Fair Trade-mark: Proposing an Affirmative Duty on Licensors to Enforce Their Corporate Social Responsibility Codes

Dorothy L. Newman
Fordham University School of Law, dnewman13@law.fordham.edu

Follow this and additional works at: https://ir.lawnet.fordham.edu/iplj

Part of the Intellectual Property Law Commons

Recommended Citation

This Note is brought to you for free and open access by FLASH: The Fordham Law Archive of Scholarship and History. It has been accepted for inclusion in Fordham Intellectual Property, Media and Entertainment Law Journal by an authorized editor of FLASH: The Fordham Law Archive of Scholarship and History. For more information, please contact tmelnick@law.fordham.edu.
Fair Trade-mark: Proposing an Affirmative Duty on Licensors to Enforce Their Corporate Social Responsibility Codes

Cover Page Footnote
Fordham University School of Law, J.D. Candidate, 2020; University of Pennsylvania, M.S. & B.A., 2017. I would like to thank Professor James Brudney for his invaluable guidance throughout the process of developing this Note, and Professor Janet Freilich for her crucial advice and thoughtful feedback. Thank you to Senior Research & Writing Editor Sean Corrado and the entire staff and editorial board of the Fordham IPLJ. Finally, I am grateful to my parents and family for their endless love and support.

This note is available in Fordham Intellectual Property, Media and Entertainment Law Journal: https://ir.lawnet.fordham.edu/iplj/vol29/iss2/8
Fair Trade-mark: Proposing an Affirmative Duty on Licensors to Enforce Their Corporate Social Responsibility Codes

Dorothy L. Newman*

Modern consumers are increasingly interested in seeing the brands they love commit to corporate social responsibility (CSR), including fair labor practices and environmental sustainability throughout their supply chains. Many corporations capitalize on this demand through branding strategies that highlight their commitment to CSR. Branding of CSR can include publishing codes of conduct on corporate websites, incorporating a value of doing good while doing well in print and video advertisements, or even publicly partnering with nonprofit organizations. The Lanham Act, the primary federal trademark statute in the United States, articulates federal laws pertaining to branding and advertising, and is rooted in a significant policy interest to keep consumers informed and to prevent consumer deception. Two doctrines of law that stem from the Lanham Act substantiate this policy consideration: the naked licensing doctrine, which imposes an affirmative duty on trademark licensors to supervise their licensees’ quality control standards, and false advertising law, which prevents corporations from espousing false or misleading advertising in connection with their trademarks or brands. An analysis of each of these bodies of law, along with the overall

* Fordham University School of Law, J.D. Candidate, 2020; University of Pennsylvania, M.S. & B.A., 2017. I would like to thank Professor James Brudney for his invaluable guidance throughout the process of developing this Note, and Professor Janet Freilich for her crucial advice and thoughtful feedback. Thank you to Senior Research & Writing Editor Sean Corrado and the entire staff and editorial board of the Fordham IPLJ. Finally, I am grateful to my parents and family for their endless love and support.
policy underpinnings of the Lanham Act, poses the concern that corporations who incorporate CSR into their branding strategies run the risk of deceiving consumers if in reality they do not supervise their supply chain sufficiently to ensure the truth of their public CSR statements. This Note analyzes the naked licensing doctrine and false advertising laws, and proposes an affirmative duty on corporations to monitor and enforce their CSR codes, in compliance with the Lanham Act.

INTRODUCTION .............................................................................. 731
I. THE NAKED LICENSING DOCTRINE ............................... 733
   A. Doctrine Overview .................................................. 733
   B. Shortcomings of the Naked Licensing Doctrine...... 738
II. CORPORATE SOCIAL RESPONSIBILITY ....................... 743
   A. CSR Overview ......................................................... 743
   B. Past and Present Self-Monitoring and Enforcement Mechanisms ...................................... 746
   C. Private Causes of Action as an Enforcement Tool ................................................................. 751
III. PROPOSING A PRIVATE CAUSE OF ACTION THAT COMBINES NAKED LICENSING AND FALSE ADVERTISING PRINCIPLES AND POLICY OBJECTIVES .... 756
   A. Procedure................................................................ 757
   B. Standing .................................................................. 758
   C. Resistance from Corporations ................................. 761
   D. Extending Quality Control to Labor Standard Control .......................................................... 762
CONCLUSION .................................................................................. 765
INTRODUCTION

The average person in the United States is exposed to somewhere between 4000 and 10,000 advertisements every day.\(^1\) Between food and beverages, entertainment and sports, toiletries and home goods, and just about everything else, industries are saturated with trademarks that catch the eye of the consumer at every turn of their day. Even before stepping foot outside of the house in the morning, a consumer is faced with trademarks on toothpaste tubes and mouthwash bottles, cereal boxes and milk cartons, clothing, jackets and shoes. When getting dressed in the morning a consumer will make conscious decisions based on trademarks: a die-hard fan might choose a t-shirt bearing her favorite team’s trademark on gameday, a nostalgic college graduate might choose a hoodie bearing his alma mater’s trademark for a run in the park, and a fashion-conscious consumer might choose an outfit bearing the trademarks of the most current, sought after brands. When riding the subway, a consumer will make subconscious associations with trademarks: both the banners across the top of the car’s interior and the people sitting across the car are covered with trademarks for food, apparel, service, and entertainment brands.

Legally defined, a trademark is “any word, name, symbol, or device, or any combination thereof— (1) used by a person . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”\(^2\) Over time, the role of trademarks has expanded. In 1916, the United States Supreme Court held that the “primary and proper function” of a trademark is to “identify the origin or ownership of the article to which it is affixed.”\(^3\) However, this function has evolved in a changing economy in which a trademark could indicate the source of a product, even if the exact origin is unknown.\(^4\) Trademarks

---


\(^3\) Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 412 (1916).

\(^4\) See Shredded Wheat Co. v. Humphrey Cornell Co., 250 F. 960, 963 (2d Cir. 1918).
today serve essentially two functions: (1) “the prevention of
deception and consumer confusion,” and (2) “the protection of
property interests in trademarks.”

While a company’s brand is inextricably linked to its
trademark, strong branding expands well beyond the mark, and
into the brand identity that the mark signifies to consumers.
Multinational corporations apportion a substantial amount of
resources into their brand image, and consumers often associate
brands with identities similar to those of human beings.
Branding as a process of humanizing a corporation “shifts [consumer focus]
away from things like labor practices and supply chains and onto
issues of narrative and identity.” Nevertheless, many corporations
have woven their labor practices and social responsibility
initiatives into the fabric of their brand identities as part of their
humanization efforts when constructing a brand image. Further,
many multinational corporations have adopted written codes of
conduct to publicly declare a commitment to upholding fair labor
standards throughout their supply chains. However, enforcement
of these ambitious corporate social responsibility objectives has
proven difficult because the codes are not legally binding, and are
often monitored and regulated by the corporation that wrote them,

---

6 Dan Pallotta, A Logo is Not a Brand, HARV. BUS. REV. (June 15, 2011),
https://hbr.org/2011/06/a-logo-is-not-a-brand [https://perma.cc/3CDA-R7T7].
7 According to the CMO Report in 2016, marketing can account for up to nearly a
quarter of a corporation’s overall budget, particularly in the consumer packaged goods
industry. In the consumer services, tech software, and communications industries, the
percentages ranged from 13%-15%. See Marketing Budgets Vary By Industry, WALL ST.
has-the-biggest-marketing-budgets/ [https://perma.cc/8THU-VK86].
8 Amanda Hess, What Happens When People and Companies Are Both Just
’Brands’?, N.Y. TIMES MAG. (May 1, 2018), https://www.nytimes.com/2018/05/01/
magazine/what-happens-when-people-and-companies-are-both-just-brands.html
[https://perma.cc/CK3R-RRNT] (“Wendy’s, which used to be personified by a little red-
haired girl or by its founder, Dave Thomas, is now personified by a social-media team
renowned for its ability to tweet like a rude teenager.”).
9 Id.
10 James J. Brudney, Envisioning Enforcement of Freedom of Association Standards in
Corporate Codes: A Journey for Sinbad or Sisyphus?, 33 COMP. LAB. L. & POL’Y J. 555,
555 (2012).
Despite conflicting interests to maximize profits and rise above competition in the market.\footnote{See id. at 556.}

