The Long Road to Resolving Conflicts Between Trademarks and Geographical Indications
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TRADEMARK LICENSING:
THE ONCE AND FUTURE NARRATIVE*

By Neil Wilkof**

I. INTRODUCTION

This article will consider the development of the law of trademark licensing, primarily as it has emerged in the common law system. Our focus will be on the jurisprudential narrative that has given rise to trademark licensing law, as it has evolved, without parallel to any other form of intellectual property licensing. Narrative has been described as “some kind of retelling . . . . While a story just is a sequence of events, a narrative recounts those events, perhaps leaving some occurrences out because they are from some perspective insignificant, and perhaps emphasizing others . . . . Narratives thus shape history (the series of events, the story of what happened).”1

In a similar fashion, the narrative of trademark licensing can be understood as the retelling of the story of trademark licensing law and practice over time, as the trademark owner seeks ways to leverage the value of its trademark through use by third parties; the ensuing conflict between legal requirements and commercial needs; and the resulting legal resolution, whereby the law gives legal structure to these changes and, in turn, these legal developments spawn and sanction additional forms of third-party uses of trademarks. As such, the law of trademark licensing can be profitably portrayed as a narrative of its jurisprudential story, shaped by the unique interplay between its legal and commercial circumstances over time.

Against this backdrop, this article will set out the narrative of trademark licensing on the basis of the following: (i) the ever-evolving nature of licensing in response to changing uses of marks in commerce; (ii) challenges to the legal validity of licensing under classic trademark doctrine; (iii) the role of quality control; (iv) diversity in the legal approach, even between countries that are part of the common law tradition; (v) blurred boundaries

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between licensed use of marks and other forms of use of marks by third parties; and (vi) the future directions of trademark licensing.

II. THE TRADITIONAL TRADEMARK NARRATIVE

The form and content of trademark licensing derives from the particular nature of trademark law, with its focus on the dynamic and symbolic value of marks in commerce and the ways that signs and symbols have been used in connection with the manufacture and distribution of goods and services. From the particular vantage of trademark licensing, it is useful to view trademark law as a three-part interplay between: (i) the way that goods and services are distributed; (ii) the manner by which commercial actors have used marks over time in connection with distribution; and (iii) the legal attempts to regulate such use of marks.

Because of the dynamic nature of this interrelationship, both the law governing trademarks and trademark licensing have evolved over time. This means that the historical context of trademark licensing continues to inform, not as a deterministic legal straightjacket, but as a conceptual anchor to understand how the evolution of trademark licensing has taken place. The narrative of trademark licensing can be understood within the context of its historical development.

As the starting point, consider the rise of the use of commercial signs at the dawn of the Industrial Age. In a closed, intimate environment, the licensing of trademarks, indeed the use of marks more generally, did not come into much play. If the habit of custom was to buy baked goods locally from Mr. Smith, who is known to the purchaser personally and who operates from a single, fixed location, there was no need for the symbolic intermediation of a mark as an indicator of source. Indeed, if Mr. Smith was the sole baker in town, and the local market is hermetically sealed, all that matters is access to Mr. Smith’s baked goods products and his capability to provide an adequate supply. In such a commercial setting, the prerequisites for a trademark system, much less licensing, simply are not present.

However, changes in the conditions by which commerce takes place may give rise to the need for symbolic intermediation in the marketplace. At the moment that familiarity gives way to

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2. It is useful to think of the development of trademark law by analogy to evolutionary biology, which differs from the subject matter of the other natural sciences on the basis of its mutability over time. Thus, for example, whatever the sum total of features a proton possessed following the Big Bang are the sum total of its features today. The same is not true with respect to biological phenomena, which have evolved over time. Without wishing to imply that other forms of intellectual property licensing are quite as immutable as physical or chemical phenomena, it is nevertheless useful to distinguish trademark licensing from other forms of intellectual property licensing on this basis. See, for example, Natalie Angier, The Canon: The Beautiful Basics of Science (2007), especially chapters 4 and 6, and Richard Dawkins, The Selfish Gene, 30th Anniversary edition (2006).
uncertainty about the source of the goods, time and effort (or search costs, if you prefer) are required for the purchaser to verify the source of the goods. The purchaser can investigate the circumstances each time he goes out to buy baked goods in order to make certain that he is purchasing from the intended source of the goods, but this is both time-consuming and costly.

Alternatively, if the purchaser is habituated to trust the mark that is identified with these baked goods products, he can rely on the mark to provide this information about the source of the goods, which makes it unnecessary for him to engage in a full search process about the provenance of an item each time that he wishes to buy it. In being able to do this, time and resources are saved, because he can reliably purchase the desired goods with minimal search costs. Here, symbolic intermediation through the use of a mark comes to serve a useful commercial purpose, namely the efficient and reliable identification of the source of the desired goods.

Two further points follow. First, trademarks eliminate the need that the actual source of the goods be known; indeed, the ultimate source of the goods may well be anonymous. As long as the mark comes to identify a single source—the specifics of which are either known or not known—symbolic intermediation of the mark in commerce fulfills its purpose. Second, symbolic intermediation, by which goods, the source thereof, and the customer are brought together by the trademark, has the further effect of creating something of value as a result of this interaction—“goodwill.” "Goodwill" suffuses the trademark with commercial meaning and value beyond the value of the word or symbol per se.

A. The Challenge of Licensing

However, the continuing development of novel and ever more complex forms by which products are manufactured and


5. The classic definition of “goodwill,” as set out by Lord Macnaghten, is as follows: “What is goodwill? It is a thing very easy to describe, very difficult to define. It is the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffuses its influence may be, goodwill is worth nothing unless it has power of attraction to bring customers to the source from which it emanates.” Inland Revenue Commr’s v. Muller & Co.’s Margarine Ltd. [1901] A.C. 217, 233 HL.
distributed have posed a fundamental challenge to this symbiosis between the source theory of trademarks and the symbolic intermediation of marks. In particular, by the early twentieth century, we encounter instances in which persons other than the trademark owner are authorized to use the trademark in the manufacture and sale of the goods. Perhaps the most notable early example was the soft drink industry, where local entities were authorized to make and sell the soft drinks under the trademark of the trademark owner.\textsuperscript{6} In so doing, commerce was moving forward in response to changing conditions. The question was whether the law regarding trademarks would follow suit.

