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ABUSE OF TRADEMARKS: A PROPOSAL FOR COMPULSORY LICENSING

The widow of Ian Fleming decided that good money could be made by registering and then licensing Pussy Galore as a trademark for numerous diverse products. . . .

In April, 1972, the Federal Trade Commission (FTC) issued a complaint against four cereal manufacturers alleging violations of section 5 of the Federal Trade Commission Act. Among the alleged violations were those of establishing and maintaining a noncompetitive market structure and sharing monopoly power through proliferation of brands and trademark promotion, which artificially differentiated products. The specific proposed orders included one that would compel the firms to license existing and future brands or trademarks on a royalty-free basis for a specified period of time. Compliance with this proposed order would, in effect, convert privately owned, registered trademarks into generic labels.

This article neither deals with the propriety of the FTC's proposed or-

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1 Scheller, Trademark Licensing in British Law Countries, 14 IDEA 25, 30 (1970).
3 The four firms named in the complaint are Kellogg Co., General Mills, Inc., General Foods Corp., and the Quaker Oats Co. Also named in the complaint, but not as respondents, are Nabisco, Inc. and Ralston Purina Co. See 3 TRADE REG. REP., ¶ 19,898, at 21,915 (1972).
5 The complaint alleged in part that:
Respondents have introduced to the market a profusion of RTE [ready-to-eat] cereal brands. During the period 1950 through 1970 approximately 150 brands, mostly trademarked, were marketed by respondents. Over half of these brands were introduced after 1960. . . . Respondents artificially differentiate their RTE cereals. Respondents produce basically similar RTE cereals, and then emphasize and exaggerate trivial variations such as color and shape. Respondents employ trademarks to conceal such basic similarities and to differentiate cereal brands.
TRADE REG. REP., supra note 3, at 21,916.
6 See TRADE REG. REP., supra note 3, at 21,915. Other proposed orders would require: divestiture of assets, including plants and other facilities; formation of new corporate entities to engage in the manufacture, distribution, and sale of ready-to-eat (RTE) cereals; prohibition of acquisitions of stock or assets of firms engaged in the business of manufacturing or selling RTE cereals for a specific period of time; and prohibition of practices found to be anticompetitive, including, but not limited to, shelf space services or use of particular methods of selling or advertising and other provisions appropriate to correct or remedy the effects of such anticompetitive practices. Id.
7 For a detailed study of what a generic term is and how a trademark can become one see Zivin, Understanding Generic Words, 63 TRADEMARK REP. 173 (1973).
der nor evaluates the effectiveness of compulsory trademark licensing as a remedy for unfair trade practices.\textsuperscript{8} Rather, the pending cereal industry case is used as a point of departure for an examination of the problem of trademark abuse and the responses of the courts, the Congress, and the FTC to it. Acknowledging the legality of compulsory licensing of trademarks, the article suggests legislation which will incorporate licensing and standards for its application. Such legislation would make licensing an accessible remedy for trademark abuse while accommodating both consumer and competitor interests.

I. SOME ASPECTS OF TRADEMARK ABUSE

A. Impact on Competitive Interests

Although there is consensus that a trademark is a distinctive mark of authenticity through which the products of particular manufacturers may be distinguished from those of others,\textsuperscript{9} controversy continues concerning the value of trademarks to producers and the propriety of trademarks in a competitive economy.\textsuperscript{10} It is clear, however, that trademarks are an important means by which producers of goods differentiate their products.

Product differentiation\textsuperscript{11} affects competitive interests in three ways. First, by emphasizing the unique attributes of a product,\textsuperscript{12} product dif-

\textsuperscript{8} At least one recent study has examined the FTC's complaint against the cereal manufacturers for the purpose of evaluating the economic basis for such an action and determining whether section 5 authorizes the FTC to enforce an anti-oligopoly strategem. See Note, Oligopolies, Cereals, and Section Five of the Federal Trade Commission Act, 61 Geo. L.J. 1145 (1973).


\textsuperscript{11} Product differentiation has been defined as the distinguishing of substitute products from each other by advertising. Whereas buyers of a homogeneous product regard the output of individual sellers as identical, and therefore perfect substitutes in all respects, the buyer of a differentiated product regards it as superior or unique. Thus, to some degree, buyers are willing to pay a premium price for it rather than accept a lower-priced substitute. See 1 Antitrust Law and Econ. Rev. 140 (July-Aug., 1967).

\textsuperscript{12} Not all products are amenable to product differentiation. Those products not sold to the consuming public, "producer goods," are sold to skilled purchasing agents, aware of their specific needs and the technical properties required. Generally, these products will not be subject to the nonrational appeals effective with consumers. See Mueller, Sources of Monopoly Power: A Phenomenon Called Product Differentiation, 18 Am. U.L. Rev. 1, 28-29 (1968).
differentiation stabilizes the manufacturers' respective market shares. The methods of differentiation are as varied as the factors that lead a person to prefer one product over another. These distinguishing characteristics include quality, design, packaging, and promotional techniques. Second, to the extent that product differentiation is effective, manufacturers can capitalize on the consumer preferences which it develops to exercise a certain amount of control over the price of their products without jeopardizing their market position. Finally, an established consumer brand preference and the manufacturer's ability to charge a price in excess of the competitive price form a barrier which may discourage new competitors from seeking entry into the industry. Different sellers of closely related products will frequently charge diverse prices and have dissimilar

13 Technically, the degree to which one product is a substitute for another can be measured by the cross elasticity of demand between the goods. Cross elasticity is defined as: percentage change in the quantity of good X demanded divided by the percentage change in the price of good Y. Between close substitutes (fresh peas and frozen peas, for example) a drop in the price of one will be reflected by a perceptible decrease in the demand for the other, as consumers shift their buying patterns in response to price. The closer the substitutability, the higher will be the products' cross elasticity. Between products where consumers exercise preferences substantially based on factors other than price, however, a slight decrease in the price of a specific product will not result in the higher priced goods' losing most of its market share. Certain consumers, although not all, will still be willing to pay somewhat more for a preferred product. The greater the emphasis a consumer places on the differentiated features of his preferred brands, the less impact a drop in competitors' prices will have. Engaging in substantial product differentiation and convincing many consumers of the product's uniqueness through advertising will thus insulate a manufacturer's market share from the price competition to which it would otherwise be subject. See J. Bain, Industrial Organization 212-13 (1959). R. Lipsey & P. Steiner, Economics 89 (3d ed. 1972).

14 See J. Bain, Barriers to New Competition 114 (1956).

15 The impact of advertising on prices is by no means clear. When advertising is the means for effecting new entry into an industry, competition in price or product quality may be increased. It has been argued that promoting product differentiation tends to raise the prices of products to consumers. It has also been noted, however, that advertising's informational content allows consumers to locate low-priced sellers more readily and therefore may tend to lower consumer prices. See generally J. Backman, Advertising and Competition (1967); J. Backman, Trademarks in Advertising and Selling (1966); N. Bordon, The Economic Effects of Advertising (1944); Benham, The Effect of Advertising on the Price of Eyeglasses, 15 J. Law & Econ. 337 (1972); Stigler, The Economics of Information, 69 J. Pol. Econ. 213 (1961).

