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Preventing Distributor Trademark Infringement

In Thailand, one of the most prevalent forms of indirect investment engaged in by foreign entities is the distributorship appointment. Through local distributors, investors can indirectly reap the benefits from the sale of their products and services without having to invest in a permanent establishment.

Affixed to such products and services are trademarks, service marks, trade names, and goodwill. It is often the case, however, that intellectual property owners avoid the simple act of registering their trademarks and drawing up a proper distributorship agreement with clear provisions on intellectual property rights. Little do they know that once the cooperative and fruitful business deal that they have with their distributor comes to an end, their failure to protect their trademark can expose their valuable intellectual property rights to the risk of infringement, committed by none other than their former distributor.

In our experience dealing with matters involving trademark infringement litigation, often, the situation entails a trademark owner bringing a case against its former distributor, with the issue at hand revolving around the distributor's allegedly unauthorized use of a trademark and/or trade name. Commonly, such unauthorized use materializes at the end of a distributorship, with the trademark owner discovering that its former distributor has imitated its trademark and perhaps applied for registration of the mark—sometimes, even before the expiration of the distributorship agreement. We have also seen cases in which a distributor began to use the owner's trade name as part of its company name and domain name after the term of the distributorship.

This does not, however, necessarily lead to the conclusion that the trademark owner has forever lost its rights to the trademark and trade name. In fact, under the Trademark Act, the true owner of a trademark has the right to file with

the competent court a cancellation action against the imitating trademark on grounds of better right. Also, under the Civil and Commercial Code, a trademark owner can obtain a court order prohibiting the former distributor from using the trade name as part of its company name and Internet domain name. However, considering that pursuing litigation is at least 20 times more costly than filing a simple trademark application, litigation may last for almost half a decade, and there may be a significant loss of business opportunity, litigation is, by no means, a preferable course of action.

In order to avoid a situation in which litigation becomes inevitable, two simple, but effective steps should be taken before the conclusion of the distributorship deal. First, a trademark owner must apply for registration for all of its trademarks or service marks that subsist in the distributed products or services in the territory where the distributorship will be appointed. This will significantly benefit the owner in two ways:

1. The distributor will be blocked from registering a trademark which is confusingly similar to the owner's trademarks; and
2. The owner will be able to enforce its trademark rights against any infringement committed by the distributor in a straightforward and less troublesome manner, with the registered trademarks acting as the basis for its legal rights.

Second, a trademark owner must prepare a well-drafted distributorship agreement that includes comprehensive clauses on the ownership of the intellectual property subsisting in the products or services, the distributor's right to use such intellectual property, and the limitations of such rights during the term and after the expiration of the distributorship agreement. It is common for the owner to allow its distributor to use its trade name as part of the distributor's company name and domain name. In such an event, however, the owner must not fail to include in the agreement the limitations on such use or the specific requirements for the cessation of use of the company name and domain name after the expiration of the agreement. These clauses will allow the owner to enforce its rights more easily, should the distributor attempt to continue using the trademark and trade name without approval from the owner.

Taking into account the undeniable possibility that a former distributor may infringe upon the rights of a trademark owner's trademark and trade name, and how the simple acts of trademark registration and preparing a well-drafted intellectual property clause can save the trademark owner from the financial burden of litigation, it is clear that these preventative measures are an absolute necessity for trademark owners when preparing to expand business through means of a distributorship. 🏃