The initial answer in the United Kingdom was “no.” In the \textit{Bowden Wire} case, the House of Lords (as it then was) invalidated a form of licensing arrangement; more generally, the decision cast a giant shadow over the legal validity of trademark licensing.\textsuperscript{7} The underlying reasoning of the \textit{Bowden Wire} court was, on its surface, analytically compelling: The legal foundation of a trademark is that it provides a compact symbolic indicator of the source of the goods. However, when licensing is involved, since the user of the trademark under license, being the licensee, is not the owner of the mark, and the owner of the mark, being the licensor, is not the user of the mark, the mark fails in its fundamental function as an indicator of source.

In other words, the grounds for invalidating the trademark license under \textit{Bowden Wire}—indeed, the legal infirmity with trademark licensing per se—derived from the principles of trademark law itself, most notably the notion of a trademark as an indicator of source. Trademark licensing and trademark law were deemed to be incompatible. That is not to say that other forms of intellectual property licensing, such as a patent or a copyright license, could not be invalidated. The answer is certainly “yes,” but the grounds for such invalidation, e.g., contract law or competition law, would be external to the intellectual property right itself. A patent or copyright license was not deemed invalid per se. Unlike a trademark license, neither a patent nor a copyright license was viewed as inconsistent with the underlying law giving rise to the intellectual property right itself.

As a result, following the \textit{Bowden Wire} decision, even if trademark licensing might make perfect sense commercially, it failed as a legal matter. This disjunction between the legal validity of trademark licensing, on the one hand, and the emerging and ever-developing commercial practice of trademark licensing, on the other, threatened to cast a giant shadow of uncertainty about the role trademarks would be able to play in modern commerce.

\textsuperscript{6} See Wilkof & Burkitt, \textit{supra} note 4, paras. 5-06–07.

\textsuperscript{7} Bowden Wire v. Bowden Brake, [1914] R.P.C. 385; see also discussion in Wilkof & Burkitt, \textit{supra} note 4, para. 2-15.
Notwithstanding the compelling commercial rationale for trademark licensing, therefore, unless trademark law could be brought into line with commercial practice, this legal impediment would only serve to retard the future development of this form of manufacturing and distribution. Seen in this light, the dominant narrative for the rest of the twentieth century with respect to trademark licensing law (particularly in common law jurisdictions) can be viewed as the story of various efforts to deal with this disjunction and the ensuing law uncertainty.

The foundation for bringing trademark licensing into the framework of trademark law was the recognition of quality control as an integral part of the source identification function. The narrative went something like this. A trademark is not simply an identifier of source per se, but it also embodies an expectation about consistent quality of the product that bears the mark. As long as only the trademark owner is responsible for the product, it is presumed that the owner carries out the quality control function with respect to the trademark.

But there is no reason to presume that quality control in fact need be limited to the direct actions of the owner. It is possible that a third party, i.e., a licensee, could also be seen as ensuring that the quality function of a trademark is preserved. Under appropriate circumstances, therefore—namely, if there is adequate quality control by the licensor over the use of the mark by the licensee—the source identification function is maintained because, ultimately, the source of quality of the product bearing the mark is still the trademark owner. The customer is indifferent as to whether the goods are manufactured or sold by the owner of the trademark or by a licensee subject to quality control by the owner. What matters is that the quality standard of the owner is maintained, whoever ultimately carries it out.

**B. Quality Control: A Legal Fiction or Not?**

No empirical support seems to have been brought to support the underlying assumptions about the relationship between and among quality control, the licensee’s use of the mark, and the perception of the customer about the source of the product bearing the mark. As such, we can pause to ask the following question: Was the introduction of the quality control notion a proper extension of existing principles of trademark law, or was it a legal fiction, created to provide a solution to the disjunction that had been created between the law, on the one hand, and commercial practice of trademark licensing, on the other hand?

A legal fiction, with particular reference to the common law tradition, has been described by Moglen “as a proposition about the

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8. See more generally Wilkof & Burkitt, *supra* note 4, especially chapters 4 and 6.
substance or procedure of the legal system, purporting to be a principle or rule material to the determination of cases, which rests in whole or in part on factual premises known to be inaccurate at the time of the fiction’s invocation. Each fiction, qua fiction, may be said to have a subject matter, comprised of the premise or premises counterfactually maintained.”

In addition to the subject matter of the legal fiction, central to the notion is the technique by which the legal fiction is established. Moglen describes three principal varieties. The first is “assertion,” whereby without more, the counterfactual is announced without further investigation. The second is “presumption,” whereby the subject of the fiction rises to the level of a rule of evidence, with the result that it is difficult to challenge the truth of the counterfactual assertion. The third is the practice of “deeming,” where “A” is deemed to be “B,” even though it is widely understood that “A” is not “B.”

The key for the durability of a legal fiction is “the consensual alteration of fact.” Stated otherwise, a legal fiction is tied up with the centrality of “judicial fact-making,” whereby “the bulk of law is made not within the understanding that rules devised today will be applied across a spectrum of obscurely foreseeable but nonetheless determinate states of fact in the future, but rather in a context in which the facts are at least as malleable as the law (emphasis added).”

And so: was the adoption of quality control an act of judicial fact-making, be it an “assertion,” “presumption,” or even a “deeming,” as described by Moglen, or rather an organic development within trademark licensing law? The stakes in the answer to this question are potentially high, because the conclusion that quality control is a legal fiction might make it easier to challenge the legitimacy of the principle.