16 Professor Bain has isolated three impediments to industry entry: scale economies, absolute cost advantages of established firms, and product differentiation advantages. In assessing the relative importance of these different barriers across twenty industries, he concluded that economies of scale were mild barriers to entry into manufacturing industries and absolute cost advantages of established firms were not a frequent source of important barriers to entry. Product differentiation, however, was "a much more important source of great or high barriers to entry.... Thus, product differentiation advantages of established firms loom larger than any other source of barriers to entry, and especially large as a source of high or very high barriers." J. Bain, supra note 13, at 249-50.

17 Barriers to entry are factors which impose higher costs per unit on newcomers into an industry than those which are encountered by established firms, or disadvantages compelling new sellers to accept a lower price in order to be competitive. See Mueller, The New Economics: A Structural Approach, 1 Antitrust L. & Econ. Rev. 87, 89 n. 7 (1957).
market shares. Changes in product design have an impact on market shares, but market shares may also be affected by large advertising budgets. A business that makes substantial advertising expenditures can justify them by the premium price which their "unique" products can then command.

A new firm desiring to compete against established companies in an industry typically encounters these obstacles, as well as others, in any attempt to penetrate a market in which differentiated products exist. Potential competitors may avoid entering these industries and small rival firms may find it impossible to remain in the industry as ongoing and profitable concerns, thereby leaving established firms to enjoy a degree of monopoly profits.

B. Impact on Consumer Interests

Apart from the adverse effects that extensive trademark promotion has on competition, a number of trademark-related practices also have detrimental impact on consumer interests. Perhaps nothing in the area of consumer protection in recent years has attracted more attention and generated more critical commentary than advertising practices. The importance of trademarks in advertising has long been recognized, and it is acknowledged that a trademark or brand name is a key element in marketing many products, particularly consumer goods.

Notwithstanding the controversial nature of the subject, few economists contend that advertising and product differentiation have altogether bad effects. The more important question is how much advertising is

18 See Turner, Conglomerate Mergers and Section 7 of the Clayton Act, 78 HARV. L. REV. 1313, 1336 (1965) (contending that advertising increases barriers to entry by raising total start-up investment in promotional expenses).

19 Advertising is an important factor in the diminished rivalry that characterizes many oligopolistic markets. By creating brand loyalties that rival sellers find difficult to erode, formidable barriers are created to new entry into concentrated markets. If it costs Procter & Gamble, Colgate Palmolive, and Lever Bros. 2¢ to sell a bar of soap, because they are established in the industry, it would cost a new entrant perhaps 2.2¢. The established firms can price up to 2.19¢ without attracting new entry and thereby realize a monopoly profit of .19¢. See Posner, Working Paper for the Task Force on Productivity and Competition: Advertising and Product Differentiation, 115 CONG. REC. 15,940 (1969).


21 In a decision in which he described the use of trademarks as a means of advertising, Mr. Justice Frankfurter stated: "A trademark is a merchandising shortcut which induces a purchaser to select what he wants, or what he has been led to believe he wants." Mishawaka Rubber & Wollen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 205, 53 U.S.P.Q. 323, 326 (1942).

22 Backman, The Role of Trademarks in our Competitive Economy, 58 TRADEMARK REP. 219 (1968).

23 Among the important functions of advertising are to inform buyers of available product alternatives, permitting them to make better choices among these alternatives, and to identify brands, which enables a consumer to repeat satisfactory purchases easily. Since advertised-brand goods vary little from week to week in quality,
necessary and in what ways may a company fairly promote its products. There is almost universal agreement that a significant portion of advertising is either false or deceptive. When product differentiation and advertising are the bases of competitive rivalry, there may be a decline in the quality of products and the substitution of insubstantial product variation obscured by trademark proliferation. Children are particularly susceptible to intensive television advertising campaigns. Children who watch a moderate amount of television during the hours that programming is devoted to their entertainment are advised how and what to eat approximately ten times each hour. The range of advertised goods is narrow and the same ads are often repeated in identical form many times during the same program. "The sell is hard; the message is not educational. In other contexts we would call it brainwashing and propaganda." Not all potentially injurious advertising is aimed at children. The FTC recently investigated misleading claims concerning tires' effect on stopping distance and the nutritional value of various tastes, texture, and general character, they are conveniently purchased products in supermarket shopping. Advertised brands of consumer durables carry the goodwill benefits accruing to guaranteed performance. These benefits are not actual warranty protection, but in the nature of a consumer expectation of satisfaction based on an established reputation. For an extended discussion of advertising and product differentiation see F. Scherer, *Industrial Market Structures and Economic Performance* 324-45 (1971).


Several billion dollars have been invested in promotional packaging, such as injection-molded, Yogi Bear plastic containers for children's bubble bath compound. The drug industry spent an average of $3,000 per prescribing physician in promoting prescription products, including all-expense-paid trips by doctors to New York City for cocktail parties and theater tickets. See F. Scherer, supra note 23, at 329-30.


See Scanlon, supra note 20, at 105.

Address by Gerald Thain, Assistant Director for National Advertising, Bureau of Consumer Protection, FTC, before the Food and Drug Law Section of the ABA, in New York City, July 7, 1971 cited in 1972 Wis. L. Rev. 1097, 1104. Thain pointed out the particular susceptibility of children to exploitation in advertising. He stated that the staff of the FTC believes that special protection should be extended to children where unfair or deceptive advertising threatens their ability to make a rational and intelligent purchasing decision. He also indicated that this protection should be extended to a variety of vulnerable audiences, including the aged, handicapped, and ghetto-dweller. 1972 Wis. L. Rev. 1097, 1104-05. See also FTC v. R.F. Keppel & Bros., 291 U.S. 304, 313 (1934), in which the Court affirmed a cease and desist order issued by the FTC against the practice of selling "break and take" candy to children. This form of merchandising induced children to buy inferior candy in hopes of getting prizes and bonuses. Although actual deception was not involved, the Court held that such practices were unfair since they preyed on the particular vulnerabili ties of children.