This Note focuses on the relationship between trademark law, consumer protection, and corporate social responsibility code enforcement. Part I provides an overview of the naked licensing doctrine in trademark law, which imposes an affirmative duty on trademark owners to supervise their licensees’ quality control standards, along with some of the scholarly and judicial resistance to the doctrine. Part II provides a brief history of corporate social responsibility, and analyzes past and present monitoring and enforcement practices along with some of the shortcomings of these efforts. Finally, Part III proposes a new private action by consumers as an additional mechanism for the enforcement of corporate social responsibility codes by drawing an analogy from the naked licensing doctrine and establishing an injury that consumers incur when brands do not uphold the promises made in their codes of conduct.

\section*{I. The Naked Licensing Doctrine}

\subsection*{A. Doctrine Overview}

Before the 1946 enactment of the Lanham Act, the primary trademark statute of the United States,\footnote{See generally Lanham Act (Lanham Trade-Mark Act) (Trademark Act of 1946), Pub. L. No. 79-489, 60 Stat. 427 (1946) (codified in scattered section of 15 U.S.C.).} the practice of licensing a trademark, or allowing an entity other than the trademark owner to bear the mark, constituted abandonment through which the trademark owner risked losing the exclusive right to the mark.\footnote{Dawn Donut Co. v. Hart’s Food Stores, Inc., 267 F.2d 358, 366 (2d Cir. 1959).} However, some courts found licensing to be valid so long as the licensor kept some control with regard to the quality of the products bearing its mark.\footnote{Id. at 367.} The Lanham Act remained consistent with this latter view that licensing in and of itself does not constitute abandonment of a trademark, “but only if the licensor exercises control over the nature and quality of the goods and/or
services sold by the licensee under the licensed mark.”15 Thus, naked or unsupervised licensing can constitute an abandonment.16

The need for licensor control over licensees stems from the purpose and function of trademarks. Since a trademark is intended to serve as a source of information for consumers, the source of information becomes compromised when licensees are free to use licensed trademarks with no quality control from licensors.17 Such a compromise poses a risk for consumer deception against which the Lanham Act seeks to protect.18

There is no bright line rule that establishes a quality control standard for licensors under the Lanham Act, but several circuit courts have upheld some level of quality control.19 While the majority of courts have established a middle ground approach, some have fallen to either extreme with some decisions “extremely lenient . . . adopt[ing] an almost ‘laissez faire’ approach,” and other decisions “overly strict and too ready to strike down a mark for inadequate control over a licensee.”20

In the Second Circuit’s decision in Dawn Donut v. Hart’s Food Stores, Inc., the plaintiff filed a lawsuit against the defendant for trademark infringement, and the defendant asserted that the plaintiff’s trademark should be cancelled because the plaintiff engaged in naked licensing by “fail[ing] to exercise the control required by the Lanham Act over the nature and quality of the goods sold by its licensees.”21 The Dawn Donut court confirmed that the Lanham Act’s concept of trademark abandonment is the origin of an affirmative duty on trademark licensors to supervise their licensees22 and re-emphasized the public policy concerns of consumer deception in its naked licensing analysis. The court noted that if the licensor is “not compelled to take some reasonable

16 Id. note 15, § 18:48.
17 Id.
18 See generally Lanham Act.
19 Id. note 15, § 18:55.
20 Id.
22 Id.
steps to prevent misuses of his trademark in the hands of others[,] the public will be deprived of its most effective protection against misleading uses of a trademark,” an effect that would run squarely in opposition to the Lanham Act.23

In discussing the actual bar for naked licensing, Judge Lumbard, who authored the Dawn Donut opinion emphasized the need for evidence to prove a lack or existence of adequate supervision in compliance with the Lanham Act.24 For example, Judge Lumbard noted that the record from the district court did not clarify whether the plaintiff conducted regular and comprehensive inspections by qualified inspectors or whether it only sporadically checked in on licensees with no specific objective.25 According to Judge Lumbard, the latter would not suffice to satisfy the Lanham Act’s requirements.26

The Fifth Circuit has taken a different approach than that of the Second Circuit. While the Fifth Circuit held that failure to exercise control would constitute an abandonment on the grounds that it is deceptive to the public, it is explicit in stating that it “do[es] not sit to assess the quality of products sold on the open market.”27 The Fifth Circuit therefore held that a party seeking to establish a forfeiture has a high burden of proving failure to supervise, and “[r]etention of a trademark requires only minimal quality control.”28

In contrast, while the Ninth Circuit has also held the challenging party to a high standard of proof,29 it has found instances of naked licensing by assessing supervising practices

23 Id. at 367.
24 Id. at 368.
25 Id. at 369.
26 Id.
27 Ky. Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 387 (5th Cir. 1977).
29 FreecycleSunnyvale v. Freecycle Network, 626 F.3d 509, 514 (9th Cir. 2010) (citing BarcAmerica Int’l USA Tr. v. Tyfield Imps., Inc., 289 F.3d 589, 596 (9th Cir. 2002); Prudential Ins. Co. of Am. v. Gibraltar Fin. Corp., 694 F.2d 1150, 1156 (9th Cir. 1982); Edwin K. Williams & Co. v. Edwin K. Williams & Co.-E., 542 F.2d 1053, 1059 (9th Cir. 1976)).
under a three-part test. The Ninth Circuit held in *FreecycleSunnyvale v. Freecycle Network*, that The Freecycle Network, an umbrella nonprofit organization that oversaw a number of independent chapters, engaged in naked licensing because it (1) did not retain express controls over licensees’ quality control measures, (2) did not have actual controls over licensees’ quality control measures, and (3) was unreasonable in relying on licensees’ quality control measures.30

The Ninth Circuit in *Freecycle* did not specifically decide on an evidentiary standard because even when applying the higher standard of proof and assessing the facts in the light most favorable to the defendant, The Freecycle Network abandoned its trademark through naked licensing.31 The Ninth Circuit therefore looked to the three aforementioned factors to determine if naked licensing had occurred.32

With regard to the first factor, the Ninth Circuit held that the absence of a contractual right would support a finding of naked licensing.33 Previously, some courts have held that if licensors hold a contractual right to supervise licensees, it is enough to negate a finding of naked licensing.34 However, according to the modern understanding of the naked licensing doctrine, “such cases miss the point that not only must there be a right to control, but that duty must be discharged by the licensor.”35 Likewise, the second factor becomes exceedingly probative to an inquiry into whether naked licensing has occurred regardless of the presence of a contractual right pursuant to the first factor.