Having regard to the narrative by which the notion of quality control emerged, the better view is “no.” Recognition of the quality control function developed from a judicial reconsideration of the changing circumstances in which trademark licensing was taking place. But such judicial recognition was fashioned in a manner that was consistent with the way that trademark law, in general, and trademark licensing law, in particular, had developed, rather than being an overt judicial ploy to alter the legal status of trademark licensing for a predetermined end.


10. Id. at 36-38.

11. Id. at 38.

12. Id. at 41. Another outcome of this process of consensus with respect to a given legal fiction is the ability of the legislative process to accommodate itself to an existing corpus of case law.
True, the introduction of quality control had the effect of providing legal sanction for arrangements for the use of a trademark by a third party that prior to the adoption of the quality control principle had been deemed legally ineffective under the reasoning of cases such as *Bowden Wire*. However, there was no basis to conclude that the principle of quality control was known to be counterfactual or fictitious: at the most, its underlying premises were apparently not put to empirical test to determine their validity. Based on the foregoing, the better position is that the adoption of quality control as a basis for recognizing the legal sufficiency of trademark licensing within the context of the source identification function was a bold analytical extension rather than a legal fiction.

**III. CHANGE IN THE UNITED KINGDOM, CONTINUITY IN THE UNITED STATES**

Although recognition of the notion of quality control, and the support that it provided to overcome the challenge to trademark licensing posed by the *Bowden Wire* decision, became accepted as an integral part of trademark law, there was no unanimity among the common law jurisdictions regarding its implementation. Two poles for this implementation can be discerned. The first pole centered on embedding quality control within the trademark registration framework, while the second emphasized the conduct of the parties as the linchpin to determining the presence of quality control. The first pole is exemplified by the position taken under U.K. law, while the second pole is that adopted under U.S. law. As described below, while the legal position in the United States has remained, more or less, unchanged, the position in the United Kingdom with respect to the relationship between quality control and the registration regime has materially changed.

**A. Change in the United Kingdom**

In the United Kingdom, the enactment of the Trade Marks Act 1938 provided a solution to the problem posed by the *Bowden Wire* decision by establishing what came to be known as a registered

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14. Within these two poles a variety of other registered user arrangements have also been adopted. See Wilkof & Burkitt, *supra* note 4, chs. 4 and 6. See also Wilkof & Burkitt, *supra* note 4, Appendix B, for a summary of the law governing the recordal of trademark licensing in various countries.
user regime.\textsuperscript{15} Prior to enactment of the 1938 Act, while there were isolated instances of courts giving effect to a trademark license under special circumstances, the prevailing jurisprudence continued to decline legal recognition of trademark licensing.\textsuperscript{16} Under the 1938 Act, a trademark license could now be registered with the Trademark Registry. Such registration would, \textit{inter alia}, describe the quality control provisions in place between the parties. Once registered, quality control was presumed, and the license was given the imprimatur of legal validity that there was a connection in the course of trade between the licensor and licensee. As a result, validity of the trademark license could not effectively be challenged and the trademark registration itself was protected from challenge on the grounds of non-use by the trademark owner.

However, the Registry did not view itself as even having the competency or resources to actually determine whether the parties were adhering to the quality control provisions as recorded. Moreover, the registration of a licensee as a registered user was held by the court to be permissive rather than mandatory.\textsuperscript{17} This meant that even in the absence of the registration of the licensee as a registered user, the parties to the license could adduce evidence sufficient to support the claim that there was quality control in fact. However, there were such few reported cases considering the validity of a trademark license in the absence of a registered user recordal.\textsuperscript{18} As a practical matter, valid trademark licensing became associated with recordal of the licensee as a registered user.

The upshot of the registered user provisions was that if a trademark license was recorded on the registry, it was presumed valid. However, if the parties eschewed recordal, they would be put to the proof to show that quality control was in place and that use of the mark by the license was not deceptive. This result can be seen as consistent with the role of the registration of trademarks in the United Kingdom (and other common law countries that did not require proof of use as a prerequisite for registration).

Just as acceptance of a mark for registration did not require proof that the registrant was using the mark for all of the registered goods (or services) at the time of registration, so too was the registered user recordal prima facie evidence that there were quality control arrangements in place between the licensor and the

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\textsuperscript{15} Section 28 of the 1938 Trade Marks Act. \textit{See also} Wilkof & Burkitt, \textit{supra} note 4, chs. 3 and 4, for a description of this process.


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licensee. Should a person not wish to seek registration of a mark, he could still seek to assert rights in a mark under a claim of passing off.\textsuperscript{19} Similarly, should the parties to a trademark license not record the license, it was still possible to prove that there was quality control in fact. Seen in this light, the registered user provisions were compatible with the broader arrangements for the protection of marks and the role of registration and recordal in connection with such protection. The question remained whether such an arrangement would stand the test of future developments in the licensed use of trademarks by third parties.

The recordal scheme for trademark licenses under the registered user provisions was dismantled in two phases. In the first phase, Parliament, as part of its enactment of the Trade Marks Act 1994, did away with the registered user provisions.\textsuperscript{20} In the second phase, the House of Lords called into question the conceptual and legal underpinnings for quality control. Each of these stages is discussed further below.

Being under mandate by the European Community (as it then was) to bring U.K. trademark legislation into line with the prevailing Community position on trademarks, Parliament jettisoned the registered user provisions.\textsuperscript{21} In its stead, it maintained a form of registration for a trademark license solely for purposes of transparency regarding certain details of the license. In particular, the registration put third parties on notice about the license; as well, it provided the licensee with right of suit under certain conditions.