Trademark Licensing

foods. Literal reliance on such false claims might seriously impair one's safety and health. The claims were judged to be deceiving even to adult consumers.31

Trademark proliferation, through the medium of advertising, also has a detrimental effect on consumer interests. The cereal industry is representative of other oligopolistic industries in its marketing and advertising techniques. Testimony before the House Select Committee on Small Business identified fifty-six different trademarked, ready-to-eat (RTE) cereals that could be grouped by their nutritional value into four distinct categories.32 Without informative advertising,33 it is virtually impossible for the consumer to differentiate among the nutritional ingredients in so many products. Moreover, rather than resort to informative advertising about their products, cereal manufacturers consistently tell fanciful tales in their commercial messages, without mentioning significant factual information about the product itself.34

The FTC has charged that extreme product proliferation is a source of consumer confusion and constitutes an unfair practice in violation of the Federal Trade Commission Act.35 Advertising to promote trademarks has, in some instances, diverted attention from the characteristics of the products. While the cereal industry is regarded as a prominent offender in this respect, many consumer product marketers engage in some of these practices.36 The objections to trademark promotion are particularly strong when the advertising does no more than persuade consumers that a particular brand is better than competing products that are physically indistinguishable or differ only in minor respects. Consumers are precluded from making real choices and are unaware that the long-run consequences

31 See Warner-Lambert Pharmaceutical Co., 3 TRADE REG. REP. ¶ 19,838, at 21,859 (FTC July 14, 1971) (proposed complaint); id., ¶ 20,045, at 22,026 (FTC June 27, 1972) (complaint issued). The complaint alleged that commercials for Listerine Mouthwash falsely represented its effectiveness as a preventative treatment for colds and sore throats. In J. B. Williams Co. v. FTC, 381 F.2d 884 (6th Cir. 1967), the court upheld the FTC's power to require affirmative disclosure that Geritol was not an effective cure for people who were tired and run down when, in fact, iron deficiency anemia, which Geritol remedies, was responsible for this condition in only a few individuals. Future advertisements were forced to reveal that for persons not suffering from this deficiency, the preparation would be of no benefit.

32 See 1971 Hearings, supra note 29, at 143.

33 Only about one-third of all commercial messages can be classified as informative. Scherer, supra note 23, at 326.

34 Id. at 169.


36 Other industries engaging in product differentiation, trademark promotion and proliferation, and persuasive advertising are the cigarette, soap, detergent, and bleach industries. Scherer, supra note 23, at 327-30. But see Scanlon, supra note 20, at 107-08, in which the author considers advertising expenditures in the fresh meat industry. In this industry, there is compulsory grade labeling for quality by government inspectors. The result is an industry which is much less concentrated: the top four firms control less than 25 percent of total sales. Advertising costs are practically nil, and advertising practices lack the kind of misleading claims characteristic of major oligopolies. There are only modest profits in the industry, representing approximately 8 percent after taxes on stockholder's equity. This is approximately one-third of Kellogg's earnings rate.
of their choices may include more market concentration and the addition of a substantial premium to the price they pay for heavily advertised brands.

II. THE JUDICIAL APPROACH TO TRADEMARK ABUSE

At common law, the right to maintain a trademark was fragile and legal protection of this right could be lost in several ways. The judiciary has dealt with one of the problems generated by trademark rights by accepting the defense of genericism in actions for trademark infringement. There are two kinds of generic words: those which are inherently generic because they have always named an article or class of articles, and those which were originally trademarks but are no longer legally protected because they have lost their distinctiveness. When the genericism defense is raised successfully in the latter category, trademark rights are no longer legally enforceable. Any competitor may then market a similar product and adopt the previously trademarked name. Judicial acceptance of the genericism analysis has necessarily obviated the need for compulsory licensing. It employs a more drastic measure: the outright loss of trademark rights.

The theory underlying the defense of genericism has its roots in the source identification function of a trademark. In identifying the source of production or manufacture, trademarks protect the consuming public

37 For a comprehensive discussion of judicial interference with trademark rights see Annot., 3 A.L.R.2d 1226 (1949).
38 An alternative procedure to raising genericism as a defense is to bring a petition for cancellation of registration before the United States Patent Commissioner. See, e.g., Haughton Elevator Co. v. Seeberger, 85 U.S.P.Q. 80 (1950).
39 Generic words are names of particular articles or classes of articles, such as chair, pill, or elevator. Generic names can never qualify as legally protected trademarks as long as they are the names by which products themselves are known to the public or the relevant trade. See Zivin, supra note 7.
40 Many words which are presently generic were initially protected by trademark. Some of the more common trademarks which have been lost to genericism are aspirin, cellophane, escalator, cola, shredded wheat, and milk of magnesia. U.S. TRADEMARK ASS'N, TRADEMARK MANAGEMENT 75 (1955).
41 Technically, trademark rights may be lost through abandonment, laches, or acquiescence. The distinctions among the three are often blurred. Laches refers to the failure of a trademark proprietor to make a timely objection to the use of his mark by another. The loss of a trademark by laches may also be called implied acquiescence or acquiescence by operation of law. This is in contrast to actual acquiescence or intentional abandonment of a trademark by consciously transferring it to another or consenting to its use by others. 3 R. CALLMAN, supra note 9, at 514 (1967 ed.).
42 See, e.g., Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 39 U.S.P.Q. 296 (1938), in which Kellogg acquired the right to market a pillow-shaped breakfast cereal under the previously trademarked name "shredded wheat" when the court found this term to be generic.
43 The classical function of source identification, rather than its widely acknowledged present importance as an instrument of advertising, has influenced the development of trademark law. See F. SCHECHTER, THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADEMARKS (1925). At least one author feels, however, that the source indicator function has been supplanted by the advertising function, noting that the source indicating function, apart from its importance in advertising has no independent significance. See 3 R. CALLMAN, supra note 9, at 16.
from deception. If the trademarked name has become so familiar that it is no longer recognized by the public as referring to the product of a particular manufacturer, no deception is involved. Thus, when a trademark has become generic in the public's understanding, there is no justification for continuing to afford it legal protection.

A trademark generally becomes a generic term in one of three ways: a trademark proprietor may use the trademark inappropriately; the expiration of an underlying patent may render the term generic; or the trademark may be improperly used by competitors or the public without effective policing measures by the proprietor. In *Haughton Elevator v. Seeberger*, a petition for cancellation of the trademark "escalator" was granted when it was found that the Otis Company, the trademark proprietor, had used the term descriptively rather than as an indication of origin. Although the decision rested primarily on the company's own consistent neglect to attach trademark significance to the name escalator, the court's opinion also noted that the general public recognized "escalator" as a generic name for a moving stairway. In *Bayer Co. v. United Drugs*, the trademark proprietor adopted the chem-

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45 In *DuPont Cellophane Co. v. Waxed Products Co.*, 85 F.2d 75 (2d Cir. 1936), DuPont sued to enjoin infringement of its trademark, "Cellophane," by defendant who was supplying his customers a celluloid substance in response to their requests for cellophane. The Court held that consideration must be given to the public's understanding of the word. "The rights of the complainant must be based on a wrong which the defendant has done to it by misleading customers as to the origin of the goods sold. . . . Such rights are not founded on a bare title to a word but on a cause of action to prevent deception." *Id.* at 81.

46 Section 45 of the Lanham Act provides:

> [a] mark shall be deemed to be "abandoned"
> (a) When any course of conduct of the registrant, including acts of omission as well as commission, cause the mark to lose its significance as an indication of origin.

15 U.S.C. § 1127 (1970) (originally enacted as Act of July 5, 1946, ch. 540, § 45, 60 Stat. 427). See Zivin, *supra* note 7, at 178. Sophisticated techniques have been developed by business to police the misuse of trademarks by failure to acknowledge their trademark status. Many companies promulgate internal manuals on proper trademark usage. When trademark misuse occurs, it is common for a proprietor to send letters informing the party of the improper usage, explaining the importance of the investment in a trademark, and soliciting cooperation in using the symbol properly. See U.S. TRADEMARK ASS'N, *TRADEMARK MANAGEMENT*, 67-88 (1955).


