

Industrial Property

Published monthly
Annual subscription:
Sw.fr. 115.—
Each monthly issue:
Sw.fr. 10.—

19th Year - No. 10
October 1980

Monthly Review of the
World Intellectual Property Organization (WIPO)

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World Intellectual Property Organization

WIPO Convention

Accession

THE GAMBIA

The Government of the Gambia deposited, on September 10, 1980, its instrument of accession to the Convention Establishing the World Intellectual Property Organization, signed at Stockholm on July 14, 1967.

The Gambia will belong to Class C for the purpose of establishing its contribution towards the budget of the WIPO Conference.

The WIPO Convention will enter into force, with respect to the Gambia, on December 10, 1980.

WIPO Notification No. 115, of September 15, 1980.

International Unions

Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure

Declaration

EUROPEAN PATENT ORGANISATION

The European Patent Organisation filed, on August 26, 1980, a declaration to the effect that, pursuant to Article 9(1)(a) of the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, done at Budapest on April 28, 1977, it accepts the obligation of recognition provided for in Article 3(1)(a) of the Budapest Treaty, the obligation concerning the requirements referred to in Article 3(2) of the said Treaty and its Regulations applicable to intergovernmental industrial property organizations.

The said declaration will become effective, with respect to the European Patent Organisation, on November 26, 1980.

Budapest Notification No. 8, of August 29, 1980.

WIPO Meetings

International Patent Cooperation (PCT) Union

Assembly

Fifth Session
(Third Extraordinary)

(Geneva, June 9 to 16, 1980)

Note*

The Assembly of the International Patent Cooperation Union (PCT Union) held its fifth session (3rd extraordinary) in Geneva from June 9 to 16, 1980. Nineteen of the 29 Contracting States were represented at the session: Australia, Austria, Brazil, Denmark, France, Germany (Federal Republic of), Hungary, Japan, Liechtenstein, Luxembourg, Madagascar, Netherlands, Norway, Romania, Soviet Union, Sweden, Switzerland, United Kingdom, United States of America. Six other States participated in the session as observers: Finland, Italy, Niger, Spain, Turkey and Zaire.

One intergovernmental organization, the European Patent Organisation (EPO), and the following ten international non-governmental organizations, were represented by observers: Council of European Industrial Federations (CEIF), Committee of National Institutes of Patent Agents (CNIPA), European Federation of Agents of Industry in Industrial Property (FEMIP), International Association for the Protection of Industrial Property (IAPIP), International Chamber of Commerce (ICC), International Federation of Inventors' Associations (IFIA), International Federation of Patent Agents (FICPI), International Federation of Pharmaceutical Manufacturers Associations (IFPMA), Union of European Practitioners in Industrial Property (UEPIP), and Union of Industries of the European Community (UNICE). The list of participants follows this Note.

Amendments to the PCT Regulations. The Assembly adopted amendments to a number of Rules of the PCT Regulations and to the Schedule of Fees annexed thereto, deleted a few existing Rules and adopted several new Rules. The more significant subjects of the amendments and new Rules are as follows:

microorganisms, late payment of fees, priority documents, competent receiving Office in case of several applicants, date of amendments to claims, communication of copy of international application to designated Offices, effective date of demand for international preliminary examination, delays in the mail, communications by telegram, teleprinter, etc., transmittal of record copy.

Development of the PCT Union. The Assembly considered a report by the International Bureau of WIPO on progress to date with regard to ratification of or accession to the PCT (at the time of the session by 29 Contracting States). The Assembly also noted statements by the Delegations of Finland,¹ Italy and Spain concerning progress towards ratification of, or accession to, the PCT by those States and adopted a resolution inviting all States members of the Paris Union for the Protection of Industrial Property which are not members of the PCT Union to take, at an early date, the steps necessary to become members of the PCT Union.

With regard to States parties to regional treaties, the Assembly noted the desirability of all States party to the European Patent Convention or the Libreville Agreement (establishing the African Intellectual Property Organization) to be also party to the PCT in view of the disadvantages which flow from the present situation when certain States party to those treaties are not party to the PCT. As far as the European Patent Convention is concerned, this applies particularly to Belgium and Italy, the only two States party to the said Convention which are not yet party to the PCT.

The Assembly also considered a report on the state of acceptance of Chapter II by PCT Contracting States in which it was indicated that 22 out of the 29 States party to the PCT² had accepted Chapter II of the PCT and that most of the seven States which had not accepted Chapter II were expected to accept Chapter II at a later stage. Having noted the state of acceptance of Chapter II of the PCT, the Assembly expressed its interest in the acceptance of Chapter II by all Contracting States of the PCT.

¹ As announced in the statement made by the Delegation of Finland, an instrument of ratification of the PCT was deposited on July 1, 1980, with the consequence that the PCT will enter into effect for Finland on October 1, 1980.

² Finland which, in the meantime, became the 30th State to accede to the PCT, accepted Chapter II.

* This Note has been prepared by the International Bureau.

LIST OF PARTICIPANTS*

I. Member States

Australia: F.J. Smith; D.B. Fitzpatrick; D.A. Freckleton; H. Freeman. **Austria:** H. Marchart. **Brazil:** A.G. Bahadian; G.R. Coaracy; M.M.R. Mittelbach. **Denmark:** D. Simonsen; J. Dam. **France:** G. Vianès; P. Guérin. **Germany (Federal Republic of):** U.C. Hallmann. **Hungary:** Z. Szilvássy; E. Parragh. **Japan:** I. Shamoto; Y. Masuda; S. Uemura. **Liechtenstein:** A.F. Gerliczy-Burian. **Luxembourg:** F. Schlessler. **Madagascar:** S. Rabearivelo. **Netherlands:** J. Dekker; S. de Vries. **Norway:** P.T. Lossius; I. Lillevik. **Romania:** I. Marinescu; T. Melescanu. **Soviet Union:** L. Komarov; E. Buryak; K. Saenko. **Sweden:** E. Tersmeden; L.G. Björklund; B. Sandberg. **Switzerland:** J.-L. Comte; R. Kämpf; M. Leuthold. **United Kingdom:** D.F. Carter; C.G.M. Hoptroff. **United States of America:** H.D. Hoinkes; L. Maassel.

II. Observers

States

Finland: P. Salmi. **Italy:** G. Caggiano. **Niger:** H. Alou. **Spain:** J.M. Garcia Oyaregui; A. Casado Cervino. **Turkey:** E. Tümer. **Zaire:** K. Luanda.

Intergovernmental Organizations

European Patent Organisation (EPO): J. Staehelin; G.D. Kolle; E. Simon.

* A list containing the titles and functions of the participants may be obtained from the International Bureau.

International Non-Governmental Organizations

Council of European Industrial Federations (CEIF): J.L. Beton. **Committee of National Institutes of Patent Agents (CNIPA):** R.P. Lloyd. **European Federation of Agents of Industry in Industrial Property (FEMIP):** F.A. Jenny; G. Tasset; C. Gugerell. **International Association for the Protection of Industrial Property (IAPIP):** G.R. Clark; G. Tasset. **International Chamber of Commerce (ICC):** R. Hervé. **International Federation of Inventors' Associations (IFIA):** S.-E. Angert. **International Federation of Patent Agents (FICPI):** H. Bardehle. **International Federation of Pharmaceutical Manufacturers Associations (IFPMA):** G. Tasset. **Union of European Practitioners in Industrial Property (UEPIP):** G.E. Kirker. **Union of Industries of the European Community (UNICE):** R. Kockläuner; C.G. Wickbam.

III. Officers

Acting Chairman: J.-L. Comte (Switzerland); *Secretary:* E.M. Haddrick (WIPO).

IV. International Bureau of WIPO

A. Bogsch (*Director General*); **K. Pfanner** (*Deputy Director General*); **E.M. Haddrick** (*Director, PCT Division*); **J. Franklin** (*Deputy Head, PCT Division*); **B. Bartels** (*Head, PCT Legal and General Section*); **D. Bouchez** (*Head, PCT Publications Section*); **N. Scherrer** (*Head, PCT Fees, Sales and Statistics Section*); **V. Trousov** (*Senior Counsellor, PCT Legal and General Section*); **A. Okawa** (*Counsellor, PCT Examination Section*); **F. Simon** (*Consultant, PCT Legal and General Section*).

General Studies

Important Trends in United States Trademark and Unfair Competition Law during the Decade of the 1970s

J. T. McCARTHY*

Introduction: Geological Movements in the Law

In 1839 the Swiss naturalist Jean-Louis Agassiz drove a straight line of stakes across a glacier. By 1841 the stakes had moved a good distance and formed a "U"—the ones at the center moving faster since the glacier was held back by the resistance at the mountain walls. This discovery of glacial movement eventually led Agassiz to develop the now well-accepted theory of Ice Ages in which glaciers carve out major geologic features by slow movement over periods of thousands of years. Similarly, in the law, what appears over a short period of time to be a uniform application of basic principles may in fact represent a glacial movement or trend when viewed over a longer period of time. Of course, in law as in geology, sudden volcanic eruptions and earthquakes also work great changes and are much commented upon because of the more spectacular nature of the event. But what appears to be steady and immutable, both in law and in the earth, may in fact be movable and changing, as any resident of an earthquake-prone region can readily testify.¹ In an article such as the present one, the author who purports to point out significant changes and trends must recognize the often unnoticed glacial movements as well as the more familiar volcanic eruptions and attempt to blend all of this activity of legal change in a coherent view and prediction of what is happening, why and where it is all leading. As did Agassiz, we must plant our stakes and watch what happens to them when the developments of the law make their presence felt. This is what I have attempted to do with some selected areas of United States trademark and unfair competition law as measured over the decade of the 1970s.

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¹ As a resident of the San Francisco Bay Area in California, I am acutely aware of geologic movements, as I am situated atop the San Andreas fault line—a meeting place of two tectonic earth plates—which often results in earthquakes. I am also situated not too far from the volcanic eruptions of Mount St. Helens in the state of Washington, which, in the spring of 1980, erupted in an explosive and violent way. Geological analogies to legal "movements" and "eruptions" have more than a theoretical meaning to me.

I. Changes in Federal-State Tensions: Bifurcated Justice

Non-United States attorneys are often amazed that the U.S. can operate a coherent legal system of 50 independent state laws and courts operating on an overlay of national federal law and courts. United States attorneys are similarly amazed that their system can work relatively smoothly. It is well to remember that this system of "bifurcated justice" (the duality of federal and states' law and fora) is no accident, but was purposefully designed and preserved in the U.S. Constitution. Under the Constitution, those powers not specifically delegated to the federal government are reserved to the states.² This coexistence of federal and state law and courts has a built-in tension and friction between federal and state authority. It is like the constant grinding movement of Agassiz's glacier, with the slowly moving glacier of federal power advancing and retreating against the resistance of the states' mountain walls. The law of protection of intellectual property is a structure built immediately adjacent to the federal-state interface. During the decade of the 1970s a clearly discernible retreat of the federal glacier has taken place in this area of the law.

The question of whether federal or state law applies is not merely an academic choice between conflicting rules. The question becomes critical in practice when there is no federal statute on point protecting a certain type of industrial or intellectual creation, but the creation is within a general area occupied by federal power. In such a case, it may be that the failure of federal statutes to grant protection is a conscious signal—a red light—stopping state law from filling in the hiatus. On the other hand, the absence of federal protection may be interpreted by the courts as a green light, permitting state law to fill in the gap in protection. Whether the signal is red or green is a legal issue determined by the courts under the general heading of "federal preemption." This is a Constitutional rule derived from the "Supremacy Clause" of the Constitution under which the federal Constitution and statutes are the "supreme law of the land."³ If there is a direct conflict between federal policy and state law, then state law is "preempted" and nullified. If state law "stands as an obstacle to the accomplish-

² U.S. Constitution, 10th Amendment (1791).

³ U.S. Constitution, Art. VI: "This Constitution, and the laws of the United States which shall be made in pursuance thereof... shall be the supreme law of the land...." (Ratified 1788).

ment and execution of the full purposes and objectives of [federal policy]" then state law is preempted under the Supremacy Clause of the Constitution.⁴ If it is the clear intent of the federal Congress not to give any protection to a certain type of intellectual property, then the states may not step in to grant protection. It is the determination of exactly what is federal policy—whether it represents a red light or a green light to the states—that is the job of the courts, with the U.S. Supreme Court having the last word. Judicial resolution of the exact nature of federal policy is of the utmost interest to those who have created innovative properties which are not clearly protected by existing federal statutes. They often look to state law of unfair competition for redress when federal statutes fail to grant them protection. Traditionally and historically in the United States, unfair competition law has been the substantive law of the several states. For example, infringement of non-federally registered marks has been largely a matter of state law, and trade secret law has been almost entirely state law. Thus, to a large extent, that body of jurisprudence loosely denominated "unfair competition law" has been a creature of state legislatures and judges.

In 1964 a sudden glacial surge of major proportions hit the law of unfair competition. The federal glacier lurched forward a considerable distance, wiping out several familiar landmarks of state unfair competition law. In that year the U.S. Supreme Court decided two cases creating what is now generally referred to as the "*Sears-Compco* doctrine."⁵ In both cases, plaintiffs had obtained federal patents on new forms of lighting fixtures. The patents were held invalid for lack of novelty. But the innovator-plaintiffs planted their feet on state ground and sought under Illinois state law of unfair competition an injunction against competitors who had made exact copies. In both cases the lower courts granted an injunction against copying because the shape of the products had achieved status as indicia of origin and the copies were likely to cause confusion as to source. But the Supreme Court in both cases held that the grant of such an injunction against copying would be a use of state law in direct conflict with federal patent policy; to leave in the public domain things which do not measure up to federal patent law standards. Hence, such a use of state law of unfair competition was "preempted" and unconstitutional.⁶

⁴ *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941).