Once the registered user provisions were abolished, the inevitable question was raised: What was to be the fate of the quality control requirement? Several alternatives were possible. First, U.K. law could have jettisoned quality control as a requirement, akin to the approach taken in other EU countries, where trademark licensing was compatible with the trademark jurisprudence, even in the absence of a quality control requirement.\textsuperscript{22} Second, it could have adopted an approach exemplified by the United States, which required proof of quality control in fact, even in the absence of any recordal of the license. Third, it could have sought to fashion a new jurisprudence

\textsuperscript{19} Regarding the law of passing off, see generally Christopher Wadlow, \textit{The Law of Passing Off: Unfair Competition by Misrepresentation} (4th ed. 2011).

\textsuperscript{20} For a discussion of these changes, see generally Wilkof & Burkitt, \textit{supra} note 4, ch. 4.

\textsuperscript{21} Thus, both Canada and Australia subsequently abolished their respective provisions regarding the recordal of a registered user; see Wilkof & Burkitt, \textit{supra} note 4, paras. 4-03 & 4-04.

regarding quality control based on an understanding of the current state of trademark licensing practice.

As set out in the *Scandecor* case, the third approach was apparently adopted.\(^{23}\) The tortuous facts of the case can be reduced to the question of what is the legal position of a bare trademark license that contains no quality control arrangements. The House of Lords (as it then was) ruled that the 1994 legislation had eliminated any need for the trademark to denote a connection between the trademark owner and licensee in the course of trade. Departing from the view expressed in *Bowden Wire* and its progeny, the Court was of the view that there is no inherent likelihood to deceive in such circumstance.

Accordingly, the formal basis for doing away with the classic quality control requirement as a surrogate for the source indication function was based on provisions of the new legislation (even though, as we have seen, the registered user arrangements had never really imposed a strict quality control-in-fact regime). In truth, what the Court did was create a new narrative for the factual underpinning of trademark licensing. This narrative is based on a reformulation of what is meant by “source” in the licensing context. This reformulation in turn derived from the view of the Lordships about the commercial reality of contemporary trademark licensing at the macro level, as well as the Lordships’ understanding of the micro-level behavior of consumers with respect to trademark licensing, on the one hand, and the relationship between the trademark licensor and licensee, on the other.

As for “source,” the Lordships reasoned that in a licensing situation, the “source” could be either the trademark owner/licensor or the licensee, depending upon the circumstances. As expressed by Lord Nichols, a trademark “denotes that goods bearing the mark come from one business source.” Crucially, “…the business source … is the person who is for the time entitled to use the mark, whether as proprietor or exclusive licensee.”

His Lordship’s observations on the “macro-view” of trademark licensing are encompassed in the following description:

The quality of goods on offer is at the heart of all trading activities. As long as trading has existed, buyers have sought information and assurance about the quality of the merchandise on display. The use of trade marks is an integral part of this activity. But the manner in which business

\(^{23}\) Scandecor Development AB v. Scandecor Marketing AB, [2001] E.T.M.R. 74. Some uncertainty has been expressed about the binding nature of the decision because it was referred to the European Court of Justice, but the parties reached settlement before the European Court of Justice rendered a decision on the matter. See Wilkof & Burkitt, *supra* note 4, paras. 6-70, for further discussion of this point.
activities are carried out is vastly different from what it was in the early 19th century when the law relating to trade marks was first developed. . . . Licensing has become commonplace. The law relating to trade marks has responded to these changing conditions.

Regarding the “micro-behavior of consumers” in connection with trademark licensing, his Lordship stated:

Customers are well used to the practice of licensing trade marks. When they see goods to which a mark has been affixed, they understand that the goods have been produced either by the owner of the mark or with his consent.

As for the “micro-behavior” of the licensor and licensee with respect to quality control, his Lordship observed:

For their quality assurance customers rely on the self-interest of the owner. They assume that if a license has been granted the owner can be expected to have chosen a suitable licensee and imposed suitable terms. . . . Customers are not to be taken to rely on the protection supposedly afforded by a legal requirement that the proprietor must always retain and exercise an inherently imprecise degree of control over the licensee’s activities.

It is interesting to note that his Lordship brings little empirical support for his macro-account of the historical role of quality control in nineteenth century trademark law. Equally, there was no evidence relied upon to support the assertion about the micro-behavior of either consumers or the licensor-licensee relationship. This absence of evidence to support these conclusions can be seen as not so different from the basis upon which the quality control notion was developed nearly a century before. In both cases, the law was refashioned to bring it into line with perceived, rather than empirically established, changes in commercial practice.

Moreover, the Lordships in their various opinions in the decision do not bring any substantial justification for their claim that changes in the manner in which trademark licensing is carried out warrants a concomitant change in the legal position on the meaning of “source.” The alleged increased frequency of trademark licensing in modern commerce is in itself no justification to modify the law. If the House of Lords wished to test the applicability of existing principles of trademark licensing law to evolving forms of commercial of a trademark by a third party, the better case would be a situation involving trademark merchandising.24 There, the licensor grants a license for goods outside the licensor’s core goods and will not likely exercise any quality control. But such was not the case before the Court.

24. See infra text at note 47 for a discussion about merchandising.
The ultimate question, however, is whether the Scandecor narrative for trademark licensing provides a more robust framework than does the legal arrangement in place since the creation of the registered user provisions in the 1938 enactment. This is especially so, because the approach taken in Scandecor has created its own form of legal half-way house, not sweeping away the old law but not fully embracing the existing law. Supporting this conclusion are the following points:

1. The licensee in a bare license may be recognized as the source of the goods during the term of the license. In the post-termination situation, however, if the ex-licensee continues to trade in the goods, albeit under a different name, consumers may connect the goods now being sold by the licensor with the licensee. The decision provides no solution to this problem.

2. The decision involved an exclusive license. If the license is “exclusive,” then under the decision the licensee may be recognized as the source of the goods, even if there are no quality control provisions in place.