For this reason, courts utilizing the Ninth Circuit factors will look to the record to determine if *actual* supervision occurred,

---

30 Id. at 512.
31 Id. at 514–15.
32 The factors being, (1) whether the trademark owner had a contractual right to control the mark, (2) whether the trademark owner actually controlled the nature and quality of the use of its mark, and (3) whether the trademark owner reasonably relied on a licensee to control the nature of the use of its mark. Mccarthy, supra note 15, § 18:55.
33 FreecycleSunnyvale, 626 F.3d at 516.
35 Mccarthy, supra note 15, § 18:56.
pursuant to the second factor.\textsuperscript{36} In \textit{Freecycle}, the licensor asserted that they exercised actual control over their licensees because they had policies and etiquette for local chapters listed on their website, among other similar reasons.\textsuperscript{37} The court held, however, that none of these assertions constituted actual control because the Free cycle Network’s controls were neither enforced nor effective.\textsuperscript{38}

Finally, under the third prong, The Freecycle Network argued in \textit{Freecycle} that even in the absence of actual control, it “justifiably relied on its member groups’ quality control measures.”\textsuperscript{39} The Second Circuit has commented on a similar argument of reliance, noting that it would be sufficient to negate a finding of naked licensing only “where there is a history of trouble-free manufacture and quality is not deficient, so as to provide a just basis for reliance on the licensee’s own quality control.”\textsuperscript{40} Additionally, however, the Ninth\textsuperscript{41} and Tenth Circuits\textsuperscript{42} have held that while reliance on licensees’ quality control efforts is relevant, it is not enough to avoid a finding of naked licensing in the absence of other forms of actual periodic inspection or monitoring.

The Ninth Circuit also held that if the licensor and licensee were involved in a “close working relationship,”\textsuperscript{43} the licensor would be able to rely on the licensee’s own quality control efforts and avoid a finding of naked licensing.\textsuperscript{44} An adequate relationship could be established in the following four circumstances:

\begin{itemize}
  \item [(1)] a close working relationship for eight years;
  \item [(2)] a licensor who manufactured ninety percent of the components sold by a licensee and with whom it
\end{itemize}

\textsuperscript{36} \textsc{Mccarthy}, supra note 15, § 18:59.
\textsuperscript{37} \textit{FreecycleSunnyvale}, 626 F.3d at 517.
\textsuperscript{38} \textit{Id.} at 518.
\textsuperscript{39} \textit{Id.}
\textsuperscript{40} \textsc{Mccarthy}, supra note 15, § 18:57; \textit{See also} \textsc{Syntex Labs., Inc. v. Norwich Pharmacal Co.}, 315 F. Supp. 45, 56 (S.D.N.Y. 1970), aff’d on other grounds, 437 F.2d 566 (2d Cir. 1971).
\textsuperscript{41} \textit{See, e.g.}, \textsc{Transgo, Inc. v. Ajac Transmission Parts Corp.}, 768 F.2d 1001, 1017–18 (9th Cir. 1985).
\textsuperscript{42} \textit{See, e.g.}, \textsc{Stanfield v. Osborne Indus., Inc.}, 52 F.3d 867, 872 (10th Cir. 1995).
\textsuperscript{43} \textsc{Barcamerica Int’l USA Tr. v. Tyfield Imps., Inc.}, 289 F.3d 589, 597 (9th Cir. 2002).
\textsuperscript{44} \textit{FreecycleSunnyvale}, 626 F.3d at 518; \textsc{Mccarthy}, supra note 15, § 18:57.
had a ten year association and knew of the licensee’s expertise; (3) siblings who were former business partners and enjoyed a seventeen-year business relationship; and (4) a licensor with a close working relationship with the licensee’s employees, and the pertinent agreement provided that the license would terminate if certain employees ceased to be affiliated with the licensee.45

In addition, the Federal Circuit has adopted the preponderance of evidence standard46 while several district courts have utilized a clear and convincing evidence standard47 when inquiring into the presence of naked licensing practices. Despite the lack of a bright-line rule, it is generally held that the party challenging a trademark has a high burden of proof when establishing that a licensor engaged in naked licensing,48 and evidence of actual control—the second of the Ninth Circuit’s three factors—is required from the party whose trademark is being challenged.49

B. Shortcomings of the Naked Licensing Doctrine

The affirmative duty to supervise that the naked licensing doctrine has imposed on licensors has been met with significant scrutiny. Pushback to the naked licensing doctrine has surfaced for several reasons, but three primary weaknesses in the doctrine are especially relevant. Scholars have criticized the naked licensing doctrine for (1) favoring unclean hands by serving only as a defense to claims of trademark infringement, and not as its own independent cause of action,50 (2) being inconsistent (and at times

45 FreeCycleSunnyvale, 626 F.3d at 518 (citing Barcamerica Int’l, 289 F.3d at 597).
47 McCarthy, supra note 15, § 17:12.
48 Id. § 18:48 (citing to courts that have held the challenging party to a clear and convincing evidence standard, and courts that have found evidence of a delay in supervision to be insufficient).
49 See, e.g., FreeCycleSunnyvale, 626 F.3d at 512 n.1.
seemingly unworkable) across varying business models utilized across the spectrum of entities that own lucrative trademarks,51 and (3) potentially hurting consumers with increased search costs because when a court finds an instance of naked licensing, the original owner loses the trademark, the infringer may continue using it, and consumers are left having to “deal with infinite deceptive users of a trademark instead of one.”52

The first two weaknesses in the naked licensing doctrine do not negate the doctrine’s public policy purpose, which is to protect against consumer deception. These two weaknesses may open a discussion about a need for more flexibility in the standard, but they do not point to a weakness or shortcoming of the consumer protection policy entrenched within the naked licensing doctrine, the Lanham Act, and trademark law at large. Further, the potential harms of the third weakness must be balanced against the same danger of potential harm to consumers that would be present if there was no policing requirement. In the latter instance, the same dangers of increased search costs and “infinite deceptive users,” would be present but without the incentive to police that is built into the naked licensing doctrine.

A closer analysis of each of the three main weaknesses of the naked licensing doctrine will be useful in understanding why these weaknesses do not negate the fundamental policy underpinnings of the doctrine.

First, scholars have criticized the naked licensing doctrine for favoring the unclean hands of a potential trademark infringer because the current procedural mechanism of the doctrine allows it to be asserted as a defense to an infringement claim, not an independent cause of action.53 However, this criticism leaves room for a proposed change to the doctrine that maintains the doctrine’s policy objectives but shifts the power of litigation to another party. Such an extension of the naked licensing doctrine from an

52 Kuss, supra note 50, at 373.
53 Id.
affirmative defense to an independent cause of action seems to be within reason, particularly when compared to other causes of action that licensors can be subjected to for failing to complete their duty to supervise licensees. For example, the “[f]ailure to reasonably control a licensee may . . . render the licensor liable to charges of false advertising if the licensee has used the trademark as an instrument to defraud the public.” 54 Additionally, the affirmative duty to supervise licensees can extend to hold licensors liable for the torts of licensees. 55 While the tort liability of licensors typically refers to personal injury or property damage resulting from the licensed products, 56 a combination of these above mentioned theories and their underlying policy objectives may give rise to a new procedural mechanism for the naked licensing doctrine that involves an independent cause of action and alleviates this criticism of the doctrine.