⁵ *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

⁶ The debate over whether federal law is the exclusive source of protection for various types of intellectual property did not start with *Sears-Compco* in 1964. The conflicting positions were first staked out in the majority and dissenting opinions in 1918 in *International News Service v. Associated Press*, 248 U.S. 215 (1918). The dissent by Mr. Justice Brandeis in that case represented the view that information not protected by federal copyright should not be protected by state unfair competition law. This "Brandeis View" was later adopted and applied by Judge Learned Hand in a long series of opinions. See 1 McCarthy, *Trademarks & Unfair*

Viewed in the light of later case interpretations, the *Sears-Compco* cases exist on two levels: the specific holding and the broad and sweeping dictum. The specific holding appears reasonable only if one assumes that once a product shape is unpatentable, it is in the "public domain" for both patent and trademark law purposes.⁷ The Court assumed that federal patent law was the *exclusive* source of protection against copying. This meant that there could be no product configuration trademarks under state law. But lower courts soon held that *Sears-Compco* did not prevent the *federal* registration of trademarks in product shapes.⁸ Thus, the present irony is that a firm today can federally register and protect as a trademark a distinctive product configuration but it cannot obtain such protection under state common law.

But it was on the more abstract level of the broad and sweeping dictum of Mr. Justice Black in *Sears-Compco* that shock waves were sent throughout the entire law of state unfair competition prohibitions. This was due to the extremely broad generalities of the opinion. For example, Justice Black stated for the Court the issue to be determined:

"... [w]hether a state's unfair competition law can, consistently with the federal patent laws, impose liability for or prohibit the copying of an article which is protected by neither a federal patent nor a copyright."⁹

Competition, secs. 10: 24, 10: 27 (1973). This view was picked up by Justices Douglas and Black and came to fruition in the 1964 *Sears-Compco* cases. As discussed later herein, this view was later repudiated in the post-1973 decisions of the Supreme Court.

⁷ I believe that the Supreme Court's language in *Sears-Compco* to the effect that if an item is unprotected by patent law, it is therefore in the public domain, is a *non sequitur*. That a thing is unpatented does *not* mean that its duplication or imitation cannot be remedied by *other* sources of intellectual property law, such as copyright, trademark or general unfair competition. "In the public domain" is a conclusion reached *only after* one has exhausted *all* of the possible legal sources of protection. See *Mine Safety Appliances Co. v. Electric Storage Battery Co.*, 405 F. 2d 901 (CCPA 1969); *Frederick Warne & Co. v. Book Sales, Inc.*, 481 F. Supp. 1191 (S.D.N.Y. 1979). In *Sears-Compco*, the Supreme Court jumped immediately from the lack of patent protection to the conclusion of "in the public domain" for unfair competition-trademark purposes. Such a conclusion ignores the very different parameters and functions of a trademark vis-a-vis a patent. In almost every other interface of intellectual property law, the U.S. courts have upheld multiple protection. See e.g. *Re Honeywell, Inc.*, 532 F.2d 180 (CCPA 1975) (design patent and federal trademark registration cancoexist); *Rolls-Royce Motors Ltd. v. A & A Fiberglass, Inc.*, 428 F. Supp. 689 (N.D. Ga. 1977) (trademark protection granted even though shape unprotected by either patent or copyright); *Re Yardley*, 493 F.2d 1389 (CCPA 1974) (dual protection available under both copyright and design patent for watch face design); *Re Penthouse International, Ltd.*, 565 F.2d 679 (CCPA 1977) (copyright, patent and trademark laws are "different concepts and offer different kinds of protection which are not mutually exclusive").

⁸ The Court of Customs and Patent Appeals has consistently held that patents and trademarks are separate forms of federal protection. The absence of one does not automatically preclude protection under the other. *Re Mogen David Wine Corp.*, 372 F.2d 539 (CCPA 1967); *Re Honeywell, Inc.*, 497 F.2d 1344 (CCPA 1974). Accord: *Pachmayr Gun Works, Inc. v. Olin Mathieson Chemical Corp.*, 502 F.2d 802 (9th Cir. 1974).

⁹ *Sears, Roebuck & Co. v. Stiffel Co.*, *supra* at 225. This policy was repeated in 1969: "[T]he strong federal policy [is one] favoring free competition in ideas which do not merit patent protection." *Lear, Inc. v. Adkins*, 395 U.S. 653, 656 (1969).

The Court's response was an unequivocal "no!" The Court said that the proven fact of customer confusion is irrelevant: "[M]ere inability of the public to tell these two identical articles apart is not enough to support an injunction against copying... that which the federal patent laws permit to be copied." The Court's statement of its "holding" is equally broad:

"Today we have held... that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article."¹⁰

These broad statements of principle were susceptible of meaning that if an innovator had no valid patent or copyright, it had no protection under *any* law. Federal law was the *exclusive* source of intellectual property protection. State law of unfair competition tottered. Defense attorneys in almost every case of unfair competition began to assert a "*Sears-Compco* defense," asking, "Where is plaintiff's patent or copyright?" For example, in cases of a common law trademark asserted in the shape or configuration of a container, it was argued that there could be no unfair competition by simulation of container shape, for such a shape could be protected only by federal design patent law.¹¹ Defendants charged with unfair competition by the simulation of trade dress argued that plaintiff's only source of remedy was in federal copyright protection for labels.¹² Because federal copyright protection for literary titles had been denied by judicial interpretation, defendants charged with unfair competition by confusingly similar use of titles argued that there could be no state unfair competition remedy.¹³ And in perhaps the most extreme example, in the "Paladin" case, the First Circuit Court of Appeals reversed a money judgment for an entertainer who proved that a major television network had stolen his entire "Paladin" cowboy image and motif and used it for a television series producing millions of dollars in income. The court reasoned from *Sears-*

¹⁰ *Compco Corp. v. Day-Brite Lighting, Inc.*, *supra* at 237. The reference to federal copyright law was strange, for no issue of copyright law arose in either of the *Sears-Compco* cases. Apparently the Court felt that the only areas of federal law related to copying were patent and copyright. The Court partially softened its ruling in permitting state law "in appropriate circumstances" to require that labeling or "other precautionary steps" be taken to prevent confusion as to source, but emphasized that prohibitions on the act of copying itself are forbidden.

¹¹ See e.g. *Spangler Candy Co. v. Crystal Pure Candy Co.*, 353 F.2d 641 (7th Cir. 1965); *McCarthy*, *supra* note 6, at sec. 7: 25 B.

¹² Generally the courts rejected the *Sears-Compco* defense in trade dress cases. See e.g. *Clairol, Inc. v. Andrea Dumon, Inc.*, 14 Ill.App.3d 641, 303 N.E. 2d 177, 179 USPO 119 (1973); *Duo-Tint Bulb & Battery Co. v. Moline Supply Co.*, 46 Ill. App. 3d 145, 360 N.E. 2d 789 (1977); *McCarthy*, *supra* note 6, at sec. 8:7.

¹³ The courts have reached differing interpretations as to the impact of *Sears-Compco* upon literary title unfair competition. See discussion in *McCarthy*, *supra* note 6, at sec. 10: 1 t. In California, *Sears-Compco* has been interpreted as forbidding an absolute injunction against confusingly similar use of literary titles, allowing only imposition of a disclaimer. See e.g. *Allied Artists Pictures Corp. v. Friedman*, 68 Cal. App. 3d 127, 137 Cal. Rptr. 94 (1977).

Compco that although distinctive entertainer characterizations could not be protected under federal copyright statutes, Congress had the power, if it wished, to pass such statutes. Congressional failure to protect entertainer characterizations was interpreted as a red light prohibiting state unfair competition law from remedying the misappropriation. The court concluded that plaintiff "had the satisfaction of proving the defendants [were] pirates" and denied him any legal remedy.¹⁴

But the "Paladin" case represented the high-water mark of the "federal only" policies of *Sears-Compco*. Beginning in 1973, the U.S. Supreme Court began retreating from the sweeping language of *Sears-Compco* and in a consistent series of cases upheld state power to protect against unfair competition regardless of federal law. The federal glacier began to retreat. In *Goldstein* in 1973, the Court held that the states can prohibit the misappropriation of recorded performances (tape and record piracy) even though prior to 1972 the federal copyright law did not protect such performances.¹⁵ The Supreme Court said that the failure of Congress to grant federal copyright protection to a particular form of intellectual property did not deprive the states of the power to protect them under unfair competition law: "Congress has drawn no balance; rather they have left the area unattended, and no reason exists why the state should not be free to act." In *Kewanee* in 1974, the Court held that federal patent law in no way preempted state power to protect trade secrets in inventions, whether patentable under federal law or not.¹⁶ The Court adopted a tolerant view of state law and viewed Congressional failure to pass a federal trade secret law as a green light for the states:

"Congress, by its silence over these many years, has seen the wisdom of allowing the States to enforce trade secret protection. Until Congress takes affirmative action to the contrary, States should be free to grant protection to trade secrets."

In *Zacchini* in 1977, the Court approved state law prohibiting the misappropriation of an entertainer's act, noting that a state's desire to protect against misappropriation is founded upon the same considerations and is consistent with federal patent and copyright laws.¹⁷ In *Quick Point* in 1979, the Court upheld state contract law enforcing royalties to be paid for disclosure of a trade secret for as long as the

¹⁴ *Columbia Broadcasting System, Inc. v. DeCosta*, 377 F.2d 315 (1st Cir. 1967). The court later admitted that in light of later Supreme Court decisions, its 1967 analysis of federal preemption was erroneous. *DeCosta v. Columbia Broadcasting System, Inc.*, 520 F.2d 499 (1st Cir. 1975).

¹⁵ *Goldstein v. California*, 412 U.S. 546 (1973). Effective in 1972, federal copyright law was amended to protect recorded performances made after that date. Thus, as to post-1972 recordings, the exclusive source of protection has been federal law. State unfair competition law remains effective for pre-1972 recordings. 17 USC 301(c).

¹⁶ *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974).

¹⁷ *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562 (1977).

secret was to be used by the licensee.¹⁸ The Court stated that, "Federal patent law is no barrier to such a contract."

This consistent retreat from 1973 to present, away from the "federal only" generalizations of *Sears-Compco*, is, I believe, a rational and constructive endorsement of the principles of state unfair competition law. It indicates greater judicial tolerance in the U.S. "bifurcated" system for state encouragement of fair competition and investment in technological and literary creations. Federal statutes are no longer the sole and exclusive source of protection for innovative creations.

Even the exact holding in the *Sears-Compco* cases is under attack in several lower courts. In cases of simulation of product shapes asserted to be trademarks, several courts have granted relief under state unfair competition law. One court has even rejected the language of *Sears-Compco* as mere "dictum" which is not "controlling."¹⁹ The Second Circuit Court of Appeals has gone so far as to state that *Sears-Compco* "did not redefine the permissible scope of the law of trademarks insofar as it applies to origin and sponsorship."²⁰ While this trend of case law is not yet unanimous or consistent, it illustrates how the "federal only" policy of *Sears-Compco* is retreating quickly under heavy fire.

Meanwhile, another trend has occurred on a related front. The use of federal law is increasing as a remedy for what had long been considered matters of purely state unfair competition law. That is, the increasing use of Section 43(a) of the federal Trademark (Lanham) Act.²¹ While the statutory provisions of Section 43(a) have remained intact for almost 35 years, only within the past 10 years have attorneys realized that this Section really grants a federal remedy, which can

be asserted in a federal forum, for almost all types of false advertising, trademark infringement and trade dress simulation.²² In the last 10 years there has been a veritable explosion of litigation involving Section 43(a).²³ The result of this trend has not been to effect any change in the substantive law, for traditional trademark rules are followed in Section 43(a) cases. Rather, the effect has been to shift the locale of much traditional unfair competition litigation from state courts to federal courts. This is a trend which most federal judges, burdened with an already overly-heavy caseload, do not welcome.

During the period of the 1970s there has been a constant ebb and flow between federal and state law in unfair competition matters. The sudden explosion of federal power in the 1964 *Sears-Compco* cases turned out to have subsided within 10 years and, by the present, the *Sears-Compco* strict approach is on its way to becoming no more than a historical relic. State unfair competition law has withstood the assault and remained almost totally intact.

II. Incontestable Trademark Registrations: The "Eveready" Case

In the United States, a symbol or term used as a "mark" is protected under state common law without the need for registration. But if federally registered, important advantages are gained. One of the most important advantages of federal registration is that after five years and satisfaction of the formalities, the registration can become "incontestable."²⁴ Upon achieving the status of incontestability, the mature registration "shall be conclusive evidence of the registrant's exclusive right to use the registered mark" on the registered goods or services, subject to the listed statutory defenses.²⁵ There seems little doubt that one of the main purposes of the 1946 federal Lanham Act was the creation of certain conclusive and predictable rights in mature registrations of marks. The principal author of the Act, Representative Lanham, stated that:

²² As late as 1964, a commentator remarked upon the "general paucity of litigation under sec. 43(a)." "Developments in the Law: Competitive Torts," 77 Harv. L. Rev. 888, 908 (1964). This has completely changed since that time. Section 43(a) today creates a remedy for infringement of an unregistered trademark. *D.C. Comics Inc. v. Powers*, 201 USPQ 99 (S.D.N.Y. 1978). However, 43(a) is not totally synonymous with the whole law of unfair competition. It is generally limited to false advertising and trademark infringement. *Alfred Dunhill, Ltd. v. Interstate Cigar Co.*, 499 F.2d 232 (2d Cir. 1974).

²³ See 2 McCarthy, *supra* note 6, at secs. 27:2-27:9; Germain, "Unfair Trade Practices under 43(a) of the Lanham Act," 49 Ind. L.J. 84 (1973), 64 Trademark Rep. 193 (1974).