3. With respect to a sole or non-exclusive license, it would seem that the Scandecor approach is not apt, because the result could be multiple sources for the goods during the pendency of the license. Instead, quality control in fact, resting on the traditional view that the licensor is the source of the goods, seems to be the appropriate test.

In light of the foregoing, the narrative for trademark licensing articulated by the Scandecor court can be summarized as follows. The previous approach to the legal regulation of trademark licensing, namely recordal of the license serving as presumptive evidence of quality control, together with the need to prove quality control in the absence of recordal, has been replaced by a judicially focused arrangement that has deemphasized the role of quality control. In the new regime, there may be more than one test for determining the source of the goods (and ultimately the validity of the trademark license), depending upon what kind of license is involved. As such, the Scandecor narrative cannot be said to have completely replaced the “quality control-focused” narrative previously in place.

**B. Continuity in the United States**

Until the enactment of the Lanham Act in 1946, U.S. statutory law was silent on the issue of trademark licensing. To the contrary, despite the traditional resistance to trademark licensing as inimical to the source theory of trademarks, case law had given some support for the validity of a trademark license, if the court was convinced that there was sufficient evidence of quality control.
Several categories of such licensed arrangements were approved by the courts, including: (i) control by the licensor of the main ingredients of further manufacture; (ii) formula control; (iii) licensed manufacture of patented goods sold under a trademark; and (iv) control by share ownership, including by a holding company.\(^{25}\)

The Lanham Act did not \textit{in haec verba} authorize the practice of trademark licensing, nor did it provide for any recordal of a trademark license. In that respect, it departed fundamentally from the approach that had been taken in the United Kingdom nearly a decade previously in enacting the registered user provisions in 1938. In fact, the Lanham Act did not even include any direct reference to trademark licensing. Instead, it created the notion of the “related company.” Use by a related company was defined in the Act (as amended in 1988 to add the final sentence to the definition) as follows:

Where a registered mark or a mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such manner as to deceive the public. If first use of a mark by a person is controlled by the registrant or applicant for registration of the mark with respect to the nature and quality of the goods or services, such first use shall inure to the benefit of the registrant or applicant, as the case may be.\(^{26}\)

A “related company” was defined as “any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used.”\(^{27}\)

The upshot of these provisions is that quality control, in fact, would serve as the linchpin for valid trademark licensing. This meant that quality control was, at the end of the day, a matter of proof based on actual use of the mark by the parties to the license. The emphasis on establishing quality control by virtue of use was consistent with the basic principle under U.S. trademark law that rights are created by use and not by registration. By contrast, as seen, the registered user requirements in the United Kingdom

\(^{25}\) Wilkof & Burkitt, \textit{supra} note 4, paras. 5-05–5-12.

\(^{26}\) 15 U.S.C. 1051 \textit{et seq.} (as amended). The term “legitimately” was added to allay the fears of the Justice Department, which had been hostile to protecting trademarks and trademark licensing. Their concern was that, in the absence of “legitimate use,” trademark licensing could be used “as colorable legal sanctions for contracts directed toward price control, against the production of competitive products, for allocation of markets, division of user and fixing of channels of distribution.” See Wilkof & Burkitt, \textit{supra} note 4, para. 5-15.

could be understood against the backdrop of the more registration-based focus of its trademark system.

However, there was no indication what indicia of quality control were required under the U.S. approach. Accordingly, the courts were called upon to provide guidance on how to determine whether the quality control requirement had been met. The trademark licensing narrative in the United States would, therefore, in large measure, be determined by the metes and bounds set in judicial pronouncements on this issue. The broad contours of the scope of the quality control requirements were particularly set out in two seminal cases.

In the *Du Pont* decision, the court ruled on an action for cancellation (technically under the previous trademark act) based on a claim that there had been inadequate quality control.\(^{28}\) Having regard to both the decision at first instance and the decision on appeal, the courts collectively refused to embrace a narrow interpretation of what constitutes valid trademark licensing. In particular, the courts rejected the claim that ambiguities in the license agreement with respect to quality control and source should be construed against the licensor. Emphasis was also made that since a cancellation would result in a forfeiture of the licensor’s trademark rights, the grounds for cancellation had to be scrutinized especially carefully. In the *Dawn Donut* decision, the court affirmed the principle that the license had to contain provisions that pointed to the obligations of the licensor to take reasonable efforts to exercise quality control over the licensee's use of the mark to prevent deceptive use.\(^{29}\) In the absence of such control, use of the mark by the licensee would amount to a naked license that would result in abandonment of the owner's rights in the mark.

Since the enactment of the Lanham Act and these early judicial pronouncements thereafter, various courts have been called upon to decide whether or not the quality control requirements have been met. No exhaustive set of factors have been judicially recognized to determine this question. In particular, the claim is made that the terms “control,” “quality,” and “source” lack any consistent meaning. As a result, some commentators have expressed the view that the quality control requirement is flawed or should even be jettisoned.\(^{30}\) Stated otherwise, the criticism focuses on the operability of the quality control rule, on the one hand, and its applicability in light of changing commercial circumstances, on the other. These are competing narratives about the future of quality control.

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If the quality control rule is no longer applicable, then it does not matter whether or not the test is operable; it should be discarded in any event. But the rule cannot be eliminated without having regard to altering trademark doctrine more broadly. As discussed above, the quality control rule itself was the result of the challenges posed by changes in the commercial use of trademarks by third parties and the perceived limitations on trademark law in accommodating those changes. Quality control provided a legal solution by means of a judge-made (at least at the outset) change to the trademark law. The open questions raised by the Scandecor decision point out how difficult it is to create a new narrative for trademark licensing by minimizing, or even eliminating, the quality control requirement, while still seeking to maintain the framework of classic trademark law.