48 In advertising in trade magazines, Otis referred to its products as "Otis elevators and Otis escalators." It is clear that the trademark emphasis was on "Otis" and "escalator" was used generically, without any trademark significance. Similarly, in a model Standard Safety Code for Elevators, Dumbwaiters & Escalators, representatives of the Otis company defined an escalator as a moving inclined continuous stairway used for raising and lowering passengers, without any indication that the term designated the origin of the device. *Id.* at 81.

49 *Id.* at 81.

50 272 F. 505 (1921).
ical formula, acetylsalicylic acid, as the generic term for "aspirin," which was registered as a trademark. Because of its cumbersome generic name, the compound was commonly referred to by its trademarked name both within the pharmaceutical trade and by the public, despite Bayer's attempts to preserve the validity of the registered mark. In refusing to enjoin independent druggists from using the mark in labeling their own compounds, the court found the trademark had become descriptive, since the public understood the trademark to refer only to the compound itself and not to the specific Bayer product. The opinion indicated that a trademark proprietor must do more than simply take steps to protect his trademark. The proprietor must successfully educate the public to acknowledge the status of his trademark as such.

Secondly, a trademark may become vulnerable to loss when its underlying patent expires. Trademark loss does not occur by operation of law. If the trademark is used generically during the period of patent protection, both the name and the product become part of the public domain upon expiration of the patent. In the "Shredded Wheat" case, the Supreme Court denied National Biscuit Company (Nabisco) the right to retain the exclusive use of the trademark "shredded wheat" as applied to a pillow-shaped breakfast cereal. Once the patent had expired, the Court held, competitors acquired the right not only to produce the article, but also to call it by the name by which it is generally known to the public.

Finally, a trademark can be lost if it is improperly used by parties other than trademark owner. In Q-Tips, Inc. v. Johnson & John-

51 Bayer promoted its products widely in trade journals and advertisements. Their advertisements identified "Aspirin" as a trademark in the explanatory legend "The word 'Aspirin' identifies it as the manufacture of the Bayer Company." When Bayer shifted its emphasis from wholesale to retail distribution, boxes and tins were marked with similar legends indicating the status of the product's name as a trademark. Id. at 508.

52 J. Learned Hand stated, the single question, as I view it, in all these cases, is merely one of fact: What do the buyers understand by the word for whose use the parties are contending? If they understand by it only the kind of goods sold, then, I take it, it makes no difference whatever what efforts the plaintiff has made to get them to understand more.


55 Significantly, the Court found that there was no unfairness in Kellogg's sharing in the goodwill and market created by Nabisco's skill, judgment, and vast advertising expenditures. Moreover, the Court stated there was a strong public interest in the free exercise of the right to share in such goodwill. 305 U.S. at 122.

56 Improper use may be made by the general public, disinterested third parties, such as dictionary publishers, or competitors. See generally Ziven, supra note 7, at 189.
son, the defendant intentionally appropriated the term “tips” in marketing a cotton swab similar to the plaintiff’s in hopes that the term would become generic. The court held that the defendant’s action infringed upon the “Q-Tips” mark, and enjoined the use of the deceptively similar term “Cotton Tips” as a trademark. Thus, once competitors begin to use a trademark as a generic expression, the proprietor’s failure to make a timely objection to the trademark misuse may result in abandonment of the mark. Although a trademark proprietor may enjoy a commercial monopoly on a trademark for an indefinite time, once the word becomes part of the public domain courts hold that it is unfair to restrict a competitor’s right to use it. Although public understanding of a trademark as a generic expression may deprive the trademark owner of the right to exclusive use, equity decrees are typically fashioned to give as much protection to the proprietor as possible. Courts may protect the proprietor by restricting the manner in which competitors can use the trademark or by limiting competitors’ use of the trademark to that sector of the economy which recognizes it as a generic term.

Although the courts have confronted the general problems involved in

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58 The court found that after unsuccessful attempts to buy out Q-Tips, Inc., Johnson & Johnson decided on the trademark “Cotton Tips” in an effort to find a name that would maximize its position as a Q-Tips competitor. Johnson & Johnson engaged in an extensive in-house indoctrination program to establish the view that they had always used the term “Cotton Tips” for their product and that they had consistently attached trademark significance to its use. Since the name “Cotton Tips” was not familiar to the buying public, the court found that the defendants sole purpose was its desire to use a name as similar to Q-Tips as was legally possible. 108 F. Supp. at 864.
59 See, e.g., King Seeley Thermos Co. v. Aladdin Indust. Inc., 321 F.2d 577, 138 U.S.P.Q. 349 (2d Cir. 1963). When King Seeley became aware of the genericism problem involving its trademark “Thermos,” it policed the trade and notified persons misusing the term of its trademarked status. The company failed to take affirmative action, however, to protest the nontrade generic uses. After some years, a substantial public education campaign was directed at the proper use of the term “Thermos” and emphasis was placed on substituting the generic term, vacuum bottle, in common parlance.
60 King Seeley enjoyed a monopoly on the word “thermos” for over fifty years. Despite their efforts to protect their trademark, the court found that 75 percent of the adults in the United States who were familiar with vacuum bottles called them “thermos” bottles and only 12 percent were aware that term had any trademark significance. Id. at 579-81.
61 For example, King Seeley was entitled to retain exclusive use to its then current forms of the trademark “Thermos” without change. Defendant was compelled to precede its use of the term with the possessive “Aladdin’s” and was confined to using the term thermos with a lower case “t”. The court determined this was the proper balancing of the potential competitive disadvantage to the defendant of King Seeley’s exclusive use versus King Seeley’s right to as much protection as possible. The court also believed the purchasing public had a right to know the source of the goods they were buying. Id. at 577-81.

In the Bayer aspirin case, independent pharmacists were allowed to sell the aspirin compound they produced to the general public under the name aspirin, because this was the only term for the compound which the public recognized. Within the trade however, only Bayer was entitled to use the word “aspirin.” Bayer Co. v. United Drugs, 272 F. 505 (S.D.N.Y. 1921).
trademark use, they have done so primarily where the questions concerned a trademark proprietor's relinquishment, in some express or implied sense, of his rights in a registered mark. The criteria developed to deal with this problem were uncomplicated, though necessarily vague, because the issues were rather simple ones of fact. The larger and much more complex problems, associated with trademarks that are part of a powerful advertising program and belong to a holder of a large share of a given market, transcend the kind of analysis which the courts have previously applied to most trademark cases. Simple issues of fact are not involved in these cases. Rather, broad and complicated questions of economic policy emerge. Courts are not well suited to conceive and implement answers to the kinds of questions that complicated trademark abuse litigation raises. The answers must grow out of public policy decisions with long-range consequences, and these decisions are best made by Congress.

III. THE LEGISLATIVE APPROACH TO TRADEMARK ABUSE

No single federal program or statute has attempted direct and exclusive treatment of trademark proliferation and its harmful effect on both competitor and consumer interests. There are, however, three federal statutes which deal with the general problem: the Lanham Act; the Wheeler-Lea amendment to section 5 of the Federal Trade Commission Act; and two FTC programs dealing with deceptive advertising.