²⁴ The most important formality is the filing of a "Section 15 affidavit" by which the registrant swears, *inter alia*, that the mark has been in continuous use for five consecutive years and that there are no judicial proceedings pending concerning rights in the mark. Lanham Act sec. 15; 15 USC 1065.

²⁵ Lanham Act sec. 33(b); 15 USC 1115b.

¹⁸ *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979).

¹⁹ *Truck Equipment Service Co. v. Fruehauf Corp.*, 536 F.2d 1210 (8th Cir. 1976), cert. den. 429 U.S. 861. Other cases distinguishing *Sears-Compco* include: *Time Mechanisms, Inc. v. Qonaar Corp.*, 422 F.Supp. 905 (D.N.J. 1976) (parking meter shape protected); *Duo-Tint Bulb & Battery Co. v. Moline Supply Co.*, 46 Ill. App. 3d 145, 360 N.E. 2d 798 (bulb dispenser box protected); *Rolls-Royce Motors Ltd. v. A & A Fiberglass, Inc.*, 428 F. Supp. 689 (N.D. Ga. 1977) (Rolls-Royce "flying lady" and grille design protected); *Teledyne Industries, Inc. v. Windmere Prods. Inc.*, 433 F. Supp. 710 (S.D. Fla. 1977) (shower nozzle protected).

²⁰ *Dallas Cowboys Cheerleaders Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200 (2d Cir. 1979).

²¹ 15 USC 1125(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."

"One of the valuable new rights created by the act is the incontestable right after five years' use of the mark and the corollary thereto that the certificate of registration is conclusive evidence of ownership and the right to the exclusive use of the mark."²⁶

The 1946 provision for incontestability after five years' use and registration was apparently modeled upon the 1875 British Act.²⁷ Thus, the 1946 statutory provisions clearly appeared to convert a federal registration from a mere claim or facade of prima facie evidence of right into a more substantial absolute barrier against certain challenges to the validity of incontestable registrations.

However, for various reasons, the federal judiciary strongly resisted giving this important status of incontestability its full scope. Not until 30 years after passage of the federal Lanham Act did a federal court clearly and unequivocally give full scope to the statutory incontestability provision. The decision that finally made this important breakthrough is the 1976 "*Eveready*" decision of the federal Seventh Circuit Court of Appeals in Chicago.²⁸ This decision deserves to be ranked as one of the most important trademark decisions of the decade of the 1970s. This decision is a landmark, for it strongly affirmed the true strength of incontestably registered marks and hopefully put to rest the view that the status of incontestability should only be given reluctant, begrudging and narrow application in the courts.

The importance of the *Eveready* case cannot be fully appreciated without quickly reviewing what had happened in the courts to the incontestability provisions between 1947 and 1976. During that period, the major method by which most courts managed to severely limit the incontestability provision was to adopt what was known as the "offensive-defensive" distinction. That is, the owner of an incontestable registration could rely upon it only as a "defensive" shield against cancellation and could not rely upon it as an "offensive" sword in litigation. This effectively meant that when a federal registrant holding an incontestable registration was a plaintiff in infringement litigation, the incontestability provisions of the statute had no meaning or application.

The offensive-defensive distinction was first born as dictum in a 1955 decision of the Assistant Commissioner of Trademarks,²⁹ which was then "ripped

brutally out of context" by the courts.³⁰ For example, by 1961 the Seventh Circuit Court of Appeals, relying upon the Commissioner's dictum, could state with apparent certainty that the incontestability statute "was intended to protect a registrant from having its mark cancelled by a prior user... It is use, not registration, that confers rights in a trade name."³¹ By 1971, some courts had adopted this distinction as bedrock law. For example, one district court stated that federal registration does not enlarge the registrant's "substantive rights" and is merely a "method of recording" and "serving notice of a claim of ownership." Based upon this view of registration as an irrelevancy, that court stated of the incontestability statute:

"This provision was intended to protect a registrant from having its mark cancelled by a prior user. ... More importantly, the registrant may not rely upon the incontestability provision as an 'offensive' weapon in a trademark infringement action."³²

This "offensive-defensive" distinction apparently meant that the incontestability statute had no independent vitality, for the conditions of cancellation of a registered mark are set forth in a totally separate section of the Lanham Act. If incontestability merely was a shield against cancellation, it was superfluous, for there already existed a statutory section defining the conditions of cancellation.³³ The rule that an incontestable registration could only be used "defensively" and not "offensively" was a *non sequitur* in nomenclature. If incontestability does exist for the benefit of a plaintiff-registrant in infringement litigation, incontestability acts as a "defensive" shield to protect the registration against attacks upon validity of the mark. It will be the defendant who is challenging the validity of the mark, e.g. on the ground that it is descriptive and devoid of secondary meaning.³⁴

What are some of the reasons for this judicial reluctance to follow the intent and language of the statutory incontestability provisions? I believe the following reasons are important:

1. The concept of a mark which cannot be challenged on certain grounds is offensive to a basic assumption of U.S. trademark law: that only use, and not registration, creates trademark rights. Almost alone in the world, the United States requires use prior to registration. Registration of marks prior to

²⁶ 92 Cong. Rec. 7524 (June 25, 1946).

²⁷ British Trade Marks Registration Act, 38 & 39 Vict., Ch. 91, sec. 3 (1875); see Fletcher, "Incontestability and Constructive Notice: A Quarter Century of Adjudication," 63 Trademark Rep. 71 (1973).

²⁸ *Union Carbide Corp. v. Ever-Ready Inc.*, 531 F.2d 366 (7th Cir. 1976), cert. denied 429 U.S. 830.

²⁹ *Rand Mc Nally & Co. v. Christmas Club*, 105 USPQ 499 (Comm. Pat. 1955), aff'd on other grounds 242 F.2d 776 (CCPA 1957). The Commissioner wrote that, "The effect of 'incontestability' is a defensive and not an offensive effect.... [T]he owner's rights in the mark are in no wise broadened, but he is free from challenges of his right to continue to use the mark...." 105 USPQ at 500.

³⁰ Fletcher, *supra* note 27, at 95.

³¹ *John Morell & Co. v. Reliable Packing Co.*, 295 F.2d 314, 316 (7th Cir. 1961).

³² *Schwinn Bicycle Co. v. Murray Ohio Mfg. Co.*, 339 F. Supp. 973, 979 (M.D. Tenn. 1971), aff'd 470 F.2d 975 (6th Cir. 1972).

³³ Lanham Act sec. 14; 15 USC 1064. The grounds upon which registrations can be cancelled under Section 14 are almost identical to those in the incontestability Section 33(b). See Fletcher, *supra* note 27, at 75.

³⁴ See 2 McCarthy, *supra* note 6, at sec. 32:44.

use is unknown in U.S. jurisprudence.³⁵ One can only federally register that which has been used as mark in trade.³⁶ Closely related to the "use prior to registration" doctrine is the tenet that U.S. trademark law is merely a judicial recognition of customer perception. A symbol or term is a "mark" only if customers perceive it to be one. Customers cannot do so unless and until the term has been used in trade. Mere registration does not accomplish this. Thus, the federal register should be merely a reflection of the realities of the marketplace. A rebuttable presumption created by federal registration (such as the "prima facie" presumption accorded non-incontestable registrations) does not offend the doctrine that the register merely recognizes commercial reality. Such a presumption merely shifts the burden of coming forward with evidence of invalidity to the alleged infringer in litigation.³⁷ The infringer can always overcome the presumption by presenting evidence that customers do not in fact perceive the registered term as a mark, e.g. that the term is descriptive and has no secondary meaning. On the other hand, "incontestability" by federal registration and compliance with Section 15 affidavit formalities does tend to conflict with the tenet that a "mark" is only a symbol which is in fact recognized by customers as a mark. An incontestably registered mark is immune from challenge except as to the statutorily enumerated defenses. This may mean that the alleged infringer is not allowed to prove that the registered mark is not in fact perceived as a mark in the marketplace.³⁸ The fact that Congress in passing the

³⁵ While acceptance of the Trademark Registration Treaty by the United States would import concepts of an intent to use registration system, U.S. adherence to the TRT is not likely at the moment. In a handful of states, limited state registration prior to use is permitted. However, these provisions have little importance or impact.

³⁶ What may be federally registered is a "trademark by which the goods of the applicant may be distinguished from the goods of others." Lanham Act sec. 2; 15 USC 1052. "Trademark" is defined as a word, name or symbol "used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others." Lanham Act sec. 45; 15 USC 1127 (emphasis added); In *Procter & Gamble Co. v. Johnson & Johnson Inc.*, 205 USPQ 697 (S.D.N.Y. 1979), the court found that Procter & Gamble's attempt to "reserve" brand names by minimal and token use for several years was unsuccessful. While the marks were federally registered, the court concluded that Procter & Gamble owned no enforceable rights in such marks, as it failed to prove established trademark rights by bona fide commercial use. While one of the registrations had become incontestable, the public was unaware of the mark and thus there could be no likelihood of confusion by reason of another's use of a similar mark.

³⁷ For registered marks which have not become incontestable, the registration is merely "prima facie evidence" of the registrant's exclusive right to use the mark. Lanham Act sec. 33(a); 15 USC 1115(a). The Act clearly specifies that this evidentiary effect "shall not preclude an opposing party from proving any legal or equitable defense or defect which might have been asserted if such mark had not been registered." As to the strength of the prima facie presumption, see 2 McCarthy, *supra* note 6, at sec. 32:43.

³⁸ While the general policy is that the federal register of trademarks should reflect the reality of the marketplace, some courts have recognized that this policy "is not absolute or unyielding." *Wells Cargo, Inc. v. Wells Cargo, Inc.*, 606 F.2d 961 (CCPA 1979).

incontestability provisions intended it to be an exception to the general rule is what has proven a bitter pill for the judiciary to swallow. Judges simply could not be convinced that an alleged infringer would not be permitted to prove invalidity on certain grounds. Congress adopted incontestability as an exception to the general rule of U.S. trademark law in order to give predictability and stability to those marks which had been registered and continuously used for five years. Once a potential infringer or cancellation petitioner has been put on constructive notice,³⁹ for a five-year period that party must either take action to challenge the registration or, failing that, live with the consequences of his failure to do so.⁴⁰ This exception to the general rule was justified, for there is no other way to give at least some stability and predictability to trademark rights and to justify the large investment of resources in building up goodwill in trademarks. The point is that for almost 30 years, many courts could simply not understand or accept that incontestability was an exception to the general rule.

2. A second reason for the long judicial reluctance to accept incontestability is that federal judges were familiar with the presumption of validity of patents provided by the Patent Code.⁴¹ They knew that the presumption of validity of patents was easily overcome by evidence of prior art not considered by the Patent Office examiner. In fact, during the period 1973 to 1977, 55% of litigated patents were held invalid.⁴² Federal judges who had heard patent cases knew the ease with which patents could be challenged on any ground. Since both patents and trademark registrations were granted by the same government office, many judges assumed that the same rules of presumption of validity applied to both and were very reluctant to give incontestable trademark registrations an immunity from challenge that patents did not enjoy.⁴³

It was this strong reluctance to the concept of incontestability that was finally overcome in the 1976 *Eveready* decision.⁴⁴ In a clear and well-reasoned opinion by Judge Pell, the court surveyed the case law which had adopted the "offensive-defensive" limitation on incontestability and soundly rejected it: "There is no defensive/offensive distinction in the statute and we do not believe one should be judicially

³⁹ As soon as a mark is initially registered on the Principal Register, the registration is constructive notice of the registrant's claim of ownership. Lanham Act sec. 22; 15 USC 1072.

⁴⁰ Fletcher, *supra* note 27, at 97.

⁴¹ 35 USC 282: "A patent shall be presumed valid.... The burden of establishing invalidity of a patent... shall rest on the party asserting such invalidity."

⁴² 455 BNA Patent, Trademark, Copyright Jour. D-1 (Nov. 22, 1979).

⁴³ Two other possible reasons could be: that conclusive, non-rebuttable presumptions are rare in U.S. law; and that incontestability forecloses the judge from considering certain aspects of commercial reality surrounding the litigated trademark.

⁴⁴ *Union Carbide Corp. v. Ever-Ready Inc.*, *supra*.

engrafted on to it." In that case, defendant, seller of EVER-READY lamp bulbs, was sued by Union Carbide Corp., manufacturer of EVEREADY batteries, flashlights and bulbs. The lower court had entered judgment for defendant, finding that EVEREADY was merely descriptive of the dependability and durability of plaintiff's products and that plaintiff had failed to prove secondary meaning. In reversing, the Court of Appeals held that since plaintiff Union Carbide's EVEREADY mark was the subject of an incontestable federal registration, the court could not consider defendant's challenge to validity based on descriptiveness and lack of secondary meaning, for this is not a statutory defense to an incontestably registered mark.⁴⁵ The *Eveready* decision has proven quite persuasive to other courts and has been uniformly followed since 1976.⁴⁶

While there are still uncertainties in other aspects of statutory interpretation of the scope of incontestability after the *Eveready* decision,⁴⁷ that case appears to have laid to rest once and for all the notion that incontestability of registered trademarks has no real significance. After *Eveready*, the integrity and importance of federal registration of marks has been considerably heightened. The *Eveready* decision is a landmark case not only for its clarification of the incontestability dispute, but also because it covers almost every aspect of trademark law in a clear and sensible way. Its discussion of what is descriptiveness

and secondary meaning, methods of proving likelihood of confusion in related goods cases and a sensible approach to judicial acceptance of consumer survey evidence all make the *Eveready* decision a veritable treatise of United States trademark law. For these reasons I feel that *Eveready* is a landmark in U.S. trademark law.

