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Trademarks-Unfair Competition-Scope of Federal Jurisdiction Under Section 43(a) of the Lanham Act

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TRADEMARKS—UNFAIR COMPETITION—SCOPE OF FEDERAL JURISDICTION UNDER SECTION 43(a) OF THE LANHAM ACT—Plaintiff, a manufacturer and distributor of engine bearings and connecting rods for internal combustion engines, brought suit in a federal district court to enjoin the defendant from marketing and distributing the latter's products in containers which closely resembled those of the plaintiff, thereby falsely representing that the goods were produced by and originated with the plaintiff. The cause of action was based solely on section 43(a) of the Lanham Act.¹ In dismissing the complaint,² the district court ruled that any attempt to characterize the complaint as charging a "false description or representation" was without merit, and that "false designation of origin," as referred to in the act, is limited to geographic origin and does not encompass "origin by manufacturer."³ On appeal from the order dismissing the complaint, *held*, reversed and remanded for further proceedings. Section 43(a) creates a federal right of action against particular kinds of unfair competition in interstate commerce. Since the complaint charges false description and misrepresentation, as well as false designation of manufacturer, it states a cause of action within the original jurisdiction of the federal courts. *Federal-Mogul-Bower Bearings, Inc. v. Azoff*, 313 F.2d 405 (6th Cir. 1963).

The stated purpose of the Lanham Act is to make actionable the deceptive and misleading use of "marks" in interstate commerce.⁴ Section 43(a) of the act gives a plaintiff the right to bring a civil action against any person entering into commerce goods or services which bear false descriptions, representations, or designations of origin.⁵ The usual limitations of jurisdictional amount and diversity of citizenship are not applicable.⁶

Prior to the passage of the Lanham Act the federal courts ordinarily were unwilling to assume jurisdiction of cases of unfair competition unless

¹ 60 Stat. 441 (1946), 15 U.S.C. § 1125(a) (1958): "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 . . . 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."

² *Federal-Mogul-Bower Bearings, Inc. v. Azoff*, 201 F. Supp. 788 (N.D. Ohio 1962).

³ In dismissing the complaint for failure to state a cause of action, the district court reasoned that "the remedy for a false designation of origin is a civil action which may be brought by any person doing business in the locality falsely designated. If this were applied to the facts, not only might this plaintiff bring the action, but any person doing business near one of the plaintiff's plants could file suit . . . Such a construction would open nearly all the field of unfair competition to federal jurisdiction." *Id.* at 789.

⁴ 60 Stat. 443 (1946), as amended, 15 U.S.C. § 1127 (Supp. IV, 1963). The act defines "mark" as meaning any trademark, whether registered or not. "Trademark" includes any word, name, symbol, or device used to identify goods and distinguish them from those manufactured or sold by others. *Ibid.*

⁵ See note 1 *supra*.

⁶ 60 Stat. 440 (1946), 15 U.S.C. § 1121 (1958).

the plaintiff could prove that the defendant had been guilty of "passing off" his goods as those of the plaintiff.⁷ In effect, no relief was given unless some property right of the plaintiff, such as a registered trademark, was actually invaded.⁸ Although the federal courts did give relief in some cases,⁹ the disadvantage in not having a federal law of unfair competition was that a plaintiff bringing suit in a federal court was bound by the substantive law of the forum state.¹⁰ This meant that different jurisdictions might afford different remedies, and generally a majority of states limited recovery to those cases where "passing off" could be proved.

An attempt was made to enact a federal law of unfair competition when section 3 of the Trade Mark Act of 1920¹¹ was passed. However, this provision was rarely used because it failed to give a remedy for false descriptions and representations,¹² and the plaintiff had the burden of proving that a false designation of origin occurred willfully and with an intent to deceive.¹³ The few times when section 3 was made the basis of a complaint in a federal court, the reference to "false designation of origin" in the act was never read to mean "origin of manufacture,"¹⁴ as has been suggested by the holding in the principal case.¹⁵

Occasionally it has been argued that section 5 of the Federal Trade Commission Act¹⁶ was intended to create a federal law of unfair competition.¹⁷ Section 5 proscribes "unfair methods of competition in com-

⁷ See *American Washboard v. Saginaw Mfg. Co.*, 103 Fed. 281 (6th Cir. 1900). Occasional exceptions to this rule were made by the courts where there was a false designation of geographic origin and the plaintiff was an association of producers in a particular geographic location. *Grand Rapids Furniture Co. v. Grand Rapids Furniture Co.*, 127 F.2d 245 (7th Cir. 1942), *cert. denied*, 321 U.S. 771 (1944); *City of Carlsbad v. Tibbetts*, 51 Fed. 852 (Mass. 1892). Exceptions were also made where the plaintiff had a monopoly. *Mosler Safe Co. v. Ely-Norris Safe Co.*, 7 F.2d 603 (2d Cir. 1925), *rev'd on other grounds*, 273 U.S. 132 (1927).