Second, scholars have criticized the naked licensing doctrine for its inconsistency (and sometimes unworkability) across business models. 57 The Seventh Circuit noted in Eva’s Bridal Ltd. v. Halanick Enterprises, Inc., “[h]ow much authority [from a licensor over a licensee] is enough can’t be answered generally; the nature of the business, and the customers’ expectations, both matter.” 58 This is because for certain business models, neither the

54 McCarthy, supra note 15, § 18:48 (citing Waltham Watch Co. v. Fed. Trade Comm’n, 318 F.2d 28 (7th Cir. 1963); Scotch Whiskey Ass’n v. Barton Distilling Co., 338 F. Supp. 595 (N.D. Ill. 1971), aff’d in part and rev’d in part, 489 F.2d 809 (7th Cir. 1973)).
55 McCarthy, supra note 15, § 18:74 (citing Kennedy v. Guess, Inc., 806 N.E.2d 776, 786 (Ind. 2004) (“[T]rademark licensors have a duty under the Lanham Act to take reasonable measures to detect and prevent misleading or deceptive uses of the trademark . . . They are thus likely to take some ongoing role in the products bearing their mark lest they risk loss of the right associated with ownership of it.”); Burkert v. Petrol Plus of Naugatuck, Inc., 579 A.2d 26 (Conn. 1990) (the naked licensing case law does not “suggest, in any way, that a trademark owner’s failure to exercise control subjects the owner to affirmative liability in tort for damages caused by a defective product bearing its trademark.”)).
56 Id.
57 Parks, supra note 51, at 536.
58 Eva’s Bridal Ltd. v. Halanick Enters., 639 F.3d 788, 791 (7th Cir. 2011).
nature of the business nor the expectations of the customers line up with the current state of the naked licensing doctrine.59

In merchandising, for example, consumer expectations may not be about an established link between the trademark and its source but rather an established link between the trademark and a team or character that the customer identifies with.60 Additionally, in these instances, the nature of the business model does not lend itself to the policing mechanism under the naked licensing doctrine which expects the licensor to set a standard of product quality and then supervise licensees to ensure that their licensed products have conformed to that standard of quality.61 However, in merchandising, thousands of t-shirt companies, whose shirts fall onto a wide spectrum of quality and price, may be licensees of a sports team logo or movie character.62 If courts require all of a sports team’s licensees to have a regular quality standard, they would have to determine which t-shirt should set the standard.63 However, the “quality of a [team] jersey cannot be measured against standards established by the trademark owner because the trademark owner’s product is entertainment. Therefore, a court would have to use the licensee’s quality as a benchmark, and this poses a problem when a trademark owner has hundreds or thousands of licensees.”64

Like the first criticism of the naked licensing doctrine, this second criticism of inconsistency or unworkability zooms in on a need for a slightly more flexible standard of control, because control that is sufficient to prevent consumer deception may look different when an apparel brand like Nike licenses its trademark than when an entertainment brand like The Walt Disney Company does so.65

59 Kuss, supra note 50, at 376.
60 Id.
61 Id. at 377.
62 Id.
63 Id.
64 Id.
65 “Control that is satisfactory for the license of a children’s television program character on a plush doll toy will probably be much less than the extensive regulation system needed for the license of a famous mark on a system of quick-service food
Even if a more flexible standard is necessary to be workable in certain contexts, some standard of control is imperative to ensure that consumer expectations are met and consumers are not deceived.\textsuperscript{66} While it is true that a sports team’s product is entertainment, and therefore, the brand has not established a quality standard for apparel to which licensees should conform, the brand has still established a reputation and brand value. Thus, a reasonable consumer would likely have the expectation that a piece of apparel bearing the team’s trademark would be of a certain quality that is consistent with the trademark’s overall value, as opposed to a counterfeit which is assumed to be of lower quality. A more flexible standard should accommodate the nuanced arena of the industry, while both maintaining the policy underpinnings of the doctrine and being realistic about consumer expectations of licensed products.

Finally, scholars fear that the naked licensing doctrine runs the risk of backfiring and hurting consumers with the burden of increased search costs.\textsuperscript{67} However, as aforementioned, this danger must be considered in conjunction with the danger that would be caused if the entire control requirement was abolished. This final criticism of the naked licensing doctrine poses the concern that the doctrine can result in the very outcome it seeks to protect against. But this is a tenuous argument; it suggests that if a standard is imperfect, it can’t be good. However, the naked licensing doctrine serves as an incentive to trademark holders to police their licensees.\textsuperscript{68} While it is true that licensors that fail to adequately police their licensees will lose their trademark and an indefinite amount of entities would be able to then use the mark, the point is moot because in that instance the mark at issue will no longer be a registered trademark.\textsuperscript{69} The lack of a registered mark will be a source of information to consumers to part with previous associations they may have made with it. On the other hand, with

\textsuperscript{66} Id.

\textsuperscript{67} Kuss, supra note 50, at 373.

\textsuperscript{68} See McCarthy, supra note 15, § 18:48.

no control requirement at all, there will be a registered trademark that is being misused. The latter poses a greater danger of consumer confusion and deception.

Consumer protection is a fundamental tenet of the Lanham Act which specifically carves out the instances in which a trademark registration can be cancelled for losing its significance as an accurate source of information for consumers. At its heart, the naked licensing doctrine is a consumer protection measure that is consistent with this objective of the Lanham Act. The affirmative duty to supervise the quality standards of licensees ensures that consumers will not risk purchasing goods of a lesser quality than the trademark denotes, and that consumers will not have to endure burdensome search costs to make informed decisions about the products they are buying. Despite a potential need for more flexibility and/or an updated procedural mechanism, to uphold the significant purpose of the Lanham Act, the naked licensing doctrine’s underlying policy must be protected.

II. CORPORATE SOCIAL RESPONSIBILITY

A. CSR Overview

Multinational corporations have been incorporating codes of conduct into their business models to indicate their commitment to workers’ rights since the 1970s. In 1996, Kathie Lee Gifford was in tears on her show Live with Regis and Kathie Lee, coming to her own defense after the National Labor Committee, an NGO now known as the Institute for Global Labour and Human Rights, announced that her clothing line, which was sold in Wal-Mart stores, had used child labor and sweatshops. Crying on national

---

70 Id.
72 Id. at 1767–68.
73 Brudney, supra note 10, at 555.
television, Gifford insisted that the accusations were not true.\footnote{Id.} In the same year, Life magazine published heart-wrenching photos of children in Pakistan sewing soccer balls for Nike.\footnote{Id.} Both scandals essentially started the conversation about corporate social responsibility as it is known today:\footnote{Id.} a written set of standards that has become prevalent in multinational corporations across almost every industry.\footnote{See, e.g., The Nestlé Corporate Business Principles, NESTLÉ (June 2010), http://www.nestle.com/asset-library/documents/library/documents/corporate_governance/corporate-business-principles-en.pdf [https://perma.cc/EMC2-7KML] [hereinafter Nestlé].} While existence of these codes has become ubiquitous, monitoring and enforcing corporate social responsibility codes remains a pressing unanswered question.

Corporate Social Responsibility (CSR) Codes vary amongst corporations, but in 2012 about one quarter of them explicitly referred to the International Labor Organization (ILO) conventions that address Freedom of Association.\footnote{Brudney, supra note 10, at 559.} For example, the “Nestlé Corporate Business Principles” is an eighteen-page document authored by the Chief Executive Officer and Chairman, and addressed to all employees.\footnote{NESTLÉ, supra note 78, at 3.} Nestlé’s Principles invoke ten distinct categories of business operations that will be regulated, of which number four is “human rights and labour practices” in which the United Nations Global Compact’s Guiding Principles on Human Rights and Labour (UN Guiding Principles) are invoked.\footnote{Id. at 2.}

The UN Guiding Principles were promulgated in 2011 in an effort to publish a UN-certified statement in support of the enforcement of international labor rights through a “Protect, Respect, and Remedy” framework in which States have a duty to protect human rights, corporations have a responsibility to respect human rights, and victims of violations have access to appropriate
remedies. The Guiding Principles are not legally binding: an early page includes a disclaimer stating “[n]othing in this Guiding Principles should be read as creating new international law obligations, or as limiting or undermining any legal obligations a State may have undertaken or be subject to under international law with regard to human rights.” Rather, the Guiding Principles provide a framework that allows interested States and corporations to adhere to a set of standards endorsed by the UN when implementing CSR efforts.