III. New Concepts of Reverse Confusion and Trademark Disparagement: The "Bigfoot" Case

The BIGFOOT trademark litigation of 1976 to 1978 represents a breakthrough in the concept of "customer confusion" in trademark infringement. It signaled a recognition that old concepts of "passing off" do not limit the scope of remedies. It represents, I think, a significant common law development expanding the rights of trademark owners. The classic pattern of likelihood of confusion in trademark law occurs when, to use a hypothetical case, Alpha is the prior user of the mark FAZ on auto tires. Junior user Omega then uses FAZ on its auto tires. The traditional customer confusion created is the mistaken impression that junior user Omega's FAZ tires are produced or sponsored by Alpha. The assumption is that customers familiar with the Alpha FAZ mark will mistakenly purchase from infringer Omega. This situation is the classic case of "passing off" or "direct confusion."

But is there such a thing as "reverse confusion?" Assume that prior user Alpha has used the mark FAZ, but in a relatively modest marketing campaign. Omega then appears on the scene and promotes its FAZ mark by a massive saturation advertising campaign. Now, to the vast majority of potential customers, the FAZ mark indicates Omega. Most consumers have not seen Alpha's advertising. Only a few dedicated Alpha customers will be confused into thinking that Omega's FAZ tires are those of Alpha. The majority of potential buyers have been exposed to Omega advertising and when they see Alpha's FAZ outlets or advertising, will assume that Alpha is an infringer taking a free ride on Omega's advertising. But Alpha was the first user and is the true "owner" of the mark. This can be called "reverse confusion": Omega's use of the FAZ mark results in confusion as to the origin of the senior user's (Alpha) mark, rather than the other way around. The vast majority of potential customers will assume that Alpha outlets are selling the FAZ radial tires they saw heavily advertised on television and in magazines and newspapers. Customers come to Alpha outlets wanting to buy FAZ radial tires. They are angry and confused when Alpha dealers have to explain that Alpha only sells bias belted tires and that there are two firms selling FAZ tires. The telephone company refuses to place advertising for FAZ tires in the classified phone book for Alpha dealers, because telephone company em-

⁴⁵ Under the statute, the statutory grounds upon which incontestability may be challenged are: fraud in the registration process; abandonment; misrepresentation by use of the mark; fair use of the term in its "primary" sense, not as a trademark; intermediate use in a territory prior to registration; prior registration; and use to violate federal antitrust laws. Lanham Act sec. 33(b); 15 USC 1115(b). In addition, Section 33(b) incorporates by reference the conditions of Section 15, 15 USC 1065, which preserve the rights of prior common law users, bar incontestability to generic names, and bar incontestability to misuse of certification marks. That Section 15 also limits the effect of incontestability was held in *Wrist-Rocket Mfg. Co. v. Saunders Archery Co.*, 578 F.2d 727 (8th Cir. 1978).

⁴⁶ See e.g. *Council of Better Business Bureaus v. Better Business Bureau of So. Fla.*, 200 USPQ 282 (S.D. Fla. 1978) (*Eveready* is the "accepted view"); *Park & Fly, Inc. v. Park & Fly, Inc.*, 204 USPQ 204 (D. Mass. 1979). The Eighth Circuit Court of Appeals, whose acceptance of the offensive-defensive distinction had been expressly rejected by the Seventh Circuit in *Eveready*, thereafter indicated that it had second thoughts on its position. *Wrist-Rocket Mfg. Co. v. Saunders Archery Co.*, *supra*. The Second Circuit reached the same conclusion as the *Eveready* court at almost the same time. *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4 (2d Cir. 1976).

⁴⁷ One statutory interpretation which remains the subject of conflicting court decisions is whether the enumerated Section 33(b) defenses to incontestability, if proven, merely reduce the evidentiary status of the registration down to "prima facie" or whether such proof is itself a defense on the merits of the litigation. See discussion in 2 McCarthy, *supra* note 6, at sec. 32:44-32:45. In most cases, the distinction is not important, for most of the 33(b) defenses to incontestability are themselves traditional defenses on the merits. However, a strict reading of the statute appears to lead to the position that proving one of the 33(b) statutory defenses merely removes the evidentiary shield of incontestability from the registered mark. See *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 298 F. Supp. 1309 (S.D. N.Y. 1969), aff'd 433 F.2d 686 (2d Cir. 1970); *Hank Thorp, Inc. v. Minilite, Inc.*, 474 F. Supp. 228 (D. Del. 1979).

ployees "know" that FAZ means only Omega. In addition, Omega advertising says that FAZ tires are available *only* at Omega dealers, creating the innuendo that Alpha's FAZ tires are unauthorized infringements, thereby defaming the reputation of Alpha and impairing its goodwill. Omega's actions have turned Alpha's FAZ mark from an asset of goodwill into a liability creating customer ill will.

The Alpha-Omega hypothetical is essentially the facts of the BIGFOOT case of 1976, where a jury found that "Omega" (Goodyear Tire) was guilty of trademark infringement by "reverse confusion" and "disparagement" of the trademark previously used by another.⁴⁸ The jury awarded damages of \$19.6 million. The Court of Appeals affirmed liability but reduced damages to \$4.7 million. Prior to a possible review by the U.S. Supreme Court, the parties settled for \$6.5 million. Simplified, the actual facts of the case were these: Plaintiff Big O was a tire franchise system of 200 dealers operating in the western United States and selling tires made by major tire manufacturers under private labels. In late 1973, Big O began plans for marketing a bias belted tire under the trademark BIGFOOT. Big O's first sales were made in the spring of 1974. Meanwhile, the much larger Goodyear Tire & Rubber Co. came to a decision in the summer of 1974 to use BIGFOOT as the mark for a new radial tire to be marketed in the fall of 1974. \$6 million was budgeted to be spent over a five-month period on promotion of the BIGFOOT mark. Goodyear estimated that its massive advertising campaign would reach 80% of all males in the United States five times a month during the fall of 1974. But in August, with advertising all placed and ready to go the next month, Goodyear first heard of Big O's prior use of BIGFOOT on tires. Negotiations between Goodyear and Big O failed to reach any agreement and Goodyear decided to go ahead with its advertising and sales of the new BIGFOOT tires.⁴⁹ As a result, Big O's BIGFOOT mark recognition was swamped. Big O dealers were infuriated that people who had seen Goodyear's television advertising⁵⁰ came to buy Goodyear BIGFOOT radial tires from Big O dealers. The Big O dealers were forced to explain to skeptical customers that they sold only BIGFOOT bias belted tires, not the Goodyear BIGFOOT radial tires. The

⁴⁸ *Big O Tire Dealers v. Goodyear Tire & Rubber Co.*, 408 F. Supp. 1219 (D. Col. 1976), affirmed and modified 561 F.2d 1365 (10th Cir. 1977), cert. dismissed 434 U.S. 1052 (1978) (the case was decided under the substantive law of the state of Colorado).

⁴⁹ In the negotiations, Goodyear took the position that Big O had no legal rights because it had not registered its BIGFOOT mark and that Goodyear had prior rights to the mark because of its registration and use in 1973 of BIGFOOT on 671 units of snowmobile tracks. The court found that this prior use by Goodyear on snowmobile tracks was not a basis for priority of use on automobile tires, was a mere token use and was abandoned before Big O's use. 408 F. Supp. at 1230-1231.

⁵⁰ There were 163 prime time national television ads for Goodyear BIGFOOT tires in 3½ months in the fall of 1974.

jury and the trial judge agreed that it was reasonable for customers to assume that Big O had stolen the BIGFOOT mark from Goodyear. To customers, BIGFOOT meant Goodyear and anyone else using the mark must be a cheap imitator. Big O's legal theories were passing off, reverse confusion and disparagement of its trademark. The jury found no passing off, but found for plaintiff Big O under the other two theories.

A. Reverse Confusion

As to "reverse confusion," the only prior case law on point was sparse and conflicting.⁵¹ The trial judge in the *Big O* case stated:

"Because of the apparent and known difference in size between the companies, it was a reasonable and a natural consequence for people to assume that Goodyear had the exclusive legal right to the use of BIGFOOT as a trademark and that Big O was using that trademark illegally. That did, in fact, occur."⁵²

Goodyear argued that there was no liability because it had not been proven (and the jury did not find) that confusion resulted in persons buying from Goodyear under the mistaken belief that they were buying a product sold by Big O: that is, there was no "direct confusion" or passing off. The trial court answered that reverse confusion is also unfair competition:

"To permit Goodyear to act in blatant disregard of the plaintiff's position merely because it did not pass off its tires as Big O's would eliminate the protection of a business in the property right to identify itself and its products to the public. ... [T]he result of Goodyear's advertising was the destruction of the ability of Big O to make any effective use of BIGFOOT to identify its products or its company as a source of such products. The destruction of a trademark must surely be an infringement of it."⁵³

The judge reasoned that the courts are free to fashion new concepts of commercial fairness under the law of

⁵¹ In a situation similar factually to the BIGFOOT case, the court in *Westward Coach Mfg. Co. Inc. v. Ford Motor Co.* 388 F.2d 627, 634 (7th Cir. 1968) had held that reverse confusion was not actionable under Indiana law. There, a small prior user of MUSTANG on trailers had sued Ford for its massive advertising of its new MUSTANG automobile and lost. In *International News Service v. Associated Press*, 248 U.S. 215, 246 (1918) (the celebrated case creating a "misappropriation" theory), Mr. Justice Holmes in a concurring opinion stated that reverse confusion is a "more subtle falsehood" than passing off, "but I think that the principle which condemns the one condemns the other."

⁵² 408 F. Supp. at 1229.

⁵³ 408 F. Supp. at 1232. The "reverse confusion" approach was apparently accepted as viable under the general "likelihood of confusion" rule of the federal Lanham Act in *Re General Motors*, 196 USPQ 574 (TMTAB 1977). The Board refused registration of STARFIRE for autos made by General Motors because of the prior registration of STARFIRE for shock absorbers by a supply firm. The Board held that while there would probably be no passing off or direct confusion, customers might be confused into thinking that the shock absorbers were made or approved by the junior user General Motors. That is, "reverse confusion." The Board held that, "This type of confusion or mistake falls within the prohibition of Section 2(d) of the Trademark Act."

unfair competition. Limiting liability to cases of "direct confusion" or "passing off" would fail to recognize that there are other ways that trademarks can be damaged:

"Goodyear's argument that the law of unfair competition does not protect against reverse confusion would return us to the 19th century view that only passing off is actionable... If the law is to limit recovery to passing off, anyone with adequate size and resources can adopt any trademark and develop a new meaning for that trademark as identification of the second user's products. The activities of Goodyear in this case are unquestionably unfair competition through an improper use of a trademark and that must be actionable."⁵⁴

B. Trademark Disparagement

As to the other theory of "trademark disparagement," one must begin with the law of defamation of personal character, proceed through the law of defamation of a company and its goodwill to the final new theory here that a trademark, as a symbol of goodwill, is capable of being defamed or disparaged. The crucial fact here is that Goodyear advertising expressly said that BIGFOOT tires were available *only* from Goodyear dealers. This created the false innuendo that Big O was making an improper and unauthorized use of the BIGFOOT trademark. This is "trademark disparagement" or "defamation of the reputation of the corporation."⁵⁵ The court rejected the argument that Big O had to prove "special" or customer-by-customer damages from the false implication that Big O was "stealing from Goodyear." The Court of Appeals affirmed the submission of this theory to the jury.

The "trademark disparagement" legal theory of BIGFOOT may prove useful in future to trademark owners who find that trade journals, publishers and dictionaries use their mark as a generic term. Such use could be argued to constitute a "disparagement" of the trademark status of the term.⁵⁶ Traditionally, such

generic usage was thought to best fit under the legal category of "dilution."⁵⁷

C. Measurement of Damages

The BIGFOOT case is also notable for its novel approach to the measurement of damages. The jury was instructed that the measure of damages was the difference between the value of Big O's trademark goodwill before and after Goodyear's actions. That is, damages would be the amount of money required by Big O to place it in the position it would have been in had Goodyear not infringed and disparaged the BIGFOOT mark of Big O. To arrive at a figure, the jury was instructed to consider the amount of money which would be required by Big O to conduct an advertising campaign to eliminate confusion and educate customers.⁵⁸ The jury awarded \$2.8 million under this theory, apparently by the following analysis: Big O sold in 14 states, Goodyear in all 50 states. $14/50 = 28\%$. 28% of Goodyear's \$10 million in advertising of BIGFOOT = \$2.8 million. That is, Big O would have to make a dollar for dollar expenditure with Goodyear in order to engage in corrective advertising to undo the impact of Goodyear's advertising. The jury also awarded six times the actual damages as punitive damages (\$16.8 million) because of Goodyear's acts in proceeding with its promotion and use of the mark even after learning of Big O's prior use.⁵⁹ However, the Court of Appeals felt that a "dollar-for-dollar" measure was too much and adopted the 25% ratio sometimes used by the Federal Trade Commission. That is, the F.T.C. often requires businesses which engage in deceptive advertising to spend 25% of their past advertising budget on corrective advertising. Thus, the Appellate Court reduced the \$2.8 million "corrective advertising" award by 75%, to about \$0.7 million. It also scaled down the punitive damage award, preserving the six times ratio, for reduced punitives of about \$4.2 million. As previously mentioned, the parties settled before the U.S. Supreme Court could pass on a petition for hearing in that Court.

⁵⁴ 408 F. Supp. at 1236.

⁵⁵ The jury was instructed that one of the essential elements of a claim of trademark disparagement was a finding that the defendant acted with "malice," defined as the intent to "vex, injure or annoy." Jury Instructions 17 and 19. 408 F. Supp. at 1248.

⁵⁶ In *Acoustical Mfg. Co., Ltd. v. Audio Times, Inc.*, unreported decision of Superior Ct., Dist. of Columbia, Dec. 19, 1977, the owner of a mark claimed that the publication of editorials in a trade journal had disparaged its mark. The editorials had claimed that the mark was a generic term free for all to use. The court dismissed the claim, finding that the publication of opinions as to the legal status of a term is "fair comment and criticism protected by the First Amendment." The court, contrary to BIGFOOT, held that special damages must be proven, i.e. a listing of specific customers lost or figures showing a general loss of business. On the other hand, in *Selchow & Righter Co. v. McGraw-Hill Book Co.*, 580 F.2d 25 (2d Cir. 1978), the court found that publication of a book entitled "The Complete Scrabble Dictionary" might render plaintiff's game mark "Scrabble" generic. This was held an independent ground upon which irreparable injury sufficient for a preliminary injunction could be based.

