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I. Introduction

In two cases of first impression, *In re Borden, Inc.* [1] and *FTC v. Formica Corp.*, [2] the Federal Trade Commission (FTC) asserted that it has the authority to order the novel remedies of compulsory trademark licensing[3] and trademark cancellation. While the FTC has broad statutory authority to proscribe acts of "unfair competition,"[4] this article suggests that compulsory trademark licensing represents an unwarranted extension of the power of the FTC.[5] In addition, arguments typically offered to justify use of this remedy rest on misconceptions concerning the nature and origin of trademark rights.[6] Further, the enforcement of antitrust policy with this severe form of trademark relief undermines the established policy of vigorous enforcement of trademark rights as a means of preventing consumer confusion.[7]

II. *In re* Borden, Inc.

The remedy of compulsory trademark licensing was first considered in proceedings by the FTC against Borden for unlawfully main-

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1. 92 F.T.C. 669 (1978).
2. United States Patent & Trademark Office, Trademark Cancellation no. 11,955. A related decision on a procedural matter in this case is reported in Formica Corp. v. Lefkovitz, 200 U.S.P.Q. 641 (1979).
3. 92 F.T.C. at 774-75.
4. 15 U.S.C. § 45(a)(1) (1976) (amending the Clayton Act, 15 U.S.C. §§ 12-27 (1976)).
5. It is not the author's position, however, that the FTC does not possess de facto authority to fashion and apply new remedies. This article suggests, rather, that compulsory trademark licensing will have an adverse effect on the consuming public, and that the doctrinal foundations offered by the FTC for this new remedy are inadequate. *See* notes 33-36 and accompanying text *infra*.
6. *See* notes 33-36 and accompanying text *infra*.
7. *See* notes 37-40 and accompanying text *infra*.

taining monopoly power in the market for reconstituted lemon juice:[8] In the initial hearing, the administrative law judge found that a policy of discriminatory pricing and promotional allowances in areas threatened by competition[9] enabled Borden to gain overwhelming dominance in thc market for processed lemon juice.[10] The judge found that the basis, however, of Borden's competitive advantage was the use of its "Realemon" trademark.[11]

Finding that Borden had unlawfully maintained its dominant position, the judge ordered Borden to cease and desist from granting discriminatory price reductions, promotional allowances and rebates in restraint of competition.[12] The most controversial aspect of the order, however, was a provision compelling Borden to license its "Realemon" trademark at a nominal royalty to any competitor requesting a license for a period of ten years.[13]

On appeal, the full FTC affirmed, in a large part, the decision of the administrative law judge.[14] The majority of the FTC, however, considered the remedy of compulsory trademark licensing unnecessary,[15] although they gratuitously held that they had authority to order that form of relief.[16] Had the FTC affirmed the trademark relief ordered by the hearing judge, Borden could have appealed that aspect of the order directly to the United States Court of Appeals.[17]

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8. *In re* Borden Inc., 92 F.T.C. at 672-74. Reconstituted lemon juice is made from fresh lemons that are reduced to a concentrate and then diluted with water to the desired strength. A preservative is also added. It is a highly convenient, inexpensive source of lemon flavoring, having a long shelf life.

9. *Id.* at 691.

10. *Id.* at 789. Specifically, the administrative law judge found that Borden had consistently possessed a market share of 75-80% during the years under investigation. In addition to this large market share, Borden was able to sell its "Realemon" lemon juice at a premium of 30% over competitive products even though "Realemon" and competing products were virtually identical. *Id.* at 745.

11. *Id.* at 775-78. The notion adopted by the FTC that a trademark *itself* may be the basis of monopoly power has been severely criticized. *See* McCarthy, *Compulsory Licensing of a Trademark: Remedy or Penalty?*, 67 TRADEMARK RPTR. 197 (1976). Professor McCarthy contends that a trademark is a mere symbol that is often blamed for monopoly power by those who fail to engage in "a demanding investigation of the true source of power." *Id.* at 207.

12. *In re* Borden Inc., 92 F.T.C. 669, 778 (1978).

13. *Id.* The administrative law judge allowed Borden a nominal royalty of 0.5% of the dollar sales of reconstituted lemon juice produced and marketed under the trademark.

14. *Id.* at 832. The final order required that Borden cease and desist from (1) granting price reductions that hinder competition; (2) selling below cost or at unreasonably low prices; (3) granting promotional allowances that hinder competition. The FTC further maintained continuing jurisdiction for a ten year period to monitor compliance. *Id.* at 832-33.

