shall be supervised by the Intellectual Property Agency.

Where the quality of such goods fails to meet the required standards, the Agency shall be entitled, for the purpose of protecting the interests of the pledgor, to apply to the court seeking termination of the pledgee's right to use the trademark".

Finally, it is proposed to supplement Article 27 of the Law on Trademarks with the following provision:

"Under a pledge agreement involving absolute rights to a trademark, the pledgee shall not be entitled to authorize third parties to use the trademark."

These legislative amendments would strengthen the legal protection of both creditors and right holders, preserve the commercial value of pledged trademarks, ensure the stability of secured transactions involving intellectual property, and eliminate the existing legislative gaps concerning the civil-law regime governing the pledge of absolute rights.

References

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3. Bevzenko R.S., Egorov A.V. Amendments to the Law on Pledge: New Opportunities for Legal Flexibility. Moscow: Aktion-Media; 2015. p. 43.