If, however, the quality control rule itself is valid, then the problem is less the formulation of a new narrative and more the question of how to create a framework that yields more reliable and thus predictable judicial results. Difficulty in implementing a judicial rule, however, is not of and in itself a sufficient basis to change or even abandon it. If that were the case, legal principles such as the “rule of reason,” in U.S. antitrust law, or “likelihood of confusion,” under trademark law itself, might also be ready candidates for change, if not elimination. Here, what is required is perhaps a change in the contours of the rule to make it more effective without discarding it in its entirety.

IV. OTHER THIRD-PARTY USES: A FURTHER BLURRING OF THE TRADEMARK LICENSING NARRATIVE

An additional constraint on the development of a consistent and coherent narrative about trademark licensing is that the boundaries that separate it from other forms of third party uses of a trademark are far from clear. As commerce has evolved, trademarks have been used by third parties in connection with goods and services in a variety of ways that are not typically understood as constituting licensed use.

31. See supra Parts II.A. and II.B.

32. The “rule of reason” is a basic principle of U.S. antitrust law. It has been described as follows: “running throughout the history of antitrust law are two contrapunctual themes: a prohibition of restraint of trade and a principle lately called the ‘rule of reason’. . . [A]s the common law developed, the courts came to recognize the validity of agreements which were ancillary to the sale or transfer of a trade or business and which were limited so as to impose a restriction no greater than reasonably necessary to protect the purchaser’s interest.” Lee Loevinger, The Rule of Reason in Antitrust Law, Va. L. Rev. 23 (1964). As with the question of likelihood of confusion in trademark law, the question has always been to what extent that the application of this rule yields judicially reliable results.
A trademark license is the grant by the owner of a trademark to a third party for the use of the owner’s mark on specified goods or services, usually in consideration for the payment of a royalty. Under the license, the third-party user is authorized: (i) to make, or cause to make the goods or to provide the services; (ii) to affix the mark on the goods or services; and (iii) to sell, distribute or otherwise provide the goods or services so marked to the public. A trademark license is therefore distinguishable from other forms of consensual use of a trademark by a third party. While all trademark licenses rest on consent, explicit or implied, not every form of consensual third-party use of a trademark is a license. The upshot is that there exists a variety of circumstances where a trademark may be legitimately used by a third party yet not be subject to the jurisprudence of trademark licensing.

Because of this variety of authorized third-party uses of a trademark, there is a blurring between the boundaries of trademark licensing and other forms of third-party use that makes it more difficult to develop a durable and conceptually reliable narrative for trademark licensing. At the level of practice, the result is that the agreement governing such non-licensing relationships may nevertheless be characterized, in whole or in part, in terms of a trademark license, replete with provisions regarding quality control and attribution of use by the third party in favor of the trademark owner. The most notable forms of non-licensed, third-party use of trademarks are (i) distribution, (ii) contract manufacture, (iii) certification mark, (iv) sponsorship, and (v) endorsement. Each of them is briefly considered below.

A. Distributor

The most widespread instance of non-licensed use of a trademark is by a distributor. The standard notion of a distributor is a person who buys and sells a product on his own account. In such a circumstance, the distributor will receive the goods for sale whereon the trademark is already affixed. In contrast with a licensor, the distributor neither is responsible for the manufacturing of the goods nor for the affixing of the mark on the goods. All the distributor does with respect to the goods bearing the trademark is to distribute them. Accordingly, there is

33. In a consent agreement, one party agrees (or the parties mutually agree) to the use of the other’s respective mark (or there is a mutual agreement), rather than an arrangement whereby one person grants to the other party rights of use with respect to the first person’s mark.

34. Whether or not such characterization of the relationship as a licensor-licensee will lead to legal tomfoolery will ultimately depend upon the circumstances. Irrespective of that, misapplication of the licensing framework makes it much more difficult to construct a coherent narrative about trademark licensing.

35. See Wilkof & Burkitt, supra note 4, ch. 7.
no use of the trademark by the distributor. The use of the mark is effectively by the trademark owner. As such, no issue of quality control with respect to preserving the source function of trademarks arises.

This is not to say that a distribution agreement will not address matters connected with the manufacturer's trademark. To the contrary, there may well be a number of provisions in the agreement that will govern use of the mark by the distributor in advertising, promotion, packaging, and the like.\(^{36}\) In particular, use of a trademark in advertising may serve to strengthen the “identity and hold upon the public mind of the mark or name.”\(^{37}\) But such use does not directly implicate either the source or quality functions of a trademark.

**B. Contract Manufacturer**

The distributor can be seen as representing the end of the manufacture and distribution cycle, whereby the products bearing the trademark are being sold to retailers for further sale to customers. By contrast, a contract manufacturer represents the front-end of the cycle, namely the manufacture of the products in accordance with the specifications or other guidance of the trademark owner. As part of carrying out the contract manufacturer function, the person may be instructed to affix the mark to the goods.

However, in so doing, the contract manufacturer is not making a licensed use of the trademark.\(^{38}\) The reason is that the contract manufacturer does not go on to distribute or otherwise sell the goods on its own account. Rather, it will either dispatch the goods to the trademark owner, or forward it to a third party in accordance with the instructions of the trademark owner. Ironically, perhaps, the use of the trademark by the contract manufacturer may result in a higher degree of quality control than that exercised by the typical licensee, because the trademark owner may likely be directly responsible for any missteps by the manufacturer in that regard. However, since the manufacturer is not distributing or selling the products bearing the mark, no issue arises whereby the ultimate consumer will need to make a connection between the activities of the contract manufacturer and the trademark and its owner.