15. *Id.* at 779.

16. "*While an order requiring licensing or suspension may be ordered* as a means of dissipating illegally used or acquired monopoly power, we are mindful that the remedy is a severe one, and should be imposed only where less drastic means appear unlikely to suffice. . . ." *Id.* at 807 (emphasis added).

In support of this assumed authority, however, the FTC cited cases in which trademarks were found to be deceptive or misleading.

17. Any person . . . or corporation required by an order of the Commission to cease and desist from using any method of competition or act or practice may obtain a review of such order in the court of appeals of the United States, within any circuit where the method of competition or the act or practice in question was used. . . .

The holding of the FTC, that they had authority to order compulsory trademark licensing and their refusal to exercise that power, left Borden without standing to appeal. Consequently, the decision effectively created self-serving jurisdiction, without the danger of appellate review.[18]

Assuming the administrative law judge's findings, adopted by the FTC, that reconstituted lemon juice forms a relevant market;[19] that Borden's acquired and unlawfully maintained monopoly power in that market;[20] and that the FTC has the power to fashion a remedy to correct abuses resulting from unlawful acts;[21] the question arises as to whether or not the FTC has the authority to order compulsory trademark licensing as part of a remedy.

It is difficult to trace the holding of the FTC on the issue of its authority to grant a compulsory trademark license. The opinion began by stating that an appropriate order without compulsory trademark licensing should be satisfactory and therefore it was "unnecessary to reach the question of trademark relief."[22] In a footnote, however, the opinion concluded, "Should we be wrong in our assessment of the evidence, of course, it remains open for the Commission to reopen the record to consider entry of the sort of trademark relief that presently appears unnecessary."[23]

An argument for the authority of the FTC to order compulsory trademark licensing is found in the separate opinion of Commissioner Pertschuk on the issue of relief.[24] Commissioner Pertschuk agreed with the majority, but further indicated that he would advocate some form of trademark relief such as compulsory trademark licensing. Such relief, however, is clearly not ideal. If instituted,

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> Upon the filing of the record with it, the jurisdiction of the court of appeals of the United States to affirm, enforce, modify, or set aside orders of the Commission shall be exclusive.

15 U.S.C. § 45(c)-(d) (1976).

18. Undoubtedly, the FTC, the Justice Department, or defendants in trademark infringement cases will cite *In re Borden* in support of the proposition that compulsory trademark licensing is a suitable remedy to promote competition. An opportunity to test the FTC authority to compel trademark licensing presents itself in a recent antitrust suit against three cereal manufacturers: Kellogg; General Mills; and General Foods. *See In re* Kellogg Co., Docket No. 8883 (F.T.C. Sept. 30, 1980), *reported in,* ANTITRUST & TRADE REG. REP. (BNA) No. 983, A6 (Oct. 2, 1980). While the ruling is mere obiter dicta, over a period of time this type of decision assumes a mantle of authority to the degree that it eventually becomes unclear what is obiter and what is dicta.

19. *In re* Borden Inc., 92 F.T.C. 669, 784 (1978).

20. *Id.* at 792.

21. *Id.* at 806.

22. *Id.* at 779. The FTC stated that a suitable order could be formed without requiring compulsory trademark licensing. Commissioner Pertschuk dissented on this issue in a separate opinion. *Id.* at 809.

23. *Id.* at 809.

24. *Id.* Commissioner Pertschuk cited a book review by Professor Scherer, Scherer, *The Posrerian Harvest: Separating Wheat From Chaff,* 86 YALE L.J. 974 (1977), as his authority. It is questionable whether a book review should be raised to the dignity of controlling authority to justify such a serious remedy.

there would be risks of weakened quality control, additional inspection costs, loss of scale economies, and added information-processing burdens on consumers.[25] Instituting a form of trademark relief that entails such risks is better left to congressional rather than FTC decision.[26]

The strongest argument in favor of the authority of the FTC to grant compulsory trademark licensing is found by an analogy to compulsory patent licensing.[27] Compulsory patent licensing has become a well accepted remedy in cases in which a patent was instrumental in effecting an illegal act.[28] Although no statutory authority exists for such a remedy, it has grown gradually from consent decrees.[29] Assuming that such relief is proper in patent cases, it does not follow that it is also appropriate in trademark cases. The patent grant gives the owner the exclusive right to preclude others from practicing the invention, for the life of the patent.[30] Such a grant is created by the government and given to the inventor in exchange for disclosure of the technological innovation.[31] This concept, which did not exist at common-law, is purely statutory. The government, having created the rights, has authority to determine their extent as well as the conditions under which they may be restricted or extinguished.[32]