Within the Guiding Principles, the language that addresses States as opposed to the language that addresses corporations differs substantially. States, for example, have a duty and corporations have a responsibility. However, the responsibility of corporations, as written, is not inconsequential. When addressing the responsibility of corporations, the Guiding Principles reference “at a minimum . . . those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work.” Further, the Guiding Principles are intended to apply to “all enterprises regardless of their size, sector, operational context, ownership and structure.”

Finally, while legal enforceability is absent from the Guiding Principles, the third pillar of the framework outlines the ways in which States can ensure access to remedy for victims of labor violations, recognizing that “[s]tates must take appropriate steps to ensure, through judicial, administrative, legislative or other appropriate means, that when such abuses occur within their

83 Id. at 1.
84 Id.
85 Id. at 4.
86 Id. at 13.
87 Id.
88 Id. at 15.
territory and/or jurisdictions those affected have access to effective remedy.”

ILO Conventions 87, 138, and 182 are also explicitly referenced in the Nestlé Corporate Business Principles. Convention 87 covers Freedom of Association (FOA) and the Right to Organize, and has been ratified by 155 countries. The United States is among the countries that have not ratified, along with several other developed countries including New Zealand and Singapore, as well as China and India. Convention 138 covers the Minimum Age for Admission to Employment, and has been ratified by 171 countries, of which the United States is not one. And Convention 182 addresses the Worst Forms of Child Labor, and has been ratified by 182 countries including the United States.

B. Past and Present Self-Monitoring and Enforcement Mechanisms

Some CSR codes explicitly mention their monitoring process. Hasbro, for example, has a clause in its written code titled “Monitoring and Right to Terminate,” in which it outlines its right to terminate relationships with subcontractors and licensees after conducting “periodic on-site visits of working and living conditions, including unannounced audits of production records” and requiring “implementation of an acceptable written corrective action plan” that has not been adhered to. Others make no mention of their monitoring or enforcement plans. The Nestlé Corporate Business Principles do not make reference to monitoring.

89 Id. at 27.
90 NESTLÉ, supra note 78, at 9.
92 Id.
or enforcement mechanisms; rather, the Principles utilize platitudes such as “support,” “respect,” and “uphold.” Any forms of monitoring or enforcing corporate codes that are in place, are for the most part internal and self-regulated. Corporations have created human rights or CSR divisions to conduct site visits and interviews, review complaints, and recommend proper corrective actions. However, this form of regulation can pose a number of problems, particularly when dealing with a multinational corporation that has an intricate net of global suppliers, licensees, and contractors, with limited transparency as to the labor conditions of those entities.

Additionally, self-regulation in and of itself is a problematic mode of enforcing a CSR code. At the outset, corporations face the tension between their desire to uphold human rights principles and their desire (and in some ways their fiduciary duty) to maximize profits and obtain competitive advantages in the market. Further, certain monitoring measures are not carried out in the most effective manner. Worksite visits, for example, are often announced ahead of time, giving the people in charge of the factory under scrutiny notice to draw up a second set of books to present auditors with, and to train employees with the script of what they should say in their interviews.

Corporations can get around their own internal conflicts of interest (to maximize profits while upholding fair labor practices) by engaging third party auditors such as workers’ rights nonprofit organizations. For example, the Fair Labor Association (FLA) is an international organization that brings together universities, organizations, and corporations in a collective effort to protect workers’ rights around the world. FLA’s methodology expands

---

96 Nestlé, supra note 78, passim.
97 Brudney, supra note 10, at 556.
98 Id. at 570.
99 Id. at 569.
100 Id. at 571; Owen E. Herrnstadt, Voluntary Corporate Codes of Conduct: What’s Missing?, 16 LAB. LAW. 349, 361 (2001).
101 Brudney, supra note 10, at 570.
beyond conventional audits in response to complaints, which tend only to succeed in “protecting workers from the most egregious violations of labor rights.”103 In contrast, FLA conducts regular audits in an effort to prevent recurring violations and cultivate sustainable change in workplaces around the world.104 FLA compares its auditing work to that of an emergency room: “Auditing is like seeking urgent care at an emergency room. The doctor might ask your symptoms based on a checklist and prescribe pills that will make the pain or fever go away. Three weeks later, however, the same pain might return, and you’re right back in the emergency room.”105 In this way, FLA views auditing as an ongoing and iterative process of learning and understanding the scope of a workplace environment rather than a snapshot on one particular day.106

However, even external auditors have been criticized for not being implemented effectively.107 This is because corporations have used monitors without the requisite experience or knowledge of labor standards.108 Furthermore, the actual audits may be ineffective if they are conducted in a way that makes it unlikely for a worker to trust the auditor.109

Third-party auditors have also come into conflict with the various stakeholders involved in their operations. For example, the Worker Rights Consortium (WRC) is another independent labor rights monitoring organization that conducts in-depth workplace visits and investigations.110 In 2017, just after the NCAA March Madness tournament came to a close, Nike began blocking WRC’s

---

104 Id.
105 Id.
106 Id.
107 Herrnstadt, supra note 100, at 361.
108 Id.
109 Id. at 360; Brudney, supra note 10, at 570.
110 WORKER RTS. CONSORTIUM, https://www.workersrights.org/ [https://perma.cc/KE7W-99RM] (last visited Mar. 11, 2019). The Worker Rights Consortium typically audits only in response to “fire alarms,” or reports of misconduct. Id. This is distinct from FLA’s regular audit methodology because WRC “puts out fires” whereas FLA prevents them. Id.
access to its suppliers’ factories. Despite over 150 organized protests from the United Students Against Sweatshops, Nike “would rather narrow the information it considers than keep an open channel for workers’ rights.” This move was a dangerous step backwards for Nike’s human rights efforts, cutting life-saving communication lines for workers. The decision was also surprising, because in the wake of the Rana Plaza factory collapse that killed 1134 workers in Bangladesh in 2013, corporations have been taking a better look at their supply chains. The increase in supply chain monitoring occurred especially because reports from survivors of the Bangladesh tragedy shed a light on workers’ voices being suppressed despite reports of begging not to work in an obviously dangerous situation.

The conversation didn’t end there, however. Universities, perhaps the most influential stakeholders in the WRC’s efforts, responded to Nike’s practices. Georgetown ended its contract with Nike altogether, until announcing a new deal that was the product of intense negotiations. The negotiations for Georgetown’s new deal with Nike were led by mediation expert, Don Edwards, who mediated between the three stakeholders, Georgetown, Nike, and WRC. Among several demands, Nike insisted that WRC keep findings from investigations confidential while Nike was given an appropriate amount of time to remediate. On the other hand, the deal required Nike to abide by labor standards set by IMG College Licensing, a group involved in

112 Id.
113 Id.
114 Id.
115 Id.
117 Id.
118 Id.
119 Id.
managing university licensing agreements. While a number of universities have had codes of conduct specifically for their licensees, Nike found this to be untenable. With the new model, IMG could put out a universal set of standards that all universities could adopt. Experts feared that IMG might not be the right body for this responsibility, but WRC has found the code to be effective. Ultimately, this new deal can serve as a model for other universities working through licensing agreements with major brands that operate through subcontractors and suppliers all over the world. In this way, Georgetown felt it was especially important to negotiate a new deal rather than terminate a relationship entirely, because the former tactic gave Georgetown actual leverage to make some change.