⁵⁷ To the author's knowledge, there is no U.S. case holding that generic use by a publisher constitutes trademark dilution. See 1 McCarthy, *supra* note 6, at sec. 12:9; Derenberg, "The Problem of Trademark Dilution and the Antidilution Statutes," 44 Cal. L. Rev. 439, 463 (1956); Lunsford, "Trademarks and Semantics: The Use and Misuse of Trademarks in Dictionaries and Trade Journals," 6 Ga. L. Rev. 311, 62 Trademark Rep. 520 (1972).

⁵⁸ Jury Instruction No. 21. 408 F. Supp. at 1248-49.

⁵⁹ The jury was instructed that it could award punitive damages "to punish a wrongdoer for some extraordinary conduct and to serve as an example or warning to others not to engage in such conduct." Jury Instruction No. 21. 408 F. Supp. at 1249. These are traditional grounds for punitive damages in unfair competition cases under the laws of most states. See 2 McCarthy, *supra* note 6, at sec. 30:29 A. To award punitive damages, the jury was instructed that it had to find "fraud, malice, or a wanton and reckless disregard of the rights and feeling of the plaintiff."

The BIGFOOT case has given strong support to two new arrows in the bow of trademark owners. It illustrates how the flexibility of common law unfair competition permits the creation of new legal concepts to meet new commercial situations. The court was not hobbled by narrow and artificial concepts of "direct confusion" or "passing off." This innovative approach to the law is a tradition of many courts. For example, the California Court of Appeals stated that:

"With passage of time and accompanying epochal changes in industrial and economic conditions, the legal concept of unfair competition broadened appreciably. This was occasioned... partly by the flexibility and breadth of relief afforded by equity, and partly by changing methods of business and changing standards of commercial morality."⁶⁰

A junior user should not be permitted to overwhelm the market by a massive advertising campaign which turns the senior user's trademark from an asset into a liability. There are and should be equitable limits to the courts always blindly following customer perception, no matter how created, and it is believed that BIGFOOT was such a case.

IV. Commercial Advertising is Protected By the "Free Speech" Provisions of the United States Constitution

A. The Constitutional Status of Free Speech

In 1976 a change occurred in United States Constitutional interpretation which undoubtedly will have long-lasting implications for the law of false advertising, unfair competition and trademarks. The U.S. Supreme Court held for the first time that "commercial speech" is within the protection of the First Amendment "free speech" clause of the U.S. Constitution. In the *Virginia Board of Pharmacy* case,⁶¹ the Court clearly held that ordinary advertising of commercial products is as deserving of Constitutional protection under the First Amendment as political speech or writing.⁶² The full significance of bringing

⁶⁰ *People ex rel Mosk v. National Research Co.*, 201 Cal. App. 2d 765, 20 Cal. Rptr. 516 (1962); see 1 McCarthy, *supra* note 6, at sec. 1:8.

⁶¹ *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748 (1976).

⁶² The First Amendment to the U.S. Constitution, ratified in 1791, provides that, "Congress shall make no law... abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances." The Supreme Court has long held that the First Amendment, although written as a restriction on the power of the federal Congress, is equally applicable as a restriction on the states through the Due Process Clause of the Fourteenth Amendment. But while the First Amendment is a restriction on governmental action (both state and federal), it does not relate to private restraints on speech which involve no action of government. In addition, the source of the speech is irrelevant: publications by a corporation are protected by the First Amendment. *First National Bank of Boston v. Bellotti*, 435 U.S. 765 (1978).

commercial speech within the protection of the First Amendment can only be appreciated if one understands that in United States law, the First Amendment is placed on a very high pedestal. It requires a very strong degree of governmental interest in preserving public order before free speech can be impinged upon in any way. A whole panoply of procedural protections has been developed by the Supreme Court over several decades, designed to give "breathing space" to free speech. Two examples are the doctrine of "prior restraint," which effectively prohibits court orders enjoining publication prior to a full trial, and the doctrine of the least restrictive alternative, which requires that court orders be written in the narrowest possible terms which focus only upon the remedial objective to be served. That is, a court order which imposes limits on the exercise of free speech rights must adopt the least restrictive remedy possible:

"An order issued in the area of First Amendment rights must be couched in the narrowest terms which will accomplish the pin-pointed objective permitted by Constitutional mandate and the essential needs of the public order... In other words, the order must be tailored as precisely as possible to the exact needs of the case."⁶³

B. Bringing Commercial Speech into the Constitution

Applying this new application of the First Amendment, the Court in 1976 invalidated as unconstitutional statutes of the state of Virginia which declared it unprofessional conduct for a licensed pharmacist to advertise the prices of prescription drugs. In reaching this conclusion, the Court noted the connection between competition, advertising and the policies of free speech:

"... [N]o line between publicly "interesting" or "important" commercial advertising and the opposite kind could ever be drawn. Advertising, however tasteless and excessive it sometimes may seem, is nonetheless dissemination of information as to who is producing and selling what product, for what reason, and at what price. So long as we preserve a predominantly free enterprise economy, the allocation of resources in large measure will be made through numerous private economic decisions. It is a matter of public interest that those decisions, in the aggregate, be intelligent and well formed. To this end, the free flow of commercial information is indispensable."⁶⁴

The Supreme Court appeared to be drawing upon the classical economic theory that competition is imperfect because individuals' knowledge of market conditions is imperfect. Advertising makes otherwise

⁶³ *Carroll v. President & Commissioners of Princess Anne*, 393 U.S. 175, 183-84 (1968). The same rule applies to legislative enactments. *Shelton v. Tucker*, 364 U.S. 479, 488 (1960). As one court phrased the doctrine of the least restrictive alternative, "In the First Amendment area, the State cannot use a shotgun to kill a fly." *Methpath, Inc. v. Myers*, 462 F. Supp. 1104, 1109 (N.D. Cal. 1978).

⁶⁴ 425 U.S. at 765. Justice Rehnquist, dissenting, specifically disagreed on this point, remarking that the argument quoted related only to speech as to "political, social and other public issues, rather than the decision of a particular individual as to whether to purchase one or another kind of shampoo."

imperfect markets more perfect by reducing consumer ignorance of the relevant facts of what products are available, what the products are like, who sells them, where they can be bought and what the prices are.⁶⁵ However, the Supreme Court noted the truism that merely because commercial advertising is now protected as Constitutional "speech" does not mean that it never can be governmentally regulated in any way. The Court mentioned three aspects of this regulation of advertising problem. First, regulation of the time, place and manner of advertising is permissible, given a strong public policy requiring regulation, and provided that ample alternative channels of communication are left open. Secondly, while advertising is now recognized as within the ambit of Constitutional protection, this does not mean that it is protected against governmental restraint to the exact same degree as political speech. The Court indicated that greater restraint will be permitted on commercial speech than on political speech, opining that commercial speech "may be more durable than other kinds" and that therefore "there is little likelihood of its being chilled by proper regulation and foregone entirely."⁶⁶ Exactly where this lower level of constitutional protection for commercial speech is has not yet been defined by the Supreme Court.⁶⁷ However, the Court has remarked that it acts with "caution" in passing upon First Amendment challenges to economic legislation that serves legitimate regulatory interests and will not "automatically" extend all traditional First Amendment protections to the "as yet uncharted area" of commercial speech and advertising.⁶⁸ As Professor Barrett has stated, "It appears that a substantial number of new constitutional doctrines are being developed to accommodate this commercial

outsider which has just been admitted to the First Amendment tent."⁶⁹

Thirdly, the Court has said that the First Amendment does not stand in the way of government regulation of false or misleading advertising, for "untruthful speech, commercial or otherwise, has never been protected for its own sake." The Court specifically noted that the Constitution does not prohibit government from "insuring that the stream of commercial information flows cleanly as well as freely."⁷⁰

Since the 1976 *Virginia Board of Pharmacy* decision, the U.S. Supreme Court has on several occasions considered the scope of First Amendment protection for commercial speech. In the 1977 *Carey* case the Court struck down as unconstitutional a New York statute which made it illegal to advertise or display contraceptives, rejecting the state's argument that such advertising would be offensive and embarrassing to some persons and would legitimize sexual activity of young people. The Court remarked that:

"At least where obscenity is not involved, we have consistently held that the fact that protected speech may be offensive to some does not justify its suppression... These arguments therefore do not justify the total suppression of advertising concerning contraceptives."⁷¹

Also in 1977, in the *Bates* case, the Supreme Court held unconstitutional a rule of the Supreme Court of Arizona which prohibited attorneys from advertising their services.⁷² The Court rejected arguments that attorney advertising would adversely affect professionalism, would be inherently misleading, and would produce undesirable economic effects. The latter argument was that lawyer advertising would increase the overhead costs of the profession, thereby increasing the cost of legal services, and would create a substantial barrier in the form of higher costs, deterring young attorneys from penetrating the market and entrenching the position of established attorneys. The Supreme Court rejected these arguments as "dubious at best." The Court soundly disagreed with those who say that advertising is an unnecessary cost and raises barriers to entry to potential competitors. The Supreme Court referred to evidence that, "where consumers have the benefit of price advertising, retail prices often are dramatically lower than they would be

⁶⁵ See e.g. Lester Telser, "Advertising and the Consumer," in *Advertising and Society*, 29 (1974).

⁶⁶ One difficulty with the Court's two levels of protection—one for non-commercial speech and a lower level for commercial speech—is how to distinguish the two kinds. Prior to *Virginia Board of Pharmacy*, the Court held that advertisements designed to sell products but also containing information of general public interest were treated as "noncommercial" unless the noncommercial political or social content was proven to have been added for the purpose of avoiding a restriction on commercial advertising. The line was drawn in two related cases in 1978. In *In re Primus*, 436 U.S. 412 (1978), a letter from an American Civil Liberties Union lawyer soliciting a client was held noncommercial speech because the proposed lawsuit was part of a program for using litigation as a means of political expression and association. By contrast, in *Ohralik v. Ohio State Bar Assoc.*, 436 U.S. 447 (1978), the in-person solicitation of a client by a lawyer for personal gain was held to be commercial speech entitled only to the lower level of constitutional protection.

⁶⁷ The Supreme Court has made it clear that it adopts a "commonsense" distinction between speech proposing a commercial transaction and other varieties of speech. Emphasizing that advertising enjoys only a limited form of First Amendment protection, the Court stated that it has "afforded commercial speech a limited measure of protection, commensurate with its subordinate position in the scale of First Amendment values, while allowing modes of regulation that might be impermissible in the realm of non-commercial expression." *Ohralik v. Ohio State Bar Assoc.*, *supra*.

⁶⁸ *Friedman v. Rogers*, 440 U.S. 1, 10, n. 9 (1979).

⁶⁹ Edward L. Barrett, Jr., "The Uncharted Area: Commercial Speech and the First Amendment," 13 U. Cal. Davis L. Rev. 175, 179 (1980).

⁷⁰ The Court has said that the leeway for untruthful or misleading statements regarding public figures which is permitted in defamation cases has little application to the area of commercial advertising, where "strict requirements for truthfulness" will probably not inhibit spontaneity of expression. *Bates v. State Bar of Arizona*, 433 U.S. 350, 383 (1977).

⁷¹ *Carey v. Population Services International*, 431 U.S. 678, 701 (1977). The Court specifically noted that this was a case of total suppression of advertising, not merely regulation of the time, place or manner of such advertising.

⁷² *Bates v. State Bar of Arizona*, *supra*.

without advertising." The entry barrier argument was found "unpersuasive," the Court noting that advertising should be allowed "so as to aid the new competitor in penetrating the market." That is, advertising facilitates new competition more than it entrenches existing competitors.⁷³ In fact, the Court specifically remarked that "competition through advertising is ordinarily the desired norm." The trilogy of *Virginia Board of Pharmacy*, *Carey* and *Bates* appeared to create an almost *per se* rule against prohibitions forbidding the truthful advertising of commercial products.⁷⁴

However, there still remained the problem of determining whether commercial advertising was in fact "truthful." The Supreme Court's 1979 *Friedman* decision was a dramatic shift in that the Court was willing to uphold a government ban on all use of trade names in a market on a mere showing of several possibilities for deceptive use of trade names.⁷⁵ In *Friedman*, the Court upheld as against a First Amendment challenge a Texas statute which forbade optometrists from advertising and using trade names (e.g. "Texas State Optical") rather than the personal name of the optometrist. The bothersome part of the case is that the optometrist in this case had not been found to have engaged in any deceptive or misleading use of the trade name "Texas State Optical," which he used to identify his 82 offices. Rather, the majority of the Court merely listed several possibilities of deceptive use of trade names.⁷⁶ Apparently the majority felt that because deceptive use of trade names by professionals is a possibility, that is a sufficient interest for state prohibition of trade names of optometrists altogether. In the author's opinion, this approach reduces the significance of the First Amendment to a mere shadow, for one can always imagine possibilities for false impressions on the public. The majority appeared to feel that trade names are simply bursting with the seeds of consumer deception:

"A trade name conveys no information about the price and nature of the services offered by an optometrist until it acquires meaning over a period of time by associations formed in the minds of the public between the name and some standard of price and quality. Because of these ill-defined associations of trade names with price and quality, information can be manipulated by the users of trade names, there is a significant possibility that trade names will be used to mislead the public."