Trademark rights, however, are not created by the government. They are created by the trademark owner through the marketing of trademarked goods or services. The trademark results from the commercial interplay between the trademark owner and its customers.[33] The government can only restrict or extinguish it to the extent that it has specific authority to exercise jurisdiction over personal property.[34] Confusion frequently arises in distinguishing between the concepts of trademark rights and trademark registration. Registra-

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25. Although Professor Scherer recognized these risks, he dismissed them as, "in (his) judgment, slight." Scherer, *supra* note 24, at 999.

26. An amicus brief filed in the *Borden* case on behalf of the United States Trademark Association raises an additional problem. The brief points to an increasing trend toward holding trademark licensors responsible for product liability resulting from the use of the licensee products. 69 TRADEMARK RPTR. 265, 271 (1978).

27. *In re* Borden, Inc., 92 F.T.C. at 810.

28. *See, e.g.,* United States v. National Lead Co., 332 U.S. 319 (1947); American Cyanamid Co., 63 F.T.C. 1747 (1963), *vacated and remanded on other grounds,* 363 F.2d 757 (6th Cir. 1966). Patent licensing has also been used as a remedy to dissipate monopoly power when the patent was not implicated in the antitrust violation. *See* United States v. United Shoe Mach. Corp., 110 F. Supp. 295, 351 (D. Mass. 1953), *aff'd per curiam,* 347 U.S. 521 (1954).

29. *See generally* 15 U.S.C. §§ 251-93 (1976). Mention of this specific remedy is conspicuously absent.

30. 35 U.S.C. § 271 (1976).

31. U.S. Const. art. I, § 8.

32. The government's authority is limited only in cases in which the restrictions are discriminatory, arbitrary or capricious.

33. *See* S. OPPENHEIM & G. WESTON, UNFAIR TRADE PRACTICES AND CONSUMER PROTECTION 51 (3d ed. 1974).

34. U.S. CONST. amend. V.

tion is a government created instrument that merely records the trademark owner's title to the trademark. The registration does not create any rights, it merely acknowledges and records them. The government could conceivably withdraw a trademark registration under proper conditions.[35] Such a withdrawal, however, would not affect the trademark owner's rights in the mark since such rights exist independently of the registration.[36]

Compulsory trademark licensing is subject to the constitutional provisions that forbid the governmental taking of property without due process of law.[37] Commissioner Pertschuk's opinion cites *Standard Oil Co. v. United States*[38] for the proposition that divestiture of stock or physical assets is a common form of antitrust relief.[39] *Standard Oil,* however, is limited to situations in which the personal property was wrongfully acquired in an arrangement that constituted an antitrust violation.[40] When an illegal merger occurs, a divestiture of the assets of the merger is an obvious remedy. This does not, however, justify the generalization that the FTC can deprive a trademark owner of personal property rights merely because it has concluded that the owner has a dominant share of a relevant market.

The FTC also cited *United States v. General Electric Co.*[41] as further support for its position. *General Electric* concerned an attempt by the government to cancel the General Electric trademark "Mazda" since it was being shared with Westinghouse. The thrust of the government's argument was that "a trademark cannot serve two masters and since it was employed by General Electric and Westinghouse, its use was an imposition on the public."[42] It is difficult to reconcile *General Electric* and *Borden* since a much greater imposition on the public would occur if the FTC required a trademark owner to license all competitors.

The Supreme Court cases relied upon by the FTC to support its authority to order compulsory trademark licensing are even less helpful to the FTC position. In *Siegel v. FTC*[43] respondent Siegel

35. 15 U.S.C. § 1064 (1976).

36. Chairman Pertschuk apparently does not understand this distinction since he refers to a trademark as a "creature of the law." *In re* Borden Inc., 92 F.T.C. at 811-12 n.2.

A dramatic illustration of the FTC's authority would be to assume that Borden had decided not to register the trademark "Realemon." Borden would still have the same substantive rights and could prevent others from using a similar mark on similar goods. It would merely give up certain procedural rights that simplify proof in a trademark litigation proceeding. 15 U.S.C. § 11-15 (1976). It is difficult to see how the FTC could order compulsory licensing of the common-law trademark, which is private personal property.