A. The Lanham Act

The Lanham Act, passed in 1946, instituted a system of federal trademark registration and provided access to federal courts without the standard jurisdictional prerequisites. When a trademark is registered under the Lanham Act, federal trademark law is dispositive, even when the action is brought in a state forum. Although the Lanham Act does not preempt state registration systems and is not the exclusive remedy for a trademark owner, as the benefits of federal trademark registration become more apparent, trademark litigation should increasingly be governed by federal law.

Two sections of the Lanham Act deal tangentially with the problem of trademark abuse resulting from excessive trademark promotion and proliferation. The first is section 43(a), which provides a right of action to persons who are likely to be injured by false or misleading representa-
tions in connection with goods in commerce. In this section, Congress intended to fashion a new federal remedy to deal with a particular kind of unfair competition that previously had been protected under common law. Section 43(a) provides a civil damage remedy against anyone using a false designation of the origin or false description of goods in commerce. The section was intended to promote fair business dealings. Although trademarks are not specifically mentioned in this section of the Lanham Act, early interpretations of the section 43(a) prohibitions construed them to encompass only those misrepresentations that were of substantially the same economic character as those involving infringement or other improper uses of trademarks.

In 1963, the Sixth Circuit stated that section 43(a) protection would be afforded only for false representations of geographical origin or false representations as to source or origin of manufacture. This narrow application of section 43(a) has been criticized and the line of cases subsequently decided under section 43(a) reveals that grounds for relief have been expanded somewhat. However, the trend of the cases makes

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68 Section 43(a) provides:
(a) Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.


69 See, e.g., American Rolex Watch Corp. v. Jack Laufer & Jan Voort, Inc., 176 F. Supp. 858, 861 (E.D.N.Y. 1959). Where defendant falsely represented his product to be that of the plaintiff, the court held that Congress intended to fashion a new federal remedy against the civil wrong of false representation of goods in commerce, a kind of unfair competition that the common law effectively prevented.

70 See, e.g., Samson Crane Co. v. Union Nat'l Sales, Inc., 87 F. Supp. 218 (D. Mass. 1949), aff'd, 180 F.2d 896 (8th Cir. 1950) in which the court stated that the purpose of section 43(a) was not to be interpreted to bring any kind of undesirable business practice which involves deception within the scope of the Lanham Act. Unfair competition in commerce must not be construed to refer to any competitive practice which, in the broad meaning of the words, might be called unfair, but to that "unfair competition" which has been closely associated with the misuses of trademarks, i.e., the passing of one's own goods as those of a competitor. Id. at 222.

71 Federal-Mogul-Bower-Bearings, Inc. v. Azoff, 313 F.2d 405, 408 (6th Cir. 1963). Defendant imitated plaintiff's products so as to falsely represent them in interstate commerce; plaintiff was granted relief under section 43(a).


it clear that the standard of "unfair competition" will not be expanded to be synonymous with the broader standard of "unfair methods of competition in commerce," which is the foundation of a violation of section 5 of the FTC Act.76 Moreover, although the language of the statute confers a cause of action upon any person who believes that he is likely to be damaged by the false representation, the courts have consistently denied standing to consumers suing for relief under the Lanham Act.77 In 1971, the Court of Appeals for the Second Circuit reiterated that the congressional intent was to protect persons engaged in commerce and that this protection was not designed for consumers. The remedy is available exclusively to protect the interests of a purely commercial class against unscrupulous conduct.78

From the commercial point of view, section 43(a) has an even more fundamental inadequacy. The notion of "falsity" itself is not readily susceptible to expansion to meet the wider range of trademark problems that have arisen.79 For example, section 43(a) does not embrace the concept that it is improper to trademark and promote a product that does not seem substantially different from other products already on the market. In light of the judicial development and application of section 43(a), the section seems to be an inadequate safeguard against abusive trademark promotion and proliferation, especially for the consumer.

Section 14 of the Lanham Act sets out the grounds and procedures for cancellation of a trademark registration.80 Section (c) codifies the common law grounds for cancellation, including genericism,81 and allows the FTC among others to apply for cancellation. Section 14 was most

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76 See notes 58-65 and accompanying text supra.
77 For example, in an action by the state of Florida on behalf of a class of consumers who sustained injuries by using a drug with a label that falsely represented its effectiveness and failed to provide adequate warning, the court granted defendant's motion to dismiss on the grounds that members of the public have no cause of action under the Lanham Act. Florida ex rel. Broward County v. Eli Lilly & Co., 329 F. Supp. 364, 367 (D. Fla. 1971).
79 See Germain, supra note 75, at 99.
80 15 U.S.C. § 1064 provides in part:

A verified petition to cancel a registration of a mark, stating the grounds relied upon, may, upon payment of the prescribed fee, be filed by any person who believes that he is or will be damaged by the registration of a mark on the principal register. . . .

(c) at any time if the registered mark becomes the common descriptive name of an article or substance, or has been abandoned, or its registration was obtained fraudulently or contrary to the provisions of section 4 or subsections (a), (b) or (c) of section 2 of this Act for a registration hereunder, or contrary to similar prohibitory provisions of said prior Acts for a registration thereunder, or if the registered mark is being used by, or with the permission of, the registrant so as to misrepresent the source of the goods or services in connection with which the mark is used . . . .

81 Section 1027 of the Lanham Act defines the abandonment of a trademark as including loss through genericism. 15 U.S.C. § 1064 (1970). See also note 51 supra.
recently amended by Congress in 1962. The FTC, in anticipation of the legislative reform, submitted a report suggesting an amendment to section 14(c). The amendment requested that the FTC be given jurisdiction to cancel a registered mark which was descriptive at the time of registration as well as one which acquires a descriptive character following registration. Congress declined to enact the modification at that time, characterizing the proposed amendment as a "housekeeping measure" intended to clarify miscellaneous provisions of the FTC Act rather than to make substantive changes in policy.  

B. The Wheeler-Lea Amendment

Section 5 of the FTC Act originally prohibited "unfair methods of competition in commerce." In 1938, the Wheeler-Lea amendment was added as a supplementary measure to prohibit "unfair or deceptive acts or practices" in commerce. In FTC v. Sperry & Hutchinson, the Supreme Court discussed the impact of the Wheeler-Lea Act on FTC jurisdiction. The Court held that section 5 of the act empowers the Commission to prohibit, as unfair, those practices which directly injure consumer interests, regardless of whether or not antitrust questions are raised. Although touted by some as the foundation of a new and vig-
orous FTC consumer protection program, not all commentators on the Wheeler-Lea amendment have been so enthusiastic. In Consumer Protection Hearings before the Senate Committee on Commerce, it was reported that the FTC deals with cases involving only marginal harm to consumers and ignores gross deception perpetrated by larger firms advertising in mass media.\(^8\) As one commentator suggests, the failure of section 5 stems partly from the fact that the remedial scheme provides no penalty that the government can initially impose and no threat of monetary liability to consumers.\(^8\) The amendment focuses on eliminating past wrongs, primarily by means of cease and desist orders, which are the FTC's main tool for forestalling future unlawful conduct.\(^9\) The cease and desist order is curative,\(^9\) rather than preventative medicine.