⁸ See generally Weil, *Protectibility of Trademark Values Against False Competitive Advertising*, 44 CALIF. L. REV. 527 (1956).

⁹ See note 7 *supra*.

¹⁰ See, e.g., *Pecheur Lozenge Co. v. National Candy Co.*, 315 U.S. 666, 666-67 (1942).

¹¹ 41 Stat. 534 (1920).

¹² Section 3 of the 1920 act was the forerunner of § 43(a) of the Lanham Act. It was directed at any person who "willfully and with intent to deceive . . ." affixed on "articles of merchandise . . . a false designation of origin . . . tending to falsely identify the origin of the merchandise . . ." A suit for damages could be brought by "any person, firm or corporation doing business in the locality falsely indicated as that of origin, or in the region in which said locality is situated, or at the suit of any association of persons, firms or corporations." 41 Stat. 534 (1920).

¹³ For a general discussion of the Trade Mark Act of 1920, see Derenberg, *Federal Unfair Competition Law at the End of the First Decade of the Lanham Act*, in TRADE-MARKS IN ACTION 14, 20 (1957).

¹⁴ See, e.g., *Parfumerie Roger et Gallet Société Anonyme v. Godet, Inc.*, 17 T.M.R. 1 (S.D.N.Y. 1926).

¹⁵ Principal case at 408.

¹⁶ 38 Stat. 719 (1914), as amended, 52 Stat. 111 (1938), 15 U.S.C. § 45 (1958).

¹⁷ See, e.g., Bunn, *The National Law of Unfair Competition*, 62 HARV. L. REV. 987 (1949). Bunn argues that there is nothing in the Federal Trade Commission Act which indicates that the FTC has sole jurisdiction of unfair competition cases, and that section 5 has never been fully utilized because no one has ever realized its potential. *Id.* at 998.

merce," and it has been suggested that the Federal Trade Commission has exclusive standing to bring actions against violators.¹⁸ Although section 5 seems specifically to cover cases involving false descriptions of goods, its effectiveness has been limited by the rule precluding private litigation, the requirement that the suit be in the public interest,¹⁹ and the limited relief provided by cease-and-desist orders.²⁰ It is not unreasonable to assume, however, that Congress, in passing section 43(a) of the Lanham Act, intended to extend the federal law of unfair competition to cases not covered by section 5 of the Federal Trade Commission Act.

Whether section 43(a) of the Lanham Act fashions a federal law of unfair competition has been the subject of much dispute in the past seventeen years. The Supreme Court has yet to rule on the question and the courts of appeals²¹ are in complete disagreement. In the leading case of *L'Aiglon Apparel v. Lana Lobell, Inc.*,²² the Third Circuit took the view that section 43(a) creates a new federal statutory tort which is not to be limited by the common-law doctrines of unfair competition.²³ The *L'Aiglon* opinion represented the first "broad" construction given to 43(a) by a court of appeals; it completely repudiated the "narrow" view expressed by the Ninth Circuit in *Chamberlain v. Columbia Pictures Corp.*²⁴ In *Chamberlain*

¹⁸ *Samson Crane Co. v. Union Nat'l Sales, Inc.*, 87 F. Supp. 218, 221 (D. Mass. 1949) (dictum).

¹⁹ 38 Stat. 719 (1914), as amended, 52 Stat. 112 (1938), 15 U.S.C. § 45(b) (1958); see *FTC v. Klesner*, 280 U.S. 19, 28 (1929).

²⁰ For writings critical of the limitations of § 5 in unfair competition cases, see *Trade-Marks and Unfair Competition*, 68 HARV. L. REV. 814, 894-95 (1955); Comment, 70 YALE L.J. 406, 425 (1961).

²¹ Compare *L'Aiglon Apparel, Inc. v. Lana Lobell, Inc.*, 214 F.2d 649 (3d Cir. 1954), and *Gold Seal Co. v. Weeks*, 129 F. Supp. 928 (D.D.C. 1955), *aff'd sub nom.* S. C. Johnson, Inc. v. Gold Seal Inc., 230 F.2d 832 (D.C. Cir.), *cert. denied*, 352 U.S. 829 (1956), with *Chamberlain v. Columbia Pictures Corp.*, 186 F.2d 923 (9th Cir. 1951), and *Samson Crane Co. v. Union Nat'l Sales, Inc.*, 87 F. Supp. 218 (D. Mass. 1949), *aff'd per curiam*, 180 F.2d 896 (1st Cir. 1950).