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36. Wilkof & Burkitt, *supra* note 4, ch. 7, especially paras. 7-58 to 7-59.
38. Wilkof & Burkitt, *supra* note 4, paras. 8-1 to 8-20.
C. Certification Mark

A certification mark is used by a third party on its products to indicate that the goods have been certified by the owner with respect to material, method of manufacturer, geographic provenance, quality, or other such characteristics. The party authorized to place the certification mark on its product (presumably alongside its own trademark, identifying such person as the source of the certified goods) will usually be engaged in the sale or distribution of the goods bearing the mark. However, the certification mark itself does not serve any source indication function. In fact, in most jurisdictions, the owner of the certification mark is not permitted to engage in the areas in which it is providing certification. Thus, while a form of quality control lies at the heart of the certification mark process, quality control in these circumstances does not serve the source identification function.

D. Sponsorship

In a sponsorship situation, the owner of a mark provides a benefit to a third party in exchange for which the third party agrees to promote the mark. The activity of the third party may, or may not, be related to the goods or services of the registered mark. For example, in the first situation, a company in the equipment business may choose to support a local art gallery, in exchange for the prominent display of its house mark at the site. In the second situation, a golf equipment company may become a sponsor of a local golf tournament. In both situations, the sponsor wishes to take advantage of the presumed positive image enjoyed by the third party.

A sponsor may wish to exercise some control over the use of its name by the third party that is being sponsored. However, even in the second situation described above, there is no direct connection between the goods or services being sponsored and the goods or services of the sponsor. The golf equipment company does not operate the golf course, and the golf course does not manufacture.

40. A notable recent exception in this regard is Australia. In nearly all other jurisdictions, if the certifying party is in fact engaged in the goods or services that are being certified, the certification mark will not apply and the party engaged in the “certification” will have to grant the right to use its mark in accordance with the principles of trademark licensing law.
41. Wilkof & Burkitt, supra note 4, ch. 8, paras. 8-22 to 8-35.
42. The reverse can also take place. For instance, after Enron encountered its well-documented difficulties, its name was removed from the baseball stadium in Houston, Texas. See, e.g., “Enron No More,” http://www.baseballparks.com/EnronNoMore.asp.
golf equipment. There is nothing in the sponsorship relationship that serves the source function of the sponsoring trademark.43

**E. Endorsement**

A more nuanced situation is that of the endorsement. This can be viewed as the obverse of a sponsorship relationship in the sense that the party who is providing the endorsement is typically paid by a third party to lend the endorser's name to a product or service of the third party. The endorsing party may or may not be directly connected to the goods or services that she is endorsing. Whether or not the endorsee has a direct connection with the goods or services, no direct trademark matter is at issue. While the endorsing party may well have an interest in the quality of the goods or services that she is endorsing, it is the personality of the endorser that is paramount and the relevant law will be found in the area of the law of privacy or personality.44

There exists the possibility that the name of the endorser is also registered as a trademark. If so, like any other trademark, the registration will specify the goods or services that are covered. In this circumstance, the name no longer serves the promotional function but rather it functions as a trademark, and the party is no longer an endorser but a licensor. As such, the party (or the person owning the trademark) will be subject to the provisions of trademark licensing law.

The foregoing discussion serves to underscore the variety of circumstances in which a third party may use a trademark in an authorized but non-licensed manner. In some of these circumstances, a concern for quality control may be present; the third party may be permitted to affix the mark to the goods; the third party may either manufacture or sell the goods bearing the mark. But in none of these circumstances does the third-party user carry out all of these activities. Accordingly, the narrative applicable to trademark licensing does not directly apply to any of them. As a result, these various types of third-party use of a trademark have the cumulative effect of blurring the legal boundaries between them and trademark licensing. At the operational level, this blurring creates uncertainty about the extent to which the trademark licensing narrative will apply to a given situation.

43. See, e.g., Wilkof & Burkitt, supra note 4, para. 2-37.

44. Regarding the law of privacy and personality, see J. Thomas McCarthy, The Rights of Publicity & Privacy (2011 ed.).
V. THE FUTURE FORM OF THE TRADEMARK LICENSING NARRATIVE

Let us begin with a proposed three-tier typology for the current state of trademark licensing: 45

1. Licensing for core and closely related products—This is traditional context for trademark licensing, with a focus on protecting the mark as the source of the goods, providing for quality control and allowing for abandonment of the licensor’s rights in the mark in the event of naked licensing. 46

2. Licensing extensions to far removed products or unrelated to core activities—Proper selection of the product extensions themselves may be no less important than quality control, both as a legal requirement and commercial concern. The use of the mark in an advertising function may be no less or even more important than the role of the mark as an indication of source.

3. Merchandising the trademark itself—The mark borders on being a right en gros, that is, the right is in the mark itself rather than the link between the mark and the source of the goods identified by the mark. If luxury goods are involved, commercial quality control and proper selection of goods for the mark will both be central, hence the risk of abandonment based on inadequate legal quality control is acute. If the goods are not luxury products and it is anticipated that there will be a short life span for the particular product being merchandised, legal quality control, and risk of abandonment may be of secondary concern. 47 In light of this typology, the current trademark licensing narrative centers on a challenge to the very validity of quality control. As seen above, in the United Kingdom, this challenge received partial judicial approval by the House of Lords (as it then was) in the Scandecor decision. 48 In the United States, the focus has been on scholarly commentary calling quality control in question. This commentary is of two kinds.

One view holds that the quality control requirement is an anachronism that serves no real purpose and should be scrapped.


46. The difference between licensing extensions and merchandising is far from clear. Consider the article “Dumbledore and Dumber” (Bloomberg Businessweek, July 19, 2011), which describes “a legacy of ingenious brand extensions,” all bearing the HARRY POTTER brand. These so-called extensions include hand soap, cupcake kit, and pocket watches. See also infra, note 55, for description of what constitutes merchandising.

47. Merchandising has been described as “a kind of hybrid between product configuration and word-based trademark infringement claims: They generally involve protected marks, but the marks are more product features than brands.” Stacy L. Dogan & Mark A. Lemley, The Merchandising Right: Fragile Theory or Fait Accompli, 54 Emory L.J. 461, 472 (2005).