Much has been written about the scope of the FTC's discretion in fashioning remedies.\(^9\) In *FTC v. Sperry & Hutchinson*, the Court pointed out that the legislative history of the FTC Act made it clear that Congress intended the Commission to have a great deal of discretion in defining those practices which come within the prohibitions of the Act.\(^2\) The FTC is empowered and directed to prevent unfair methods of competition as well as unfair or deceptive acts and practices in commerce.\(^3\) Under this general statutory language, the courts have allowed the FTC a great deal of latitude in shaping remedies for violations of section 5.\(^4\)

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\(^{88}\) In light of the numerous advertising claims made each day, the likelihood of a deceptive advertiser's getting caught by the FTC is slim. Although stringent criminal or harsh civil penalties might deter these practices, the FTC Act and the Wheeler-Lea amendment have not imposed them. Stone, *supra* note 84, at 224-25. See also Sebert, *Obtaining Monetary Redress for Consumers Through Action by the Federal Trade Commission*, 57 MINN. L. REV. 225 (1972). Sebert suggests that the FTC has authority to compel a respondent to make monetary restitution to an injured consumer where such restitution is appropriate to terminate a continuing unfair practice.

\(^{89}\) Stone, *supra* note 84, at 225.

\(^{90}\) The goal of this supplemental legislation is simply to codify trends presently developing in consent decrees to achieve consistency in judicial and agency application. As a result, no effort is being made to build in punitive measures. Corrective remedies are in keeping with the legislative intent underlying FTC jurisdiction while adequate punitive measures exist under antitrust legislation.


\(^{94}\) Although indicating, in *Herzfeld v. FTC*, 104 F.2d 207 (2d Cir. 1944), that an FTC order requiring a company to modify its name to avoid a potentially deceptive connotation was more sweeping than desirable in that instance, the Second Circuit, in an opinion by Judge Learned Hand, refused to modify the order, stating that the Supreme Court had circumscribed their authority to review the remedies prescribed by administrative agencies. *Id.* at 209.

Two years after the *Herzfeld* decision, the Supreme Court established the "reasonable relation" test which has become the accepted standard for determining the legality of a remedy selected by the FTC. Under this standard the courts will modify
Although this flexibility is to some extent desirable for an agency such as the FTC, too much discretion, as well as too little, can make a program which regulates abusive practices ineffective. Given too many options, the FTC has often unwisely chosen the violations which it will prosecute and those it will not.95

C. Advertising Regulation Programs

Using its broad discretion, the FTC has initiated two programs specifically directed at advertising abuse.96 The first, the Ad Substantiation program, is based on the theory that section 5 gives the Commission the power to declare unsubstantiated advertising to be unfair and deceptive. The FTC's program requires advertisers to submit on demand all tests, studies, or other data which purport to substantiate the suspect claims.97 The goal of the ad substantiation program is to provide additional data to facilitate the consumer's rational purchasing choices98 and to deter unfounded advertising claims.

Corrective advertising, the second FTC program, is aimed at mitigating residual effects of untrue or deceptive claims, which leave false impressions in the consumer's mind even after the deceptive advertising has been eliminated.99 Studies indicate that consumers experience a delayed response to advertising and suggest that even the most innocuous advertising will cause consumers to recall previous claims. The FTC typically requires the violating company to cease and desist advertising the product for an extended period of time, or, alternatively, to devote a substantial proportion of its advertising budget to disclosing the false statements previously made.100

Although both programs should benefit the consumer, neither is flawless. The major problem with ad substantiation is the delay between the

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95 See generally R. POSNER, supra note 20.
97 Section 6(b) of the FTCA specifically empowers the Commission to require industries to file special reports and answer specific questions upon request. The Commission may make these reports public as long as they do not contain secrets or customer lists. 15 U.S.C. § 46(b), (f) (1970).
98 Note, supra note 91, at 1435.
99 See generally Note, supra note 20.
100 See note 31 supra.
initial request for substantiation materials and the removal of the advertisement, if it is found to be unsupportable in fact. Moreover, the consumer is generally unaware of the program and does not know how to get the needed information. Also, the technical and voluminous data are largely worthless in evaluating the merits of a product.

Similarly, corrective advertising, although a legally proper and useful remedy, is subject to shortcomings. Perhaps the most significant drawback is a product of the tremendous number of advertising claims made daily. The potential for isolating and successfully prosecuting more than a few false claims is minimal. There is also a time lag between the consumer's initial exposure to the deceptive claim and the appearance of the corrective advertising. It is difficult to determine the extent to which reliance on the false claims will lead to purchase decisions before the corrective advertising reaches consumers. Moreover, the corrections may not reach the same consumers who were exposed to the previous advertising.

Thus, none of the existing federal controls adequately treats the problem of trademark proliferation. The Lanham Act only deals with false representations of geographical origin or source of manufacture and cannot be used by consumers. The Wheeler-Lea amendment, while recognizing consumer interests, leaves consumer protection to the FTC. The FTC's advertising regulation programs have been marked by major enforcement and effectiveness problems. It is evident that, although remedial action is arguably possible under any one of several judicial, statutory, and regulatory doctrines, no doctrine directly addresses the problem of trademark abuse.

IV. FTC CONSENT DEGREE PROCEEDINGS

Cases involving trademark practices which are against the public interest have been resolved primarily in consent decree proceedings either before the FTC or the Department of Justice. FTC consent decrees may include compulsory public dedication of trademarks. Consent decrees are contracts, between the Commission or the Department of Justice and the party, that are entered before testimony is taken on the facts. Seventy-five percent of the FTC's proceedings are terminated by this method. As a result, relatively few trademark abuse cases processed by the FTC have been litigated in the courts. Representative of these consent decree cases are United States v. A. B. Dick and United States v. Wallace & Tierman Co. In the former case, A. B. Dick was found to be engaged in a conspiracy to restrain trade and monopolize the duplicating

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101 See, e.g., Holloway v. Bristol-Meyers, 485 F.2d 986 (D.C. Cir. 1973), in which the court held private parties have no right of action to enforce provisions of the FTC Act against a corporation engaged in false and deceptive advertising.