²² 214 F.2d 649 (3d Cir. 1954); *accord*, *Turner Hall Corp. v. Stylors Inc.*, 207 F. Supp. 865 (S.D. Fla. 1962); *Eastman Kodak Co. v. Royal-Pioneer Paper Box Mfg. Co.*, 197 F. Supp. 132 (E.D. Pa. 1961).

²³ *L'Aiglon Apparel v. Lana Lobell, Inc.*, *supra* note 21, at 651.

²⁴ 186 F.2d 923 (9th Cir. 1951). Prior to the decision in the principal case, only two other courts of appeals had ruled directly on the question. In the District of Columbia Circuit it has been held that § 43(a) not only gives the federal courts broad jurisdiction over certain cases of unfair competition, but also that a plaintiff "need not show that any false description or representation was willful or intentional, need not prove actual diversion of trade (passing off), and need not establish a veritable monopoly position in the industry." *Gold Seal Co. v. Weeks*, 129 F. Supp. 928 (D.D.C. 1955), *aff'd sub nom.* S.C. Johnson, Inc. v. Gold Seal Inc., 230 F.2d 832 (D.C. Cir.), *cert. denied*, 352 U.S. 829 (1956). The First Circuit has followed the view announced in *Chamberlain*. *Samson Crane Co. v. Union Nat'l Sales, Inc.*, 87 F. Supp. 218 (D. Mass. 1949), *aff'd per curiam*, 180 F.2d 896 (1st Cir. 1950). The Second Circuit has avoided a ruling on the question. *Joshua Meier Co. v. Albany Novelty Mfg. Co.*, 236 F.2d 144 (2d Cir. 1956); *Maternally Yours v. Your Maternity Shop*, 234 F.2d 538 (2d Cir. 1956). The district courts in the Second Circuit, however, have uniformly followed *L'Aiglon*. See, e.g., *American Rolex Watch Corp. v. Jack Laufer & Jan Voort, Inc.*, 176 F. Supp. 858 (E.D.N.Y. 1959); *Mutation Mink Breeders Ass'n v. Lou Nierenberg Co.*, 23 F.R.D. 155 (S.D.N.Y. 1959).

it was held that "passing off" is essential to recovery under section 43(a).²⁵ The *L'Aiglon* case went much further in its interpretation of 43(a). Although the *L'Aiglon* opinion did not outline the bounds of substantive relief available to a plaintiff, it seems safe to assume that the Third Circuit would hear a case brought under 43(a) where the following conditions are met: (1) There is a passing off. (2) A person advertises, labels, or packages his product in such a way that the general public is likely to be deceived, and the complainant's product sales and/or good will are, or are likely to be, damaged.²⁶ (3) A complainant is in business in a particular geographic region, and that region is falsely indicated as the place of origin of the goods of a competitor.²⁷

The principal case highlights all of the basic issues in dispute, *i.e.*, whether section 43(a) contains the germinal seed for a corpus of federal law concerning unfair competition, or whether it was intended to be a restatement of the common law. In spite of the apparent confusion among the federal courts, it seems almost naive to argue that section 43(a) was merely an attempt to restate the common law existing at the time the Lanham Act was passed. Most writers agree that the federal courts now have original jurisdiction over a new federal law of unfair competition.²⁸ As the *L'Aiglon* case would suggest, a literal reading of the act²⁹ makes it difficult to believe that Congress intended simply to codify the "passing off" doctrine. In addition, the legislative history³⁰ of the act seems to make it clear that 43(a) "presents a Federal question for determination by the Federal Courts on the basis of the Federal law."³¹

The principal case is a perplexing decision in an already confused area of the law. On the one hand, the Sixth Circuit sustained a complaint based on "false description and representation" under 43(a), citing *L'Aiglon*.³² In so doing, the decision seems logically to imply that the Sixth Circuit intended to follow the announced "broad" interpretation given 43(a) by the

²⁵ 186 F.2d 923, 925 (9th Cir. 1951); *accord*, *Bechik Products v. Federal Silk Mills*, 135 F. Supp. 570 (D. Md. 1955); *Performed Line Prods. Co. v. Fanner Mfg. Co.*, 124 U.S.P.Q. 288 (N.D. Ohio 1960).

²⁶ In the principal case the plaintiff alleged that the acts of the defendant had caused damage to its business, reputation, and good will. Principal case at 407.

²⁷ For an interesting general discussion of the limitations of a cause of action under § 43(a) see the reasoning of the court in *Gold Seal Co. v. Weeks*, 129 F. Supp. 928 (D.D.C. 1955). See also Weil, *supra* note 8, at 536.

²⁸ See I CALLMAN, UNFAIR COMPETITION AND TRADEMARKS § 18.2(b) (Supp. 1947); VANDENBURGH, TRADE-MARK LAW AND PROCEDURE § 11.30 (1959); Bunn, *supra* note 17, at 999.