However, another major hurdle to self-enforcement or even enforcement by independent third parties, is the intricate nature of multinational corporations’ supply chains. First, multinational corporations often work with a large number of subcontractors, and constantly shift between suppliers. Corporations often state that they do not even have the knowledge of where a large amount of their products are manufactured as a product of this supply chain model. Further, factories often employ workers on short-term contracts called, in Cambodia, “fixed-duration contracts.” Studies of the shift to fixed-duration contracts have brought to light

---

120 Id. According to the Labor Code on IMG’s website, the organization requires licensees to adopt standards that “meet or exceed those established by the institutions, the FLA, and/or the WRC,” among several other requirements. See Labor Code, IMG C. LICENSING, http://www.imgcollegelicensing.com/Resources/Labor-Code.aspx [https://perma.cc/FC5U-ENV9] (last visited Mar. 11, 2019).
121 Segran, supra note 116.
122 Id.
123 Id.
124 Id.
125 Id.
126 Brudney, supra note 10, at 572; Herrnstadt, supra note 100, at 363.
127 Brudney, supra note 10, at 572.
128 Id.; Herrnstadt, supra note 100, at 359.
an increase in worker insecurity as well as a serious threat to worker rights enforcement under both domestic and international law.130

While it is hard to believe in this day and age, when corporations are the most sophisticated that they have ever been in terms of their access to knowledge and data, even corporations that do have the knowledge of where and by whom their products are being manufactured, have limited leverage over these suppliers.131 Often multinational corporations outsource work to hundreds or thousands of facilities, and their work within those facilities may only make up about 10% of the work done at that factory.132 With that in mind, a corporation threatening to terminate a relationship with a supplier may have compromised leverage over a supplier that has strong relationships intact with the corporations that comprise the other 90% of its output.133

C. Private Causes of Action as an Enforcement Tool

While the Federal Trade Commission has enforcement authority against corporations that advertise falsely or deceptively, there is no private right of action on behalf of consumers.134 Private causes of action can provide another method of enforcing CSR codes.135 There are several options for private actions, and while each comes with the drawbacks associated with litigation, namely burden, cost, and risk, each also introduces a unique avenue to judicial enforcement of CSR codes.136

An essential inquiry when assessing the validity of any private cause of action is standing, because in order to successfully bring a cause of action against a multinational corporation for failure to enforce a corporate social responsibility code, the plaintiff would

---

130 Id. at 2.
131 Brudney, supra note 10, at 572.
132 Id.
133 Id. at 572–73.
135 See Brudney, supra note 10, at 574.
136 Id. at 575.
need to prove that she has been injured as a result of noncompliance. To have standing to bring a lawsuit a party must satisfy the three-part test established by the Supreme Court in *Lujan v. Defenders of Wildlife*: (1) the plaintiff must have suffered an injury in fact which is concrete and particularized and actual or imminent, (2) there must be causation between the injury and the action before the court, and (3) it must be likely that a favorable decision by the court will redress the injury. Within this framework, pinpointing a specific injury that is capable of being redressed by a favorable decision is among the biggest hurdles to the private cause of action method. With a finding of standing, private causes of action have been considered on behalf of employees and investors, as well as consumers. The false advertising action brought on behalf of consumers is most relevant to this Note.

In 2003, the Supreme Court dismissed the case, *Nike, Inc. v. Kasky*, on jurisdictional grounds. However, the decision, which was originally tried in a state court in California, can teach scholars a lot about the potential viability of such a claim. The claim was brought by consumers against Nike, stating that “communications Nike made to customers, newspaper editors, college presidents and athletic directors, and others responding to allegations that Nike had engaged in, or was complicit in, the mistreatment of foreign workers... contained significant misstatements of fact... actionable under California’s unfair competition and false advertising laws.” California’s unfair competition law provides,
in relevant part, that “any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising,” shall constitute unfair competition.\footnote{CAL. BUS. & PROF. CODE § 17200 (West 2019).}

Nike’s response to the allegations that their statements were actionable under false advertising laws was that even if their statements had been false, they were entirely protected under the First Amendment because they were part of an ongoing debate about the general conversation surrounding the labor practices of multinational corporations.\footnote{Vladeck, \textit{supra} note 141, at 1050.} The California Supreme Court, in a split decision, ultimately rejected Nike’s theory.\footnote{Id.} The United States Supreme Court agreed to review Nike’s First Amendment claims, but ultimately dismissed the case, leaving Nike’s First Amendment assertions unanswered.\footnote{Id.}

To assess the likelihood of success in a future private action on false advertising grounds, an analysis and overview of the commercial speech doctrine is necessary. Prior to a series of cases culminating in \textit{Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council Inc.}, the Supreme Court did not consider commercial speech to be protected under the First Amendment.\footnote{Micah L. Berman, \textit{Manipulative Marketing and the First Amendment}, 103 GEO. L.J. 497, 503 (2015).} \textit{Virginia Pharmacy} involved a challenge to a law that prohibited the advertisement of drug prices.\footnote{Va. State Bd. of Pharmacy v. Va. Citizens Consumer Council, Inc., 425 U.S. 748, 749–50 (1976).} The Court presented three rationales for protecting commercial speech under the constitution: (1) consumers have an interest in accessing the information at issue, (2) commercial speech has the power to ensure that consumers are all able to make informed purchase decisions with all the relevant information, and (3) in general, the free flow of commercial information can contribute to the public interest in informed decision making.\footnote{Id. at 755, 763–64.} The Court’s reasoning played into a theme that “commercial speech is valued because of
its ability to communicate useful information to consumers and to help them make more informed choices."\textsuperscript{149} Importantly, under this notion, "only truthful, nonmisleading speech is constitutionally protected."\textsuperscript{150}

The Supreme Court refined \textit{Virginia Pharmacy} in \textit{Central Hudson Gas & Electric Corp. v. Public Service Commission of New York} by devising a four part test for evaluating the constitutionality of restrictions on commercial speech: (1) whether the speech concerns a lawful activity; if not, it may be suppressed outright; (2) whether the asserted governmental interest is substantial; (3) whether the regulation directly advances the asserted governmental interest; and (4) whether the regulation is more extensive than necessary.\textsuperscript{151} This test has been the subject of serious criticism, however, both for being overly broad and for being supported by little more than policy.\textsuperscript{152}

Criticism of the commercial speech doctrine has attacked both its substance and its breadth.\textsuperscript{153} The substantive argument is that the commercial speech doctrine gives the government too much power to suppress commercial speech, and that the Court should be far stricter in only upholding regulations that are narrowly tailored to protect important government interests.\textsuperscript{154} However, less strict review would be justified when the Court is handling speech that is being regulated for its "misleading, deceptive, or aggressive sales

\textsuperscript{149} Berman, \textit{supra} note 146, at 504.
\textsuperscript{150} \textit{Id.}
\textsuperscript{153} \textit{Vladeck, supra} note 141, at 1055.
\textsuperscript{154} \textit{Id.}
practices, or requires the disclosure of beneficial consumer information.” 155

The breadth arguments to the commercial speech doctrine contend that there is often no meaningful way to differentiate between commercial and noncommercial speech . . . [and] the test the Court has devised for determining whether speech is commercial—namely, whether it proposes a commercial transaction—is unworkable because often the line between commercial speech on the one hand and artistic, social, and political expression on the other is at best indistinct and at worst illusory. 156

This argument is relevant to the murky waters of Nike v. Kasky, in which Nike’s argument was rooted in the characterization of the speech at issue, as political expression, and Kasky’s argument was rooted in the characterization of that same speech as commercial speech, aimed at consumers and other stakeholders. 157 Rather than arguing that false statements deserved constitutional protection, Nike strategically contended that the speech was not commercial speech. 158 In this way, Nike was able to make an additional argument that “because its speech concerned matters of public importance, liability could be imposed only if the plaintiff could surmount the New York Times 159 public figure standard—that is, prove that Nike’s statements were made with knowledge of falsity, or with reckless disregard for truth or falsity.” 160

The blurred lines between commercial and non-commercial speech present another obstacle to successfully bringing a private action on this theory, because it gives corporations a useful defense to allegations. In Kasky, the speech at issue, regardless of an arbitrary classification, impacted business transactions. For many consumers, Nike’s labor practices carry weight in purchase