103 Id. at 567.


equipment industry. The consent decree required, in part, that the defendants dedicate their trademark, "Mimeograph," to the public without compensation.\textsuperscript{106} In \textit{Wallace \& Tierman}, manufacturers and distributors of chlorinating equipment and supplies had violated the Sherman Act by express allocation of markets, price fixing, and exclusive contracts with persons in the sale, servicing, and distribution of chlorinating equipment. The final decree required the defendants to grant, royalty free, nonexclusive licenses for the manufacture, sale, and use of the patents involved in the antitrust violations. The court further enjoined the defendants from initiating suits for patent infringement for a period of ten years. With respect to the trademarks involved in the action, the defendants were ordered to take whatever steps were necessary to dedicate three machinery trademarks to the public without compensation and were enjoined from maintaining any suit based on infringement of any trademark interest in the three dedicated marks.\textsuperscript{107}

Traditionally, the FTC has not approached the question of trademark abuse directly. The Commission has dealt with trademark abuse only in the context of broader problems such as antitrust violations. FTC requests for trademark remedies have been an exercise in juggling sanctions to fit other larger crimes. The legislative mandates in the FTC Act and the Clayton Act have been used sporadically to fashion ad hoc remedies to the problems these statutes address by manipulating the status of the trademarks in the offending party's possession. Yet the language of these statutes is too vague and imprecise to deal with the complicated problems raised by trademark abuse. The FTC is designed to apply the broad policies implicit in its enabling legislation to specific and varied cases. It cannot effectively apply policy which the legislature has not yet stated.

V. PROPOSAL FOR COMPULSORY TRADEMARK LICENSING

\textit{A. The Trademark License}

The earliest view of trademark licensing relied on the "source theory" of trademark protection. Under this theory, trademark licensing was legally, if not conceptually, impossible because trademarks were thought to represent to the consumer only the physical source or origin of the product labeled by the trademark.\textsuperscript{108} Early common law cases held that a trademark could not be licensed unless the licensor transferred his entire business along with his trademark to the licensee.\textsuperscript{109} Such arrangements hardly constituted licensing and, in any case, were not flexible enough to remain viable in a sophisticated economy.

\textsuperscript{106} 1948-49 Trade Cas. ¶ 62,233 (D. Ohio 1948).
\textsuperscript{107} 1954 Trade Cas. ¶ 67,828 (D.R.I. 1954).
\textsuperscript{108} See generally 1 J. \textsc{McCarthy}, \textsc{Trademarks and Unfair Competition} 631 (1973).
\textsuperscript{109} See, e.g., American Broadcasting Co. v. Wahl Co., 121 F.2d 412 (2d Cir. 1942); Everett O. Fisk & Co. v. Fisk Teachers' Agency, 3 F.2d 7 (8th Cir. 1924); Bulte v. Igleheart Bros., 137 F. 492 (7th Cir. 1905); Macmahan Pharmaceutical Co. v. Denver Chem. Mfg. Co., 113 F. 468 (8th Cir. 1901).
A more useful approach to licensing was made possible when the courts recognized that a trademark indicated not only the source of a product to the consumer, but the quality of the product as well.\textsuperscript{110} Indeed, the Lanham Act itself implicitly recognized the quality-identification function of a trademark and allowed for permissive licensing on this basis.\textsuperscript{111} Currently, the courts allow trademark licensing rather freely, as long as certain conditions are met.\textsuperscript{112} The most restrictive of these conditions is that the license granted must not be "naked."\textsuperscript{113} That is, the licensee must not be allowed to place the mark on any type of good or service, thereby to make the mark's reputation for quality meaningless and constitute fraud on the consumer.\textsuperscript{114} Courts have insisted that licensors of trademarks retain some control over the quality of the product that their licensees are labeling with the common trademark. Although control is universally required, it is by no means certain how much or what kind of control will pass the test of any given court. If there is insufficient licensor control, the license may be found "naked" and the trademark consequently abandoned;\textsuperscript{115} if there is too much control, there may be an antitrust violation.\textsuperscript{116} These kinds of problems notwithstanding, trademark licensing has long been recognized as a particularly advantageous method of distributing the economic benefits of a good product or service. The law currently sanctions licensing on a permissive basis. Where trademark abuse exists to the detriment of both other competitors and consumers the law should also require licensing on a compulsory basis.

\textbf{B. A Compulsory Trademark Licensing Statute}

Trademark regulation for abuses other than those traditionally associated with trademark infringement is in an embryonic stage. Compulsory
licensing is a common judicial remedy in cases of abuse of patent privileges leading to antitrust violations. The goal of the compulsory license in these cases has been to restore competition within the industry. Royalty-free licensing and the more extreme remedy of public trademark dedication have become accepted in consent decree proceedings. However, little judicial consideration has been given to trademark licensing apart from its permissive status under the Lanham Act. The value of statutory codification of the compulsory licensing remedy for trademark abuse affecting consumers is two-fold. First, codification would legitimize and clarify compulsory licensing, thereby removing all doubt as to its availability in administrative proceedings. Second, new legislation would notify businesses that the rights they acquire by virtue of a valid federal trademark are not without certain limitations if these rights are abused in promotional business practices.

There is a need for legislation designed specifically to correct the abuse of trademarks, thereby supplementing section 14 of the Lanham Act. Under the proposed compulsory licensing legislation, the FTC could compel the licensing of any trademark for a specified period of time, or indefinitely, where unfair or deceptive acts and practices in trademark pro-

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117 The origins of the rights and privileges which patents and trademarks respectively enjoy are much different in theory. Patents are constitutionally authorized to create a monopoly in the production of a product for a limited term. Trademarks are a part of the common law, intended to confer no monopoly privileges, but merely to distinguish one manufacturer's products from another's. Barring abandonment, cancellation, or public dedication a trademark may last forever. In the area of section 5 violation, however, an analogy is justified in terms of the effect sought by the remedy. In both cases, the goal is to increase competition, remove unjustified restraints on trade, and, where possible, lower prices. Judicial decisions have fully recognized the remedy of compulsory patent licensing for violations of both the Sherman Act and section 5 of the FTC Act. See Comment, 59 N.W.U.L. Rev. 543 (1965).

In two leading cases, Hartford Empire Co. v. United States, 323 U.S. 386 (1945), and United States v. National Lead Co., 332 U.S. 319 (1947), compulsory patent licensing was required for antitrust violations. In Hartford, the Supreme Court upheld a district court decision which imposed compulsory licensing to remedy a conspiracy to monopolize the glassmaking industry. Hartford was required to license the patents involved at reasonable royalty rates. More recently in American Cyanamid v. FTC, 363 F.2d 757 (6th Cir. 1966), the FTC ordered compulsory licensing of patents involved in a price-fixing arrangement between six major drug companies. All six were found guilty of violations of section 5 of the FTC Act. In United States v. United Shoe Mach. Corp., 110 F. Supp. 295 (D. Mass. 1953), aff'd per curiam, 347 U.S. 521 (1954), the Court approved compulsory patent licensing as an antitrust remedy where the violation was not the result of patent misuse. In that case, the defendant was found guilty of having monopolized the market in violation of the Sherman Act by virtue of its overwhelming strength in the shoe machinery industry. To dissipate the effects of monopolization, the court entered a decree forcing United Shoe to make its patents available to its competitors on a reasonable royalty basis. The consistent justification in all court-decreed licensing cases has been not so much punitive as remedial. One commentator has observed that the courts have felt compulsory licensing was the only effective means of restoring competition within the industry. See Note, Compulsory Patent Licensing By Antitrust Decree, 56 Yale L.J. 77, 87 (1946). Analysis has shown that licensing has effectively increased competition. See Frost, Compulsory Licensing and Patent Dedication Provisions of Antitrust Decrees, 1 Pat. Trademark & Copyright J. 127 (1957).

motion have created unreasonable barriers to competitors’ entry into the industry. Licensing could also be imposed where trademark promotion has impeded the availability of goods of the highest quality at the lowest competitive prices. Since the goal of licensing is essentially remedial, the licensee would be required to pay reasonable royalties to the trademark owner. The royalty structure would be established through bilateral negotiations between the trademark owner and any party wishing to use the mark, subject to the approval of the final arrangement by the FTC. Arm’s-length bargaining would allow the trademark owner adequate compensation for his investment in developing goodwill and public recognition for his product. FTC supervision and approval of the royalty structure is imperative to ensure that royalties are not so high as to discourage potential licensees, and that the royalties charged do not force licensees to implement a pricing schedule equal to, or higher per unit than, that of the original trademark proprietor.