For almost 50 years the Supreme Court had followed a rule of interpretation that less restrictive alternatives must be investigated and rejected before the Federal Trade Commission could adopt a remedy against false advertising that required the excision of a trademark.⁷⁷ However, the majority in the 1979 *Friedman* decision indicated that, "[T]here is no First Amendment rule, comparable to the limitation on [the Federal Trade Commission], requiring a State to allow deceptive or misleading commercial speech wherever the publication of additional information can clarify or offset the effects of the spurious communication."⁷⁸ Justice Blackmun specifically disagreed, noting that "[c]orrected falsehood, however, is truth." Justice Blackmun noted that the possibilities for consumer deception lay not in the use *per se* of a trade name, but in the failure to also disclose the personal name of the optometrist. But the Texas statute forbids the use of trade names even when the optometrist's own name is also prominently displayed. The properly least restrictive alternative, he felt, was to require disclosure of the personal name along with the trade name, not an absolute prohibition on the trade name. He remarked that the spirit of First Amendment jurisprudence traditionally is "more speech, not enforced silence." It thus is not yet crystal clear if in fact the Supreme Court really intends to refuse to extend the traditional First Amendment least restrictive alternative rule to cases of allegedly misleading commercial advertising.

In a similar case, the Supreme Court affirmed without opinion a lower court decision upholding a Nevada state regulation which controlled the format of advertising of real estate franchisors' service marks.⁷⁹ There, the state of Nevada had adopted a

⁷³ Much economic analysis indicates that advertising does not erect barriers to entry into a market, but rather facilitates entry by new competitors. See e.g. Yale Brozen, "Is Advertising a Barrier to Entry?" *Advertising and Society*, 90-91 (1974).

⁷⁴ *Barrett*, *supra* note 69, at 183. Also in 1977, the Court invalidated a local ordinance which forbade the placing of "For Sale" signs or "Sold" signs on real estate. *Linmark Associates, Inc. v. Willingboro*, 431 U.S. 85 (1977).

⁷⁵ *Friedman v. Rogers*, *supra*.

⁷⁶ The hypothetical examples given were: (1) the trade name remains the same even though professionals in the organization might change, possibly misleading a consumer who assumes that the personnel of the organization are always the same; (2) a trade name frees the optometrist from dependence on his personal reputation and may permit him to change trade names if negligence or misconduct creates bad will in the old trade name; (3) the optometrist could use different trade names at different locations, giving the impression of competition; (4) trade names make easier large-scale commercialization with many branch offices, "which enhances the opportunity for misleading practices." The dissent of Justices Blackmun and Marshall states that the majority "overestimates the potential for deception."

⁷⁷ *Federal Trade Commission v. Royal Milling Co.*, 288 U.S. 212, 217 (1933) (the F.T.C. contended that the trade name "Royal Milling" conveyed a false impression that it was a grinder of the grain from which its flour was prepared); see *Jacob Siegel Co. v. Federal Trade Commission*, 327 U.S. 608 (1946). After 1976 a lower federal court held that this had become a rule of constitutional law. *Beneficial Finance Corp. v. Federal Trade Commission*, 542 F.2d 611 (3rd Cir. 1976); see also *Methpath, Inc. v. Myers*, *supra* at 1110: "[I]f there are less drastic alternatives by which the State can accomplish its objectives... [t]he First Amendment requires that this more narrow, exacting approach be imposed on the State...." The court held unconstitutional a California statute prohibiting clinical laboratories from advertising to the non-professional public.

⁷⁸ *Friedman v. Rogers*, *supra* at 10, n. 11. It is not clear if the court was refusing to extend its judicial rule limiting Federal Trade Commission remedies or refusing to extend its normal constitutional rule of the "least restrictive alternative" to commercial speech cases.

⁷⁹ *Century 21 Real Estate Corp. v. Nevada Real Estate Advisory Comm.*, 448 F. Supp. 1237 (D. Nev. 1978), *aff'd* without opinion 99 S. Ct. 1415 (1979).

rule that a real estate broker operating as a franchise must feature his own name or trade name on not less than 50% of the advertising surface area of the combined broker's name and the name of the franchisor. Century 21 Real Estate, a large nationwide franchisor of real estate franchisees, had adopted and nationally advertised a format in which the franchisor's mark ("Century 21") occupied 80% of the surface area of any given display, with the remaining 20% for insertion of the franchisee-broker's name, such as "ABC Realty." The courts rejected the franchisor's First Amendment challenge to the Nevada 50-50 rule, holding that the rule is not a complete ban on use of the franchisor's service mark and rejecting the contention that the "least restrictive alternative" rule applies. The Nevada 50-50 rule was held to constitute a legitimate means of ensuring that the public realizes that it is dealing with an independent franchised broker, not with an employee of a national single company. However, in the author's opinion, such a state regulation certainly impinges on the right of a nationwide franchise organization to present its mark to the public in a uniform format in all states. Since uniformity is the keystone of franchising, such a regulation effectively prevents the franchisor from maintaining a uniform format for its valuable mark. It is difficult to see how requiring a 50-50 format will serve to dispel the alleged "misleading" nature of an 80-20 format.⁸⁰

As noted earlier, one of the mainstays of Constitutional First Amendment interpretation is the doctrine of "prior restraint": speech or publication cannot be prohibited prior to a full trial on the merits. In the area of defamation law, this has meant that alleged libel cannot be preliminarily enjoined. In defamation cases, truth or falsity of the alleged publication can only be determined after a full trial on the merits. However, in *Virginia Board of Pharmacy* the Supreme Court opined that the different and more hardy nature of commercial speech "may also make inapplicable the prohibition against prior restraints." At least one lower court has held outright that the "prior restraint" doctrine does not prevent the issuance of a preliminary injunction against trademark infringement:

"This is not a case of government censorship, but a private plaintiff's attempt to protect its property rights... The prohibition of the Lanham [Trademark] Act is content neutral... and therefore does not arouse the fears that trigger the application of constitutional 'prior restraint principles.'"⁸¹

⁸⁰ See *Florida Canners Assoc. v. State of Florida Dept. of Citrus*, 436 BNA PTCJ A-11 (Fla. App. 1979) (no First Amendment bar to state requirement that all locally grown grapefruit be identified by the word "Florida" or the "Florida Sunshine Tree" certification mark; a local grower complained that such a "tacking" requirement would force it to carry the image associated with the advertising campaign for the Florida certification mark).

⁸¹ *Dallas Cowboys Cheerleaders v. Pussycat Cinema, Ltd.*, *supra* note 20, at 206; but compare *Universal City Studios Inc. v. Dell Publishing Corp.*, 195 USPQ 761 (S.D.N.Y. 1977) where the court,

C. Applying the New Rule to Intellectual Property Litigation

(1) Trademarks and Unfair Competition

It would appear that a company's trademark is the most important element of commercial speech which is communicated to consumers. If commercial speech is protected under the First Amendment to preserve a free marketplace of commercial messages and to contribute to free competition, then a trademark should be at the core of First Amendment protection. All other elements of advertising as commercial speech revolve around, relate to and are symbolized by the trademark. In a trademark infringement case, the traditional remedy is for the court to enjoin defendant's use of its infringing mark. The First Amendment has recently been invoked in trademark cases as a defense to liability or as a limitation on the scope of an injunction.

One can imagine and predict the various private trademark litigation contexts in which the freedom of commercial speech argument will surface in coming years. A firm that uses another's mark in comparative advertising will now claim that it is merely exercising its Constitutional right to educate customers as to the comparative merits of the products.⁸² A defendant who claims to be using plaintiff's non-inherently distinctive mark (e.g. geographically descriptive) in a non-trademark, informational sense can now claim a First Amendment right to inform the public as to the geographic origin of its product.⁸³ Similarly, the use of another's mark as a mere "status symbol" to convey the aura of high-class goods could be defended as merely conveying a "message" to potential customers, for example, the use of a Rolls-Royce auto parked outside Tiffany's jewelers in a television commercial for wearing apparel. Defendants who are sued for false advertising in private litigation by competitors will claim that injunctive relief will unduly stifle their Constitutional right to advertise.⁸⁴ Former employees charged with illegally appropriating trade secrets and

denying a preliminary injunction against a fan magazine using the title of a television series, said that a preliminary injunction would be a "prior restraint" and "a heavy constitutional burden must be met before a restraint on publication can be sustained."

⁸² In *Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc.*, 445 F. Supp. 875 (S.D. Fla. 1978), the court said that "Comparative advertising, as practiced by defendant in the case *sub judice*, is in harmony with the fundamental objectives of free speech and free enterprise in a free society." The court denied relief in a case of copyright infringement.

⁸³ Such a non-infringing use is referred to as a "fair use" of a trademark. See 1 McCarthy, *supra* note 6, at sec. 11:17; McCarthy & Devitt, "Protection of Geographic Denominations: Domestic and International," 69 Trademark Rep. 199 (1979).

⁸⁴ In *A & M Records, Inc. v. Heilman*, 75 Cal. App. 3d 554 (1977) defendant found guilty of tape and record piracy claimed that an injunction forbidding him from advertising pirated phonograph albums was an unconstitutional limitation on his commercial speech. The court rejected this defense, saying that prohibition of advertising of materials illegally reproduced presents no free speech problems.

confidential information will assert that an injunction against use of the information would infringe upon their First Amendment rights.⁸⁵ All of these possible innovations of Constitutional rights in private litigation will, I think, not change the substantive law of unfair competition. But it will give defendants the benefit of a Constitutional garb in which to clothe the traditional arguments of non-liability.⁸⁶

In several cases, defendants charged with trademark infringement have claimed the protection of the First Amendment by alleging that they are merely using the plaintiff's mark to convey some important social or commercial message to the public. Almost uniformly, this defense has been rejected.⁸⁷ A sampling of the facts of some of these cases gives a flavor of the broad spectrum of cases in which the First Amendment has already been invoked. In the "Reddy Kilowatt" case,⁸⁸ plaintiff, owner of a trademark in the cartoon character REDDY KILOWATT, which it licenses to electrical energy suppliers as a promotional device, sued an environmental non-profit organization which used the cartoon character in a booklet. The booklet showed a mocking caricature⁸⁹ of the cartoon character as part of criticism of electric utilities' policies. Defendant claimed that the First Amendment permitted it to use plaintiff's trademarked character as a symbol of electrical utilities in

⁸⁵ Former employees who were found in breach of contract by improperly using names of customers of their former employer argued that an injunction against soliciting such customers would be an infringement of their First Amendment rights. This argument was rejected. *Cherne Industrial, Inc. v. Grounds & Associates, Inc.*, 205 USPQ 854 (Minn. Sp. Ct. 1979).

⁸⁶ At the least, this development will require intellectual property attorneys to be conversant with the intricacies of Constitutional interpretation to an unprecedented extent.

⁸⁷ Some courts have hinted that a defendant charged with infringement may not even have standing to raise the First Amendment because there is no "state action" involved in such litigation. That is, the First Amendment is only a limitation on government action, not on private action. *Interbank Card Association v. Simms*, 431 F. Supp. 131, 133 (M.D.N.C. 1977); *Reddy Communications v. Environmental Action Foundation*, 199 USPQ 630, 633 (D.D.C. 1977). If there is in fact no "governmental" action involved in the judicial issuance of injunctions against trademark and copyright infringement, then the First Amendment presents no obstacle whatever. On the other hand, one could argue that judicial enforcement of federal trademark and copyright laws is judicial enforcement of governmental statutes that restrict freedom of speech to some degree. See I. Nimmer, *Copyright*, 1.10[A] (1979).

⁸⁸ *Reddy Communications v. Environmental Action Foundation*, *supra*. The preliminary injunction sought by plaintiff was denied for lack of evidence of likelihood of confusion. After trial, the court found for defendant, holding that defendant's publications were distributed to knowledgeable persons who would not be confused into thinking that either plaintiff or its public utility licensees sponsor or approve defendant's publication. 477 F. Supp. 936 (D.D.C. 1979).

⁸⁹ Totally apart from First Amendment considerations, it has been held that there is no rule that likelihood of confusion is automatic as to all caricatures of a trademark. *Volkswagenwerk A.G. v. Rose'Vear Enterprises, Inc.*, 201 USPQ 7 (CCPA 1979) (no likelihood of confusion by use of caricature of Volkswagen auto design mark).

order to convey its public criticism of the policies of those utilities. Defendant characterized plaintiff's trademark dilution and infringement lawsuit as a device to "stifle criticism and dissent." In rejecting this defense, the court saw the case as pitting plaintiff's property right in its trademark against defendant's right of free speech. Since defendant had open to it many other ways to criticize public utilities, the court said that plaintiff's property right must prevail.

This characterization of such a case as a battle between plaintiff's property right in a trademark and defendant's asserted First Amendment rights has been developed in other cases. The courts have relied upon a 1972 Supreme Court decision which held that First Amendment rights do not control over property rights when protestors promoting a political message trespass in a private shopping center.⁹⁰ The federal Second Circuit Court of Appeals relied on this decision in affirming the issuance of a preliminary injunction against service mark infringement in an unusual case involving the Dallas Cowboys Cheerleaders.⁹¹ In issuing the preliminary injunction the court found that plaintiff had a reasonable probability of proving that defendant's pornographic film and its advertising were likely to confuse the public into believing that plaintiff cheerleaders sponsored the film, licensed use of its distinctive uniform or was in some other way connected with the production. Defendant argued that the film was merely a parody or satire protected by the First Amendment. Both the trial and appellate courts held that defendant's use of plaintiff's distinctive trademark did not qualify as justifiable parody: "That defendant's movie may convey a barely discernible message does not entitle them to appropriate plaintiff's trademark in the process of conveying that message." After quoting from the property right versus First Amendment language of the Supreme Court in the shopping center case, the Court of Appeals stated that, "Because there are numerous ways in which defendants may comment on 'sexuality in athletics' without infringing plaintiff's trademark, the district court did not encroach upon

⁹⁰ *Lloyd v. Tanner*, 407 U.S. 551, 568 (1972). On the other hand, in *Friedman v. Rogers*, the Supreme Court appeared to say that the fact that a plaintiff has a protectable property right in a trademark is a neutral factor in considering the First Amendment:

"...[A] property interest in a means of communication does not enlarge or diminish the First Amendment protection of that communication."