155 Id. at 1057.
156 Id. at 1060.
158 See id. at 659–60.
160 Vladeck, supra note 141, at 1061.
decision making, as one of several factors including price, design, etc.\textsuperscript{161} Despite this nexus between the speech at issue and purchase decisions, Nike’s theory has a dangerously damaging effect on any false advertising claim, because “under Nike’s theory, sellers could make false claims about these characteristics but nonetheless escape liability by characterizing their statements as ‘core’ speech about matters of social and political importance.”\textsuperscript{162}

However, despite these obstacles, viability for false advertising claims can be found in case history regarding apparel and other manufactured goods companies that printed “Made in the U.S.A.” labels.\textsuperscript{163} Despite the fact that the country of origin of apparel could be deemed a political issue, that speech has been regulated, and the regulation upheld in instances where the label was discovered to be misleading or entirely false.\textsuperscript{164} In \textit{Colgan v. Leatherman Tool Group, Inc.}, the court cites \textit{Kasky} in noting that false advertising laws can be extended not only to speech that is in fact false but speech that “has a capacity, likelihood or tendency to deceive or confuse the public.”\textsuperscript{165}

\section*{III. PROPOSING A PRIVATE CAUSE OF ACTION THAT COMBINES NAKED LICENSING AND FALSE ADVERTISING PRINCIPLES AND POLICY OBJECTIVES}

In this section, this Note proposes a new cause of action on behalf of consumers that rests on a theory combining some of the legal and policy underpinnings of both naked licensing and false advertising. Through this independent cause of action, consumers will be able to file a lawsuit against a multinational corporation asserting that they were injured when the corporation failed to supervise its licensees’ labor practices and thereby did not ensure compliance with the corporation’s labor standards. The plaintiff consumers would request injunctive relief which would require the defendant corporation to remedy their current CSR enforcement

\begin{itemize}
  \item \textsuperscript{161} \textit{Id.} at 1065.
  \item \textsuperscript{162} \textit{Id.} at 1066–67.
  \item \textsuperscript{163} \textit{Id.}
  \item \textsuperscript{164} \textit{Id.}
  \item \textsuperscript{165} \textit{Id.}
\end{itemize}
practices, where the failure to do so adequately and promptly could result in a loss of the corporation’s exclusive right to their trademark.

While the proposed cause of action will not entirely solve the gap in enforceability of CSR codes, the analogies drawn in this section will still be relevant and will create another tool in the toolkit of potential mechanisms for monitoring and enforcing CSR in a way that avoids some of the shortcomings of past and present methods. Several obstacles stand in the way of the proposed theory’s viability. Four obstacles are most pressing: (1) procedure, (2) standing, (3) resistance from corporations, and (4) extending quality control to labor standard control.

A. Procedure

While the naked licensing doctrine’s current procedural mechanism operates only as a defense to an infringement claim, the proposed theory requires two distinct differences: (1) the plaintiff will be a consumer or class of consumers, rather than another corporation, and (2) the action will be available as an independent cause of action, rather than a defense.

Corporations would be unlikely to initiate a suit against another corporation on this theory. Not only does it seem unlikely that a corporation would take on the burdens, costs, and risks of litigation for the sake of enforcing CSR, but also, even if the potential gain to a corporation is a competitor losing the right to their trademark, bringing this type of suit creates the potential risk that the plaintiff corporation will be exposed for all of its labor practices and/or violations.

Additionally, the theory would not be workable if it could only be invoked by defendants to another suit. This procedural mechanism would run into the same shortcomings of self-regulated CSR codes. If corporations needed to sue suppliers or other corporations first, knowing full well that they risk exposing themselves to this newly available defense, the suits that trigger the defense simply wouldn’t be initiated.

166 Kuss, supra note 50, at 373.
Therefore, for this theory to work procedurally, it is imperative that the power is left in the hands of consumers, and that the suits can be initiated in their own right, not simply as defenses.

The potential for an extension of naked licensing actions into independent lawsuits is not unheard of in the current scheme of the law. First, scholars and courts have resisted the application of the naked licensing doctrine in its current form because of its procedural mechanism and the way that it favors defendants with unclean hands. 167 Furthermore, the affirmative duty that the Lanham Act imposes on licensors to supervise licensees has been extended to licensor liability due to misleading or false advertising of licensees as well as products’ liability of licensees. 168 The criticism to the procedure of the doctrine, taken in consideration of the other extensions of the affirmative duty, would lend support to a potential shift in the implementation of the doctrine that upholds the underlying consumer protection policy while shifting the power of litigation out of unclean hands and into the hands of injured consumers themselves.

B. Standing

As aforementioned, three standards must be met for a party to have standing: (1) the plaintiff must have suffered an injury in fact which is concrete, and particularized, and actual or imminent, (2) there must be causation between the injury and the action before the court, and (3) it must be likely that a favorable decision by the court will redress the injury. 169

Pursuant to prong (1), to establish an injury in fact, courts will need to look to false advertising law under the Lanham Act. The statute states in relevant part:

Any person who . . . uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

167 Id.
168 See supra notes 54–56.
(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . .

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.\textsuperscript{170}

Unfortunately, the current case law is grim as to courts finding standing for consumers looking to bring suit under the statute.\textsuperscript{171} Rather, courts have found that the statute is reserved exclusively “to protect the interests of a purely commercial class against the unscrupulous conduct of other commercial entities.”\textsuperscript{172}

However, a close interpretation of the statute seems to lend itself to the potential for an action to be brought by a consumer, even if courts have yet to interpret it that way thus far. The statute provides further, “as used in this subsection, the term ‘any person’ includes any State, instrumentality of a State or employee of a State or instrumentality acting in his or her official capacity.”\textsuperscript{173} However, even with that explanation it seems unusual that the statute uses the word “person,” as opposed to “entity” or “organization.”\textsuperscript{174} Particularly striking is the second mention of the word “person,” as it is accompanied by “he or she.”\textsuperscript{175} The use of both the words “he” and “she” seem to suggest that the “person” mentioned in the second instance could be an individual, rather than a legal entity which may only have been referred to as “it,” “she” alone, or “he” alone. Given that a definition is provided in

\textsuperscript{171} 44 AM. JUR. PROOF OF FACTS 3d 1 (1997) (citing Two Moms and a Toy, LLC v. Int’l Playthings, LLC, 898 F. Supp. 2d 1213 (D. Colo. 2012) (holding plaintiff didn’t have standing for a false advertising claim under the Lanham Act because it was not engaged in the sale of toys or a competitor of the defendant); Kwaak v. Pfizer, Inc., 881 N.E.2d 812 (2008) (holding the consumers in a class against a mouthwash company did not suffer similar injuries and could not certify as a class)).
\textsuperscript{172} Id.
\textsuperscript{173} Id.
\textsuperscript{174} Id. § 1125.
\textsuperscript{175} Id.
the statute, it will be a hard argument to make, but it is also worth noting that the definition itself only uses the word “includes,”¹⁷⁶ and not “includes only” or “shall be limited to.”

Under the proposed theory of this Note, since it is an extension of false advertising and naked licensing, and rooted deeply in the underlying policy, the injury in fact will be based on the language of the Lanham Act with the assumption that there is room in the act to interpret “person” as consumer or class of consumers.

Once injury in fact is established, the next challenge to standing will be causation between the injury and the action before the court. To establish causation, the class of consumers would have to be a similarly situated class of individuals who made purchases based on the notion that the company from which they were purchasing had a code of conduct that they upheld with regard to their international labor standards, not only within the organization but within the web of their supply chain, including licensees. The action before the court, under this theory, is the failure of a company to control the labor standards of licensees and suppliers to ensure compliance with the labor standards that the company promulgates on its website and other public relations. Causation between that action and the injury can be established if consumers make purchase decisions based on the information that they are given from the corporation about that corporation’s labor standards.