37. U.S. CONST. amend. V.

38. 221 U.S. 1 (1911).

39. *In re* Borden Inc., 92 F.T.C. at 810 n.1.

40. 221 U.S. at 77-82.

41. 115 F. Supp. 835 (D.N.J. 1953).

42. *Id.* at 858-59.

43. 327 U.S. 608 (1946).

marketed overcoats under the trademark "ALPACUNA." The products sold by Siegel were comprised of various materials including alpaca, mohair, wool and cotton, but not vicuna. The FTC took the position that the trademark implied that vicuna was one of the materials and that customers would be deceived by the use of the trademark. The Supreme Court held that instead of denying Siegel its trademark, justice could be equally served by requiring Siegel to employ qualifying language to inform purchasers that vicuna was not one of the materials included.[44] Furthermore, the Supreme Court emphasized the personal property attributes of trademarks and the inadvisability of depriving trademark holders of a valuable asset without regard for due process of law.[45]

Chairman Pertschuk's separate opinion[46] on the issue of relief adopts the rationale of the initial opinion of the administrative law judge, but suggests that stronger measures are necessary to end Borden's "unlawful monopoly."[47] The rationale is that since the trademark is the offending vehicle, the remedy should include relief that controls or limits Borden's use of the trademark. As an alternative to compulsory trademark licensing, Chairman Pertschuk suggests that the FTC could enjoin Borden's use of the trademark for a fixed period of time.[48] Such an injunction would eliminate the difficulties of quality control and reasonableness of royalty charges inherent in trademark licensing.[49]

Commissioner Clanton concurred in the initial opinion of the administrative law judge, but added that he would formulate relief based upon an order prohibiting Borden from selling below its average variable cost.[50] This cost would include advertising and promotional expenditures as well as administrative overhead.[51] Such items would produce a costing determination that would permit other manufacturers to compete on the basis of price. Commissioner

44. *Id.* at 610.

45. *Id.* at 612-14. Another Supreme Court case cited by the FTC was essentially to the same effect. In FTC v. Royal Milling, 288 U.S. 212 (1932), respondents were "blenders" of grain rather than "millers." The FTC felt that this was a significant distinction and that the trade name "Royal *Milling*" misled the public. Again the Supreme Court refused to institute the relief of precluding respondent from using the trade name when the use of qualifying language would be equally satisfactory. *Id.*

46. *In re* Borden Inc., 92 F.T.C. at 809.

47. *Id.*

48. *Id.* at 812. The Chairman suggests that such action would not be "confiscatory" without citing any authority or explaining his reasoning. *Id.* Ironically, however, the cases later cited by the Chairman to support compulsory trademark licensing indicate that the remedy *is* somewhat confiscatory. *See* Jacob Siegel Co. v. FTC, 327 U.S. 608 (1946); FTC v. Royal Milling Co., 288 U.S. 212 (1933).

49. *In re* Borden Inc., 92 F.T.C. at 812. Chairman Pertschuk's final conclusion was that he would order some form of trademark relief, but that he would permit the parties to submit additional briefs on the issue. *Id.* at 813.

50. *Id.* at 814.

51. *Id.*

Clanton saw no need for trademark relief and realized that such relief would create a potential for consumer confusion.[52]

Although concurring with the initial opinion of the administrative law judge, Commissioner Pitofsky proposed a narrower remedy.[53] Recognizing that Borden could charge a premium price due to the brand loyalty it had achieved,[54] the Commissioner suggested factoring the cost of past advertising and promotional expenses into the current variable cost figure.[55] This formula would then be used to determine whether Borden's pricing policies were predatory.[56] With this formula, Borden would be unable to respond to lower prices to meet competition. New competitors would therefore be able to enter the market. Commissioner Pitofsky concluded that although the FTC could enjoin trademark use, such relief was unnecessary since the remedy he proposed would give the domimant company some leeway to respond to aggressive competition without precluding market entry by an equally or more efficient competitor.[57]

Commissioner Pitofsky's opinion recognizes the reality of the market place and the motivation of merchants in a profit-oriented society. Borden located a consumer need for reconstituted lemon juice. It moved quickly and efficiently to establish and capture the market by skill and foresight, without oppressive or unfair conduct. It was rewarded for its efforts with an 80% market share of a product with excellent profitability. Numerous business activities, such as increased efficiency, patents, leases, advertising and trademarks are inherently exclusionary.[58] The business with a major market share should not be denied the benefit of such activities, which are in and of themselves legal, to promote business or respond to incipient competition. A "rule of reason" analysis should be applied to exclusionary practices used by a business with a major market share to acquire or defend that market share. This would foster the competitive process and also maintain harmony with the objectives of the antitrust laws.[59]