Friedman v. Rogers, *supra* at 12, n. 11.

⁹¹ *Dallas Cowboys Cheerleaders v. Pussycat Cinema, Ltd.*, *supra* note 20. The plaintiff Dallas Cowboys Cheerleaders is a group of some 36 women who are affiliated with a professional football team and perform at games. The Cheerleaders also perform on television and make public appearances to promote commercial products. They are identified by a distinctive uniform, which they claimed as a service mark for their entertainment services. Defendant exhibited in New York a sex film in which the female star appears as a cheerleader, dressed in the distinctive uniform. Advertising of the film created the false impression that the star was an ex-Dallas Cowboys Cheerleader.

their First Amendment rights in granting a preliminary injunction."⁹²

A similar "property right" approach was taken in the "Christ Charge Card" case where the owners of the mark MASTER CHARGE and associated design for credit cards sued a religious group which distributed stickers simulating plaintiff's design mark with the added legend "Give Christ charge of your life."⁹³ In granting a preliminary injunction against such a use, the court noted that customers would be likely to be confused when they see defendant's religious cards and posters displayed by merchants. That is, customers may mistakenly believe that a merchant displaying one of defendant's religious stickers will honor plaintiff's Master Charge credit cards. The court rejected defendant's contention that an injunction would improperly impinge upon defendant's First Amendment rights to convey their religious messages. Relying upon the Supreme Court's shopping center case, the court noted that defendant could not appropriate plaintiff's property in its trademarks where adequate alternative methods of communicating its religious message existed.

On the other hand, does the First Amendment protect a commercial entity from liability for its assertions that a term claimed as a trademark by another is in fact not a trademark, but a generic term? One decision has held that the publication of such an opinion "constituted fair comment and criticism protected by the First Amendment" and dismissed the trademark owner's claim of libel and disparagement.⁹⁴

(2) The Right of Publicity

The First Amendment has proven effective as a defense in cases where a celebrity or his heirs have, under an invasion of the right to publicity theory, sued

those who present fictionalized accounts of the life of the celebrity.⁹⁵ However, the defense has been rejected where the defendant invades the right to publicity by using the celebrity's name or likeness on commercial items such as posters.⁹⁶ In the *Zacchini* case, the U.S. Supreme Court rejected a news media First Amendment defense where a television station made an unauthorized broadcast of a performer's entire 15-second act of being shot from a cannon.⁹⁷ The performer's claim for damages was founded upon a theory of invasion of his right to publicity and an appropriation of his professional property. The Supreme Court characterized the rationale of his legal claim as "the straightforward one of preventing unjust enrichment by the theft of goodwill." This holding that even news media cannot appropriate the entirety of a plaintiff's goodwill under the guise of covering a "newsworthy" event or conveying a "message" to the public has obvious implications in the ordinary trademark infringement case where defendant invokes the protection of the First Amendment.

(3) Antitrust

First Amendment protection for commercial speech has been held not to prevent a restraint on certain publications of a firm found to have violated the antitrust laws.⁹⁸ The Supreme Court indicated that the First Amendment does not prevent a court from prohibiting an antitrust violator from doing indirectly (through persuasion and pressure by public statements) what it cannot do directly (impose anticompetitive restrictions by way of rules of membership).⁹⁹

However, it would appear that the First Amendment protection accorded truthful use of a trademark casts a shadow over the attempts of the Federal Trade Commission to impose the remedy of compulsory licensing of a trademark in the aftermath of a finding of an antitrust violation by the owner of the trade-

⁹² 604 F.2d at 206. In a somewhat similar case, a court also rejected a First Amendment defense. In *General Foods Corp. v. Mellis*, 203 USPQ 261 (S.D.N.Y. 1979), plaintiff sold a candy product under the trademark "Pop Rocks." Defendants marketed a phonograph record of a song entitled "I'm the Pop Rock King," referring to plaintiff's candy and attaching to the record a packet of plaintiff's candy as a promotional item. The court found a likelihood of confusion of source of the record. Defendant claimed a First Amendment right to distribute the recording, but the court found that the "drug scene" intimations of the record, the name "rotten rat" record company on the record and the inferior quality of the record all demeaned and harmed plaintiff's goodwill, thereby making the record not only misleading as to source, but destructive of plaintiff's trademark.

⁹³ *Interbank Card Association v. Simms*, *supra*.

⁹⁴ *Acoustical Manufacturing Co., Ltd. v. Audio Times, Inc.*, *supra*. An English firm making high fidelity recording equipment had used "Quad" as a trademark for amplifiers since 1950. In the 1970s the word "quad" came into generic usage denoting "quadraphonic" or four-channel sound recording equipment, which plaintiff did not produce. Defendant Audio Times, a trade publication, editorially criticized plaintiff's efforts to prevent use of "quad" and asserted that the word was a generic term. Plaintiff sued for libel and disparagement of its trademark.

⁹⁵ *Hicks v. Casablanca Records*, 464 F. Supp. 426 (S.D.N.Y. 1978) (First Amendment right to present clearly fictionalized account of life of late writer Agatha Christie outweighs right to publicity possessed by heirs of writer); *Gugliemi v. Spelling-Goldberg Productions*, 25 Cal. 3d 860 (1979) (similar holding with respect to film of the life of the late film star Rudolph Valentino).

⁹⁶ *Factors v. Pro-Arts Inc.*, 579 F.2d 215 (2d Cir. 1978) (publication of poster depicting the late entertainer Elvis Presley is an invasion of the right of publicity possessed by his heirs and is not a "newsworthy event" protected by the First Amendment).

⁹⁷ *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562 (1977). The four dissenting justices viewed the broadcast as merely routine reporting on a newsworthy event and feared that the decision would cause the news media to decline coverage for fear of being sued. "The public is then the loser," stated Mr. Justice Powell.

⁹⁸ *National Society of Professional Engineers v. United States*, 435 U.S. 679 (1978).

⁹⁹ Chief Justice Burger dissented from this holding, saying that the First Amendment guarantees to the society the right to express its opinions and that right cannot be impaired as part of an antitrust remedial decree.

mark.¹⁰⁰ It is my opinion that now that a trademark property partakes of the nature of a constitutionally protected symbol, it would appear that, only in an egregious case where no other pro-competitive remedy will suffice, can that valuable property right be destroyed by government under the euphemism of "compulsory licensing."¹⁰¹

D. The Future Impact of The New Rule

In what Mr. Justice Powell called the "as yet uncharted area" of constitutionally protected commercial speech, it is obvious that the final parameters have not yet been defined. There will be a lasting impact on unfair competition, false advertising and trademark law, but the extent of that impact is only now being charted by the courts. It does seem clear that traditional procedural protections accorded political speech will not automatically be accorded commercial speech. Commercial speech will have its own, somewhat lower place in the hierarchy of the First Amendment. It appears that one result of this development is that the strong presumption of constitutionality which is given to government regulation of economic activity does not apply to government regulation of commercial speech. The burden is upon government to justify restrictions on commercial speech.¹⁰² This could also mean that the burden may be upon plaintiff in private infringement litigation to justify the extent of injunctive remedy if it impinges upon defendant's ability to convey socially or commercially valuable messages. In most infringement cases, I believe, the courts will not be much hindered by the First Amendment when plaintiff proves that defendant's use of its mark will be likely to confuse the public. The Supreme Court clearly seems to accept that the reasonable prohibition of false and deceptive commercial speech offends no constitutional policy. However, scope of injunctive remedies problems that traditionally were thought to be merely issues of fairness and appropriate judicial discretion have now been turned into questions of constitutional magnitude.

V. Other Trends During the 1970s

The four legal developments I have surveyed above are, I believe, some of the more significant changes

¹⁰⁰ In the "RealLemon" case, compulsory licensing of the trademark was originally ordered but was set aside by the Federal Trade Commission. *In re Borden*, CCH Tr. Reg. Rep. P. 21, 490 (FTC, Nov. 7, 1978). See McCarthy, "Compulsory Licensing of a Trademark: Remedy or Penalty?," 67 Trademark Rep. 197 (1977); McCarthy, "Trademarks, Antitrust and the Federal Trade Commission," 13 John Marshall Jour. 151 (1979).

¹⁰¹ This view is developed at length in McCarthy, "Compulsory Licensing of a Trademark: Remedy or Penalty?," *supra* note 100, at 232-239.

¹⁰² Barrett, *supra* note 69, at 180.

which have occurred in United States trademark and unfair competition law in the 1970s. Other observers, I am sure, would have other candidates for the category of "significant" changes and trends. One could point to the continual expansion of trademark protection as against use of marks on goods far removed from the original use. For example: the use of VERA on women's cosmetics and fragrances was held an infringement of VERA for women's scarves and apparel;¹⁰³ the use of DUNHILL on scotch whisky was held an infringement of DUNHILL for smoker's supplies;¹⁰⁴ and the use of ARM IN ARM on underarm deodorant was held an infringement of ARM & HAMMER baking soda.¹⁰⁵ However, this is not a consistent or predictable trend, as some courts will adopt a much narrower view of "related goods."¹⁰⁶

Another development of the 1970s was the increase in licensing of trademarks derived from motion pictures for use on merchandise. The merchandising aspects of movies such as STAR WARS has presented new and difficult problems of defining customer "confusion."¹⁰⁷ Related to this is the increased licensing of commercial trademarks for use on "collateral" products such as T-shirts and wearing apparel.¹⁰⁸ Some observers have been concerned with the standards used by the courts in the 1970s in often holding that certain terms are generic names, not trade-

¹⁰³ *Scarves by Vera Inc. v. Todo Imports, Ltd.*, 544 F.2d 1167 (2d Cir. 1976).

¹⁰⁴ *Alfred Dunhill of London, Inc. v. Kasser Distillers Products Corp.*, 350 F. Supp. 1341 (E.D.Pa. 1972), aff'd 178 USPQ 449 (3rd Cir. 1973). See: *James Burrough, Ltd. v. Sign of the Beefeater, Inc.* 540 F.2d 266 (7th Cir. 1976) (BEEFEATER gin mark infringed by SIGN OF THE BEEFEATER for restaurant).

¹⁰⁵ *Helene Curtis Industries, Inc. v. Church & Dwight Co.*, 560 F.2d 1325 (7th Cir. 1977) (plaintiff's baking soda was promoted for use as a deodorizer and defendant's underarm deodorant contained baking soda as an ingredient).

¹⁰⁶ See e.g. *Mushroom Makers, Inc. v. R.G. Barry Corp.*, 580 F.2d 44 (2d Cir. 1978) (use of MUSHROOM on women's sportswear held not infringement of MUSHROOMS for women's shoes); *McGregor-Doniger Inc. v. Drizzle Inc.*, 599 F.2d 1126 (2d Cir. 1979) (use of DRIZZLE for women's overcoats and raincoats does not infringe DRIZZLER for men's golf jackets).

¹⁰⁷ See e.g. *Ideal Toy Corp v. Kenner Prods. Div. of General Mills Fun Group, Inc.*, 443 F. Supp. 291 (S.D.N.Y. 1977) (toy manufacturer who copied the general theme of characters from movie "Star Wars" not enjoined under trademark or copyright law); *American Footwear Corp. v. General Footwear Co.*, 609 F.2d 655 (2d Cir. 1979) (in dispute between two footwear makers, one with a license from producer of television series and both using the word "Bionic" as a mark, court held that neither was entitled to injunction against the other); *Mego Corp. v. Mattel, Inc.*, 203 USPQ 377 (S.D.N.Y. 1978) (toy manufacturer using "Galactic" mark sued licensee toy manufacturer under license from owner of television series-motion picture "Battlestar Galactica"; preliminary injunction denied). See Vaver, "The Protection of Character Merchandising: A Survey of Some Common Law Jurisdictions," 9 IIC 541 (1978).

¹⁰⁸ See *Re Olin Corp.*, 181 USPQ 182 (TMTAB 1973); *Re McDonald's Corp.*, 199 USPQ 702 (TMTAB 1978) (registration of commercial marks for use on wearing apparel allowed); *Boston Professional Hockey Assoc. v. Dallas Cap & Emblem Mfg. Inc.*, 510 F.2d 1004 (5th Cir. 1975) (use of professional sports team emblem on cloth patches for wearing apparel held trademark infringement).

marks.¹⁰⁹ Another important trend was sparked by the 1971 "*Chicken Delight*" case which led to an avalanche of antitrust cases brought by franchisees claiming a "tie-in": the coerced purchase of supplies alleged to be illegally "tied" to the license of a service

¹⁰⁹ See e.g. *Miller Brewing Co. v. G. Heileman Brewing Co.*, 561 F.2d 75 (7th Cir. 1977), cert. denied 434 U.S. 1025 ("Lite" for beer held generic name of beer light in body and taste and low in calories); *Miller Brewing Co. v. Schlitz Brewing Co.*, 605 F.2d 990 (7th Cir. 1979) ("Lite" beer registration cancelled); *Anti-Monopoly Inc. v. General Mills Fun Group*, 611 F.2d 296 (9th Cir. 1979) (remand to determine the generic nature of the game term "Monopoly"); *Reese Publishing v. Hampton International*, 205 USPQ 585 (2d Cir. 1980) ("Video Buyers Guide" held generic of class of magazines); *CES Publishing Corp. v. St. Regis Publications, Inc.*, 531 F.2d 11 (2d Cir. 1975) ("Consumer Electronics Monthly" held generic of class of magazines); *Abercrombie & Fitch, Inc. v. Hunting World, Inc.*, *supra* ("Safari" held generic of certain types of goods); *Surgicenters of America, Inc. v. Medical Dental Surgeries*, 601 F.2d 1011 (9th Cir. 1979) ("Surgicenter" held generic of surgical center services).

mark.¹¹⁰ This series of cases led to a close examination of the difference between the "source" and "quality" functions of marks¹¹¹ and changed the nature of many so-called "rent-a-name" franchise agreements in the United States.