²⁹ 60 Stat. 441 (1946), 15 U.S.C. § 1125(a) (1958). See note 33 *infra*.

³⁰ "Trade is no longer local, but is national. Marks used in interstate commerce are properly the subject of Federal regulation . . . There is no essential difference between trade-marks infringement and what is loosely called unfair competition To protect trademarks . . . is to protect the public from deceit, [and] to foster fair competition This is the end to which this bill is directed." S. REP. NO. 1333, 79th Cong., 2d Sess. 5 (1946).

³¹ ROBERT, THE NEW TRADE MARK MANUAL 186 (1946).

³² Principal case at 408.

Third Circuit.³³ However, in a later part of the opinion, *Samson Crane Co. v. Union Nat'l Sales, Inc.*³⁴ was cited to support the proposition that 43(a) should be "construed to refer not 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 misuse of trademarks, i.e., the passing off of one's own goods as those of a competitor."³⁵ The adoption of this quotation from *Samson Crane* makes it unclear whether the Sixth Circuit followed *L'Aiglon* and the view that 43(a) creates a new federal law of unfair competition, or whether the court simply felt that, on the facts of the case, there was a legitimate case of "passing off."

The alternative holding³⁶ in the principal case was that "the word, 'origin,' in the Act does not merely refer to geographical origin, but also to origin of source or manufacture."³⁷ Unfortunately, it appears that the issue was given only a superficial treatment by the court, because a literal interpretation of the statute shows that "origin" was intended to mean only geographic origin. The problem is that the decision failed to recognize that 43(a) creates two separate causes of action and a different remedy for each of the actions. First, the statute proscribes "false designation of origin," and for such an offense a defendant may be liable to any "person doing business in the *locality* falsely indicated as that of origin or in the *region* in which said locality is situated . . ." ³⁸ Second, the statute proscribes any "false description or representation," and a violator may be liable to "any person who believes that he is or is likely to be damaged . . ." ³⁹ If, in the first part of the statute, "origin" is read to mean not only geographic origin, but also source of manufacture, as the principal case holds,⁴⁰ then any person doing business in the region or locality of the manufacturer who is falsely designated would be entitled to bring suit under 43(a).⁴¹ The unlikelihood that any person doing business in the locality, other than a competitor, could prove actual damage casts serious doubt on the soundness of this interpretation. Such uncertainty approaches conviction of error

³³ "'Palming off,' narrowly conceived, was said to be essential to any recovery and the view has been expressed judicially that some such limitation is to be read into section 43(a) of the Lanham Act . . . However, we reject this entire approach to the statute. We find nothing in the legislative history of the Lanham Act to justify the view that this section is merely declarative of existing law." *L'Aiglon Apparel v. Lana Lobell, Inc.*, 214 F.2d 649, 651 (3d Cir. 1954).

³⁴ 87 F. Supp. 218 (D. Mass. 1949), *aff'd per curiam*, 180 F.2d 896 (1st Cir. 1950).

³⁵ 87 F. Supp. 218, 222 (D. Mass. 1949).

³⁶ In dismissing the principal case, the district court addressed itself primarily to the meaning of the word "origin" in § 43(a). 201 F. Supp. 788, 789 (N.D. Ohio 1962). While it is difficult to tell whether the definition of "origin" announced by the Sixth Circuit was intended to be only dictum, it must be given heavy weight in reading the opinion because the district court dismissed the case on the basis of its definition of origin, and the plaintiff's complaint alleged a false designation of origin.

³⁷ Principal case at 408.

³⁸ 60 Stat. 441 (1946), 15 U.S.C. § 1125(a) (1958). (Emphasis added.)

³⁹ *Ibid.*

⁴⁰ Principal case at 408.

⁴¹ See note 3 *supra*.

when it is noted that the word "origin" is qualified by the words "locality" and "region," both of which are geographic references.

It is difficult to ascertain just where the Sixth Circuit stands. A strong argument can be made that the principal case stands for the limited proposition that packaging techniques alone are capable of being adjudged a "misrepresentation" that the goods of one are in fact the goods of another. This in itself would have been a sufficient ground for reversal.⁴² And although the court does not, when dealing with the "false description and representation" aspect of 43(a), explicitly state that "passing off" need not be proved, it does so implicitly by citing *L'Aiglon* and *American Rolex*.⁴³ However, it would be dangerous to rely on that part of the decision which interprets "origin" as "source of manufacture." This alternative holding is supported by a quotation from *Samson Crane*, which is contrary to the reasoning of *L'Aiglon*; it requires a strained statutory construction and is unnecessary in light of the broad interpretation of "false description and representation."

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⁴² The district court held that the allegations were not sufficient to state a cause of action for false description or representation. 201 F. Supp. 788 (N.D. Ohio 1962).

⁴³ 176 F. Supp. 858 (E.D.N.Y. 1959).