48. See supra Part III.A.
This position has been described thusly: “Eliminating the quality control requirement is tantamount to acknowledging that the requirement is fulfilled by any license, regardless of the substance (or even presence) of any quality control provisions. What we have concluded is that as long as a demonstrable license is in place as a matter of fact, the source and quality functions of the licensed mark are satisfied as a matter of law.” Under this view, as long as the trademark owner has granted a license for the use of its trademark, no further inquiry need be made regarding whether or not the license contains quality provisions. As such, a “naked” license, that is, a license with no quality control provisions between the licensor and licensee, is no less valid than any other licensed arrangement, provided that there exists a valid license. The emphasis here is on the fact that the licensor has consented to the use of its mark.

A variation of this approach focuses not on consensual use of the trademark per se, but rather on whether the trademark license is likely to cause consumer deception. Arguing that the current requirement for quality control is formalistic and confusing, and that it has been unevenly and erratically applied by both parties to license agreements as well as by the courts, Calboli proposes that the following two principles: (i) whether the trademark license is with or without quality control; and (ii) whether consumers are misled or deceived by virtue of a given trademark licensing arrangement.

Calboli’s starting point is that trademark licensing has changed in ways in which quality control is less relevant or simply irrelevant. In particular, Calboli focuses on “promotional” licensing or “trademark merchandising,” which seeks to capitalize on the value of the mark more as an asset on its own rather than an indication of the source of the goods. Thus, a trademark may be licensed for a variety of goods far removed from the trademark owner’s principal activities. The trademark owner may not even engage in the trading of any core goods and its primary activity is simply to enable third parties to manufacture and sell a wide variety of products under the licensed trademark. As such, the consumer may well have no concern about whether quality control is present. What the consumer is concerned about is whether or

49. Parks, supra note 13, at 531.

50. This emphasis on consent is consistent with the approach taken under the TRIPS Agreement with respect to trademark licensing. Article 21 provides that “Members may determine conditions on the licensing and assignment of trademarks,” leaving the issue of the legal status, if any, of quality control to the laws of the individual Member States.

51. Calboli, supra note 13, at 396 et seq.

52. The seminal article on promotional licensing is W.J. Keating, Promotional Trademark Licensing: A Concept Whose Time Has Come, 89 Dick. L. Rev. 363 (1985). For a more recent analysis, see Dogan & Lemley, supra note 47.
not the product is counterfeit and whether he is not otherwise being deceived.\(^{53}\)

While the emphasis is on the position of quality control in the context of merchandising, the end result is to cast doubt on the applicability of quality control for all forms of trademark licensing. To use a metaphor, merchandising becomes the tail that wags the licensing dog; no matter what type of trademark licensing is involved, the quality control provisions are simply inappropriate.\(^{54}\)

On the one hand, it could be argued that this is not a new phenomenon. Something similar took place in the last century in the development of the notion of the quality function in trademarks and the concomitant recognition of quality control in trademark licensing. The role of trademark licensing then is equivalent to that of trademark merchandising today; both have served to push to boundaries of trademark licensing law. On the other hand, it can be claimed that quality control went hand-in-hand with the source theory of trademarks, while the current proposal to jettison the requirement of quality control emanates from the fringes of trademark practice, where the source theory is of dubious validity. The narrative continues to develop.

VI. CONCLUSION

Like other forms of licensing of intellectual property rights, trademark licensing can be approached as a set of commercial arrangements by which one side grants to the other the right to use its trademarks in exchange for the payment of a royalty and other commitments.\(^{55}\) To do so, however, is to ignore the unique underlying characteristics of trademark licensing as they derive from fundamental principles of trademark law. The law of trademark licensing has been the result of an ongoing narrative reaching back several hundred years. At each stage of the narrative, changing commercial forces have challenged the existing legal arrangement for trademark licensing. The law

\(^{53}\) Calboli has proposed the approach to be taken as follows: “[T]he most sensible solution to address the divide that continues to characterize the merchandising debate is to explicitly recognize merchandising rights when marks are used on promotional products by trademark owners or licensees to identify the products’ source, as well as the products’ sponsorship or affiliation, and to distinguish these products from similar goods [footnote omitted].” Calboli, The Case for a Limited Protection of Trademark Merchandising, U. Ill. L. Rev. 865, 905 (2011).

\(^{54}\) As stated by Dogan and Lemley regarding the applicability of the likelihood of confusion test for merchandising, they would “. . . put courts to the task of determining whether, under the circumstances, a particular use was in fact likely to confuse consumers as to source or sponsorship,” supra note 47, at 506. As such, it appears that their concern is with refuting the existence of a separate “merchandising right,” not with the applicability of quality control.

\(^{55}\) See Wilkof & Burkitt, supra note 4, especially chapters 10 through 12 and 17, for a discussion of the various commercial aspects of trademark licensing.
continues to develop, in response to changes in the manner in which trademarks are used to distribute goods and services through third parties.

At this point in time, the narrative is once again facing challenges to the coherence of the legal story line. In countries from the common law tradition, the central issues can be seen as the durability of the quality control requirement and the place of merchandising within the existing jurisprudential framework. As a parting thought, consider trademark licensing in terms of the image of the Biblical mound (in Hebrew, “tel”), whereby the current state of trademark licensing is the result of multiple legal layers that have been developed over the course of time. As such, the question is whether it is possible to add more layers to adequately house the variety of circumstances in which trademarks are used by third parties, or whether new structures are necessary. The outcome to that question will determine the form of the trademark licensing narrative going forward.

56. A tell or tel (from Hebrew: תֵּל [also “tel” or “tell”), from Arabic: tall) is a type of archaeological mound created by human occupation and abandonment of a geographical site over many centuries. A classic tel looks like a low, truncated cone with a flat top and sloping sides.” Wikipedia, footnotes omitted.