As for the decade of the 1980s, we, like the naturalist-geologist Agassiz, can only plant out stakes in the glacier anew and see where the geological movements of the law will carry them.

¹¹⁰ *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43 (9th Cir. 1971). See *Kennucky Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368 (5th Cir. 1977) (fast food franchisor can properly restrict franchisees to a reasonable number of approved sources for supplies); McCarthy, "Trademark Franchising and Antitrust: The Trouble with Tie-Ins," 58 Cal. L.Rev. 1085 (1971); Note, "Trademark Franchising and Antitrust Law: The Two-Product Rule for Tying Arrangements," 27 Syracuse L.Rev. 953 (1976), 69 Trade-mark Rep. 41 (1979).

¹¹¹ See e.g. *Redd v. Shell Oil Co.*, 524 F.2d 1054 (10th Cir. 1975); *Edward J. Sweeney & Sons, Inc. v. Texaco, Inc.*, 478 F. Supp. 243 (E.D. Pa. 1979).

News from Industrial Property Offices

SWITZERLAND

Activities of the Swiss Intellectual Property Office in 1978 and 1979*

I. Patents

New Legislation

Having been adopted by the Federal Parliament on December 17, 1976, the modifications and complements to the Federal Law on Patents for Inventions and the new Ordinance on Patents for Inventions¹ — except the chapters concerning European patent applications and European patents as well as international patent applications — entered into force at the beginning of 1978. The provisions regarding either European patents and European patent applications or international patent applications only entered into force on June 1, 1978. It has been possible since then to file applications for European patents taking effect in Switzerland with the European Patent Office in Munich and with the receiving Offices of member States of the Patent Cooperation Treaty. The modifications of the Patent Law concern essentially the conditions for patentability, i.e. novelty, inventive step, industrial application and also exclusion from patentability, as well as the term of patent protection.

For organizational reasons, the entry into force of the revised Patent Law in 1978 had caused a considerable delay in the granting of patents, whereas in 1979 the adaptation to the new Law was accomplished successfully. Thus, the number of treated patent applications has again considerably increased and, in 1979, an average of 600 patent applications per month were examined.

Among the problems which the transition created for the various Divisions of the Swiss Office, the following are to be noted:

- In the Administrative Division, detailed instructions had to be worked out and a great number of new forms had to be printed. The training of at least part of the staff and the time-consuming

treatment of European and of international patent applications at first caused a lag with respect to efficiency. However, these obstacles have been overcome and the new system functions well.

- The revision of the Patent Law has had a considerable effect also on the Principal Technical Division. A major difficulty lies in the retroactive application of the new provisions on patent applications filed prior to January 1, 1978.

In connection with the introduction of the European patent procedure, eleven patent examiners from the Swiss Intellectual Property Office were transferred to Munich and The Hague. These transfers, together with the retirement of three patent examiners, signify a reduction of one-fifth in the staff of the Principal Technical Division. It was not possible to fill these vacancies immediately, which had an effect on the number of completed examinations. The examination as to substance as such has, however, been adapted completely to the new law.

Patent Trends

The oil crisis and the efforts to economize energy can be noticed in the domain of patents. Thus, applications relating to the production of energy have increased especially as regards the utilization of solar energy. At the same time, applications filed for so-called "*perpetuum mobiles*" have increased.

The Effect of the European Patent Convention and the Patent Cooperation Treaty on the Activities of the Office

The possibility to choose among three international patent systems, that is to say to file either a European, a PCT or a "Euro-PCT" application, has had an effect on the number of national applications.

In this connection, three tendencies can be noticed:

- The number of national patent applications filed by Swiss residents has remained practically the same (1978: 4,528; 1979: 4,441).
- On the other hand, the total number of national patent applications (domestic and foreign patent applicants) has diminished (1978: 13,314; 1979: 11,540).

* Excerpted from the reports issued by the Swiss Intellectual Property Office for 1978 and 1979.

¹ See *Industrial Property Laws and Treaties, SWITZERLAND* — Text 2-001 (*Industrial Property*, June 1978) and Text 2-002 (*Industrial Property*, July/August 1978).

— Finally, the total number of applications for patent protection in Switzerland has increased. The respective figures are composed of all national applications and regional applications in which Switzerland is a designated State (1978: 15,648; 1979: 19,308).

From these three statements it can be concluded that the slightly diminishing total of national patent applications in Switzerland is due to the fact that fewer foreigners apply for patent protection in Switzerland by means of the national procedure. The interest, however, in protecting an invention in Switzerland has not lessened. It may be expected that despite the increase in patent applications, there will be no patent proliferation; because of the different examining procedures, the number of European applications resulting in a patent will be proportionately fewer than applications coming from Switzerland.

II. Trademarks

New Legislation

The Swiss Intellectual Property Office has resumed the preparatory work for a total revision of the Trademark Law of 1890. The new law will take into account international tendencies with respect to the protection of trademarks and the work already accomplished for the introduction of a Community trade mark for the EC Member States.

Among other innovations, it is expected that the new law will provide for the registration of service marks, granting the right to a mark upon registration (up to now the right to the mark resulted from its usage), as well as reinforcing the obligation to use the mark. In addition, it is intended to provide a registration procedure which will prevent the registration of marks likely to cause confusion.

Registration

An event celebrated in 1979 was the registration of the 300,000th national trademark. The fast development in this domain can be illustrated by the fact that from 1880 it had taken 61 years until the 100,000th trademark was registered. The number of registrations increased to 200,000 within only 22 years and, after just another 16 years, the 300,000th registration followed.

The number of applications increased in 1979 compared with 1978. For the first time since 1972, the number of applications has exceeded 6,600.

For administrative reasons, however, a decrease in the number of trademark registrations is to be noted.

III. Industrial Designs

According to the Hague Agreement, industrial designs can be filed internationally with the World Intellectual Property Organization (WIPO) in Geneva. Switzerland used the possibility to provide, in the Federal Law on Industrial Designs of March 30, 1900, for an international deposit filed in Geneva by a Swiss resident to have a legal effect also in Switzerland. In other words, a Swiss applicant who "follows the international route" obtains protection in Switzerland for his deposit without also having to file a national application. Therefore, in order to gain an indication of the interest in protecting designs in Switzerland, it is necessary to total the number of national deposits with those filed internationally by Swiss residents. This method of calculation is important for Switzerland, as more than one-third of all international deposits originate from Switzerland.

In 1979, the Swiss Office entered 666 deposits. Of the 1,733 international deposits filed in the same year, 630 (36.3%) were of Swiss origin. Consequently, a total of 1,296 deposits had a legal effect in Switzerland in that year.

IV. International Activities

A Treaty on Patent Protection between Liechtenstein and Switzerland was signed in Vaduz on December 22, 1978.² This Treaty, which unites the two Contracting States in a unified territory of patent protection, was discussed and approved by the Swiss Parliament in 1979. The Governments of the Contracting States concluded an Implementing Agreement to this Treaty which deals in a more detailed manner with certain procedures for the authorities concerned.

The *Geneva Protocol to the Hague Agreement for the International Deposit of Industrial Designs* was approved by the Swiss Parliament in 1977 and entered into force on April 1, 1979, after the deposit of the instrument of ratification by Switzerland. The Assembly and the Conference of the Hague Union issued new implementing regulations on the occasion of an extraordinary session in Geneva under the guidance of its Swiss Chairman. According to these regulations, a reproduction will be published of all designs whose protection is sought by means of international deposits; these deposits will be subjected to the same examination by the Swiss Office as that for national deposits.

The negotiations between Switzerland and Hungary for the conclusion of a treaty on the protection of

² See *Industrial Property Laws and Treaties — BILATERAL TREATIES — Text 2-001 (Industrial Property, July/August 1980)*.

indications of source, appellations of origin and similar denominations, which had started in Berne in October 1978 and were continued in Budapest in April 1979, ended with the signature of the Treaty at the end of 1979.

Within the context of the "North-South Dialogue," the Swiss Office has given assistance to other Federal departments in connection with problems falling within its competence. Thus, the Swiss Office was consulted in connection with the preparatory work of UNCTAD V and the United Nations Conference on Science and Technology for Development (UNCSTD).

The Swiss Office is, however, also directly represented in Swiss Delegations, for instance, at meetings held under the auspices of WIPO, and at the Conference on the Draft Code of Conduct on the Transfer of Technology, which met under the guidance of UNCTAD. In addition, the Swiss Office has been consulted on various occasions, in particular on the preparation of the third UNIDO Conference and for discussions within OECD which related to the international exchange of services.

V. Development Assistance

As in previous years, a number of trainees from developing countries worked with the Swiss Intellectual Property Office to improve their knowledge of intellectual property matters. The training formed part of the WIPO Permanent Program for Development Cooperation Related to Industrial Property, the Program for Technical Assistance of the Federal Department of Foreign Affairs and the United Nations Development Programme (UNDP).

Within the framework of WIPO and UNDP, work began on the establishment of an African Patent Documentation and Information Center (CADIB) at the headquarters of the African Intellectual Property Organization (OAPI) at Yaoundé (Cameroon). This Center is particularly intended to further the technical and industrial development of the twelve member States as well as their scientific and technical cooperation. The project is financed by UNDP, OAPI, Germany (Federal Republic of), France, and Switzerland. It is supervised by the World Intellectual Property Organization. The aforementioned three States put at its disposal experts for the establishment of the Center, stipends for the instruction of its staff members in Europe, as well as means for the purchase of furniture and equipment.

An official of the Swiss Office is attached to this project as an organization expert. During his initial stay at Yaoundé, he prepared the outlines for the organization of the Center as well as proposals for efficient collaboration between the various services of OAPI and the future Center.

VI. Documentation

The Swiss Office maintains a voluminous collection of patent documents. It thus meets its legal obligation to put at the disposal of the public information on the state of the art. This documentation mainly consists of publications by national and international patent authorities, such as unexamined and examined patent applications and patent specifications. These documents reproduce, by description and illustration, the technical contents of inventions and also contain bibliographic data.

The essential part of this collection is called the "Central Collection of Patent Specifications (ZPS)." Patent documents from Switzerland, the United States of America, Germany (Federal Republic of), the United Kingdom, the Netherlands, France, Austria and recently also documents published by the European Patent Office, and international applications published in accordance with the Patent Cooperation Treaty, are systematically arranged in this Collection. The Collection is at the disposal of the public, and interested persons who wish to be informed on the state of the art of a particular technical field often make use of it.

The patent documents are arranged according to the International Patent Classification (IPC) system.

In addition to the ZPS, other numerical collections are maintained by the Swiss Office; in addition, collections of national specifications can be found in ten Swiss cities (Basel, La Chaux-de-Fonds, Chur, Geneva, Grenchen, Liestal, Lugano, Neuchâtel, Schaffhausen and Zurich).

At the end of 1979, the Office applied to join "Euronet" "Euronet" is a European Communities electronic data bank for information retrieval. Of the different data banks accessible through "Euronet," the Swiss Office initially plans to obtain direct access to the European patent register and thus to the bibliographic data concerning European patents and patent applications.

The Office will endeavor to put this new means of information also at the disposal of the public.

The necessity to join other data banks accessible through "Euronet" will be examined in the future.

Through the CAPRI System (Computerized Administration of Patent Documentation, Reclassified According to the International Patent Classification), information on patent documents classified according to the IPC can be stored. These documents are used mainly as a basis for international search reports according to the Patent Cooperation Treaty (PCT). The documentation was established in close cooperation with several national patent offices, the European Patent Organisation (EPO), WIPO and the International Patent Documentation Center (INPADOC), the latter being responsible for the

electronic recording of the data. Since the end of 1979, the Swiss Office has had at its disposal the necessary means to use this system.

The CAPRI System will make it possible for the Office to enlarge its Central Collection of Patent

Specifications (ZPS) by reclassifying earlier domestic and foreign patent documents and integrating them into ZPS. In addition, the Office will be in a position to give better information on patent documents in various technical fields.

Calendar

WIPO Meetings

(Not all WIPO meetings are listed. Dates are subject to possible change.)

1980

November 17 to 21 (Geneva) — Berne Union and Universal Copyright Convention — Working Group on the formulation of guiding principles covering the problems posed by the practical implementation of the licensing procedures for translation and reproduction under copyright conventions (convened jointly with Unesco)

November 24 to 28 (Vienna) — Permanent Committee on Patent Information (PCPI) — Working Group on Search Information — Subgroup on IPC Class B 60

November 24 to December 5 (Geneva) — Nice Union — Committee of Experts

December 1 to 3 (Lomé) — Development Cooperation — African Regional Seminar on Copyright (convened jointly with Unesco)

December 1 to 5 (Paris) — Permanent Committee on Patent Information (PCPI) — Working Group on Search Information — Subgroup on IPC Class G 01, etc.

December 4 and 5 (Lomé) — African Regional Seminar on Neighboring Rights (convened jointly with ILO and Unesco)

December 8 to 12 (Geneva) — International Patent Classification (IPC) — Committee of Experts

December 15 to 19 (Paris) — Berne Union — Committee of Governmental Experts on Problems Arising from the Use of Computers (convened jointly with Unesco)

UPOV Meetings

1980

November 10 to 12 (Geneva) — Technical Committee

November 13 and 14 (Geneva) — Administrative and Legal Committee

Meetings of Other International Organizations Concerned with Industrial Property

1980

European Patent Organisation: December 8 to 12 (Munich) — Administrative Council

International Association for the Protection of Industrial Property: November 16 to 21 (Buenos Aires) — 31st Congress