III. Formica

Another attack on the trademark system occurred in *FTC v.*

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52. *Id.* at 816.
53. *Id.* at 817.
54. *Id.* at 828.
55. *Id.* at 829.
56. *Id.*
57. *Id.*
58. *Id.* at 819.
59. *Id.* at 822. Commissioner Pitofsky would, however, apply stricter standards to the monopolist than the non-monopolist. *Id.* at 820.

Formica Corp.[60] This case concerned the well known trademark "Formica," used for laminated sheets of wood, fabric or paper impregnated with resin.[61] The FTC instituted action under section fourteen of the Lanham Act,[62] which gives the FTC authority to cancel a registered trademark that has become a common descriptive name of the article. The FTC took the position that purchasers of laminated sheet material employ the term "Formica" to identify a generic class of materials rather than the Formica Corporation as a particular source of such goods.[63] If this has happened, the term "Formica" has lost its trademark status and has fallen into the public domain.[64]

The motivation of the FTC in bringing an action to cancel a registered trademark is not clear. Such an action is usually brought by competitors having an interest in the outcome or is raised as a defense to a trademark infringement suit. Apparently the FTC has determined that Formica Corporation has a disproportionate share of the market and is seeking to correct the matter by bringing an action to cancel the trademark.

In an unprecedented action, Congress responded to the FTC suit by adopting a bill that withholds funds from the FTC that would be used to prosecute cancellation of the "Formica" trademark.[65] The specter of the FTC as a super agency bringing cancellation proceedings against famous trademarks, without an actual controversy, was apparently too chilling for Congress. Although the FTC retains its authority to petition for cancellation of a trademark,[66] this authority should be exercised only in situations in which the trademark is used in a deceptive manner or to misrepresent the source of the goods, not to correct what the FTC perceives as a market share dislocation.

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60. United States Patent & Trademark Office, Trademark Cancellation no. 11,955.

61. The trademark "Formica," owned by Formica Corporation, a division of American Cyanamid, has been continuously used since 1928 to designate its brand of product.

62. 15 U.S.C. § 1064 (1976).

63. United States Patent & Trademark Office, Trademark Cancellation no. 11,955.

64. This fate accompanied the over-successful popularity of such products as "aspirin," "escalator," "nylon," and other famous trademarks that now identify the product rather than the manufacturer of the product.

65. H.R. 2313, 96th Cong., 2d Sess. (1980). The bill was signed by President Carter on May 28, 1980. Federal Trade Commission Authorization Bill of 1980, Pub. L. No. 96-252 (1980).

66. The FTC was originally instituted to provide effective enforcement of the antitrust laws. The Wheeler-Lea Amendment of 1938, Act of March 21, 1938, ch. 49, 52 Stat. 111, 15 U.S.C. §§ 41, 44, 45, 52-58 (1976), broadened the powers of the FTC to protect consumers. *See* Kintner & Smith, *The Emergence of the Federal Trade Commission as a Formidable Consumer Protection Agency,* 26 MERCER L. REV. 651 (1975). One justifiable instance in which the FTC might seek trademark cancellation is to remedy an unfair trade practice in which the trademark is being used deceptively. *See* Bart Schwartz Int'l Textiles Ltd. v. FTC, 129 U.S.P.Q. 258 (1961).

IV. Conclusion

The FTC has a charter to protect fair competition and restrict commercial practices that tend to deceive or mislead consumers. Its recent activities, tending to destroy trademark protection which foster brand competition, are counter-productive. Consumers, who have relied upon well established trademark protection, would be denied the assurance of quality endorsed by the trademark owner if compulsory trademark licensing is adopted. *In re Borden* exemplifies a situation in which the FTC has assumed authority to compel industry-wide trademark licensing, without properly considering the consumer confusion that is likely to result. The *Formica* case comprises an attempt by the FTC to deprive a trademark owner of valuable property rights to promote the FTC's concept of fair market share. More stringent controls on the FTC's authority in these areas are necessary to guide them in protecting the consumer while also maintaining a fair system of brand competition, insured by the trademark system.