Quality control has been an essential ingredient in trademark licensing agreements, not only in the United States but also in other countries. The guaranteed-quality theory of trademark is based on the assumption that the actual origin of a product is less important to a consumer than a consistent standard of quality on which he may rely. Allowing the trademark proprietor to establish uniform minimum standards of quality control is important to both his own interest and consumer interests. Consistent quality would assure that the proprietors’ established reputation and goodwill would not be undermined by inferior goods and that consumers’ expectations would not be disappointed. Any compulsory trademark licensing statute must contain provisions ensuring the maintenance of quality control over the product produced by the licensee.

The new legislation should not be construed to allow the unlicensed use of a registered trademark. Although any person would be permitted to become a licensee, in effect making a name brand into a generic term, the licensing is designed to avoid the ad hoc confiscation of a valuable trademark right, i.e., the approach the FTC requests in its complaint against the cereal manufacturers. Of course, the trademark proprietor’s market share would be diminished somewhat by the increase in competi-


120 See notes 107-113 and accompanying text supra. See also Comment, Trademark Licensing: The Problem of Adequate Control, 1968 Duke L.J. 875, 877.

121 Such quality control provisions are required under section 28 of the British Trade Marks Act of 1938, 1 & 2 Geo. 6, c. 22. Under this permissive licensing statute, a licensed trademark user must indicate its status as a registered user on the goods or package involved. The actual trademark owner is also identified so that a licensee does not deceive or mislead the public about the source of goods it represents.
tion resulting from the compulsory licensing. The trademark proprietor's decreased revenues would be offset, in part, by royalty payments from the licensee. By putting a legend on the product to indicate its origin, the policing burden on the trademark proprietor would be reduced.

C. Standards of Application

Under the proposed legislation, compulsory trademark licensing would be ordered by the FTC when it finds that, within any given industry, the profits of one or more companies are higher than those of the industry as a whole because of their insulation from normal competitive pressures; that actual or potential competition within an industry has been retarded by companies individually or collectively maintaining highly concentrated, noncompetitive markets; that product innovation has been supplanted by artificial product differentiation; that companies are sharing in noncompetitive market structures through the exercise of monopoly power, intensive trademark promotion, brand proliferation, and artificial product differentiation; that market position is maintained by extensive advertising designed to emphasize inconsequential differences among products rather than to provide the consumer with factual information on which to base consumption decisions; or that intensive trademark promotion has, in effect, erected economic and psychological barriers to competitor entry into the industry.

The procedural mechanism for implementing the proposed legislation could be based on the existing procedure in unfair or deceptive trademark practices cases.122 Like any action under section 5 of the FTC Act, an action under the new statute would be instituted by means of a complaint to the FTC and processed by a hearing on the merits. Once an opinion is issued, it would be subject to appeal. The diversity of industries, products, and advertising approaches necessitates that discretion123 be vested in the FTC to develop standards for application of the compul-

122 A proceeding is started before the FTC on its own initiative or at the request of an outside party. In practice, approximately 95 percent of all complaints filed are initiated by one competitor against another. Facts are ascertained by the staff of the Chief Examiner's Office. Allegations of false advertising must be supported by documentary evidence. Under informal voluntary procedures, the respondent may agree to cease and desist specified practices without admitting any wrongdoing. A consent decree may be agreed to within thirty days of the receipt of a proposed complaint. The Commission’s proceedings conclude with either a dismissal or the issuance of an order to cease and desist. 4 R. CALLMAN, supra note 9, at 502. For a discussion of the jurisdictional requirements of FTC action, see id. at 451-73. For a general description of the Commission’s functions and powers see 3 TRADE REG. REP. ¶ 9500ff (1973). See also G. HENDERSON, THE FEDERAL TRADE COMMISSION (1924); Auerbach, The FTC: Internal Organization and Procedure, 48 MINN. L. REV. 383 (1964); Posner, The Federal Trade Commission, 37 U. CHI. L. REV. 47 (1969).

123 At least one commentator makes a strong argument for remedies which are invoked automatically without the intervention of FTC discretion. Under this approach, if a producer of a trademarked good controls a substantial share of the market, spends over a set percentage of sales revenue on advertising, or advertises more than a specified number of minutes per day over broadcast media, he is subject to compulsory licensing. See Stone, supra note 84, at 231.
sory licensing remedy. Some legislative standards should be listed as guides in the statute. Undoubtedly business interests would be quick to exercise their rights under any new compulsory trademark licensing legislation. Currently, most complaints brought before the FTC are initiated by businessmen, who have a vested interest in protecting their own business, an awareness of the legislation on which a complaint can be based, precise information concerning the alleged violations, and the knowledge of how to bring a lawsuit. Absent some automatic mechanism to make suspect trademark practices mandatory subjects for administrative review, consumers’ interests would be more difficult to protect. Nevertheless, consumer groups are gradually gaining awareness of the sophisticated advertising techniques that businesses use and may emerge as a significant countervailing force representing the public interest. Moreover, once the FTC files a complaint, or one is placed before it, the Commission must assume responsibility for investigating the validity of the claim and conducting the necessary adjudicative proceedings. This procedure would remove the economic burden of private litigation from individual consumers and shift it to the government, which can distribute the cost among taxpayers as an expense of protecting consumer interests.

VI. CONCLUSION

The use and abuse of trademarks as promotional tools for business activities have created genuine problems for both competitor and consumer interests. Where trademark promotion has been used to establish noncompetitive markets, to supplant product innovation, and to erect barriers that foreclose competitive forces within an industry, the FTC has begun to take action against the alleged offenders under section 5 of the FTC Act. One of the remedies that the FTC has recently requested is compulsory, royalty-free trademark licensing. Although the experience with both compulsory patent licensing and permissive trademark licensing indicates that these remedies can be effective in reestablishing competition in previously noncompetitive markets, the FTC’s sporadic and tentative current approach is not as constructive as it could be. Statutory codification of the compulsory trademark licensing remedy would make it an element of a deliberate legislative policy, thus encouraging its consistent application in proper cases, lessening its confiscatory aspects, and alerting the business community to both the dangers and the opportunities of using trademark promotion to capture a large market share.

—Mara L. Babin

124 Id. at 232.
125 Id. at 232.