For example, imagine Consumer A was a fan of the ABC sports team. The ABC sports team incorporated their commitment to “social responsibility” in much of their advertising. Their code of conduct could be found on their website, and their players often posted pictures on social media that related to their team’s commitment to human rights. This commitment, in fact, is a main reason that Consumer A is an ABC fan. Likewise, Consumer A invests a lot of time and energy into his fandom, and even invests money by purchasing merchandise that bears the ABC logo. The purchases make Consumer A feel a strong sense of purpose and identity, as the ABC brand identity aligns closely with his own.

¹⁷⁶ Id.
Later, a feature in the local paper exposes a scandal that many of the licensees that ABC uses for its merchandising engage in practices that are in direct opposition to what is reflected in ABC’s codes of conduct. Consumer A files a lawsuit under the theory proposed in this Note, as the injury was caused by ABC’s failure to supervise its licensees’ labor standards. The failure to supervise was a direct cause of the false advertising, which in turn, was a direct cause of Consumer A’s injury.

Finally, even after causation is established, a plaintiff must establish that it is likely that a favorable decision by the court will redress the injury. Under the framework of the above example, injunctive relief would redress the injury, as an affirmative duty to actively supervise the licensees’ labor practices would end the false advertising. Further, if supervision does not ensue and the corporation loses its trademark, the injury will also be redressed. Without a trademark, the consumer will no longer build associations with the brand, as the loss of the trademark is a source of information, much like the presence of one is meant to be. If a registered trademark denotes a certain shared identity across all products that incorporate that mark, the lack thereof denotes that that consistent identity should not be expected.

C. Resistance from Corporations

This theory will undoubtedly be met with substantial scrutiny from multinational corporations, as the naked licensing doctrine in its current state has already been regarded as too inflexible and in turn too burdensome on corporations. Among several arguments, corporations will likely assert that the theory imposes a burden that is impossible to overcome given the intricate nature of the supply chain for multinational corporations.

However, the duty imposed under this theory will mimic that of the naked licensing doctrine as it currently exists. That is, under this theory a corporation will have the affirmative duty to supervise labor standards, only as far into the supply chain as they are required to supervise with regard to quality. In this way, a corporation may be hesitant to suggest in court that the affirmative duty poses an undue burden, as they may be exposing a failure to comply with an already existing affirmative duty to supervise
quality. While this limitation to the new proposed duty will leave a gap in enforcement, it will create a higher likelihood of compliance than if the burden was unduly high and impracticable.

Additionally, to alleviate some of the pushback, the injunctive relief requested under the theory will need to be accompanied with some guidance for corporations who either have no supervision mechanism in place, or whose mechanism is inadequate. The guidance can include coordinating with an existing organization like the FLA, to implement a regiment of regular audits.

D. Extending Quality Control to Labor Standard Control

The last major challenge that the theory proposed in this Note will face is convincing courts to extend the naked licensing doctrine’s affirmative duty to supervise licensees for quality control to an affirmative duty to supervise licensees for labor practices. This extension is imperative because the proposed theory only works if it results in an affirmative duty on licensors to supervise their licensees for labor standards.

First, it will be probative to point to actual practices of corporations that strongly support a finding that corporations themselves are aware that their consumers associate the brands with the contents of their CSR codes. Some corporations have written codes that, as extensions to their CSR codes, incorporate their licensees as bound by the codes. Some corporations even reserve themselves a right to monitor practices and terminate business relationships that do not meet their standards. Further,

177 See Licensee and Supplier Code of Conduct, Nat’l Basketball Ass’n (Oct. 30, 2017, 8:52 AM), http://www.nba.com/nbap-code-of-conduct [https://perma.cc/67LF-UP2N] (“In keeping with this mission, NBA Properties, Inc. (“NBAP”) is committed to conducting its business in a socially responsible and ethical manner. We expect all NBAP licensees, including their contractors, engaged in the manufacture and sourcing of products bearing NBA, WNBA, NBDL and USA Basketball (collectively “Product Suppliers”) to share this commitment. At a minimum, all Product Suppliers must adhere to the following Licensee and Supplier Code of Conduct . . . ”).

178 See Global Business Ethics Principles, supra note 95 (“Monitoring and Right to Terminate - Hasbro shall have the right to conduct periodic on-site visits of working and living conditions, including unannounced audits of production records and practices and of wage, hour and payroll information maintained by Facilities, to review and ensure compliance with the Principles. Hasbro retains the right, in its sole discretion, to
some codes make specific reference to their aim towards consumers; Hasbro, for example, notes in its code that it “wants its consumers to have confidence that products manufactured by Hasbro, or its vendors, suppliers and licensees, are produced in accordance with the principles set forth herein and are not made under inhumane or exploitative conditions.”

This language supports the finding that Hasbro is aware that their consumers rely, at least in part, on the information in the code, which they use to be confident of the types of labor practices that can be assumed to occur when purchasing a product bearing a Hasbro trademark (whether directly from Hasbro, or from a licensee). This provides us with the information that the risk for consumer deception is implicated when a CSR code is not complied with, and would support a finding that a licensed product bearing a trademark that had associated with it fair labor practices could run the risk of being “nakedly licensed” if the licensees’ labor practices were not monitored and supervised, in compliance with a written code or otherwise.

Additionally, when looked at through the lens of the Ninth Circuit’s factors for what constitutes naked licensing, the contractual obligation, or the words of the code of conduct, cannot alone be enough to absolve a company of liability under this new theory. To satisfy the affirmative duty to supervise, in addition to a contractual obligation, actual supervision must take place.

Remembering that the naked licensing doctrine is rooted in consumer protection, an extension of the affirmative duty in a way that further protects consumers seems natural. As mentioned, the affirmative duty stems from the concept that consumers use trademarks as a source of information. Consumers relate trademarks to brands, which can be extensive identities almost like

179 Id.
180 See McCarthy, supra note 15, § 18:56.
those of humans.\textsuperscript{181} The connections that consumers draw to their chosen brands is strong, and the full brand identity is associated with a company’s registered trademark. It is a reasonable leap to find that just as a consumer will associate a trademark with a certain quality, a consumer will also associate a trademark with certain human rights standards that that trademark has established itself to encompass. If companies can license their trademark, and with it their brand, without retaining or exercising any control over their licensees to ensure that all the elements of their brand identity are being upheld, then the risk of consumer deception will be high.

Finally, for the proposed theory to be viable, it is imperative that an affirmative duty works in conjunction with the false advertising component of the theory. One of Nike’s major defenses in \textit{Kasky} was that even if the statements they made regarding their labor practices were actionable, the plaintiffs would be held to the \textit{New York Times Co v. Sullivan} standard, in which case they would need to “prove that Nike’s statements were made with knowledge of falsity, or with reckless disregard for truth or falsity.”\textsuperscript{182} While this standard would introduce an insurmountable burden on the plaintiff consumers in a pure false advertising action, it might not be insurmountable if Nike’s affirmative duty to monitor and supervise its licensees under the naked licensing doctrine was invoked. If a court found that there was in fact an affirmative duty to monitor, then proving at the very least “reckless disregard for truth or falsity” would be substantially more plausible, because the burden would then shift back to Nike to present the evidence pertaining to their monitoring practices. If Nike was unable to do that, they would be admitting not only to a failure to supervise, but also to a reckless disregard to the falsity of their statements that would satisfy even the high burden of \textit{New York Times}. It is therefore an essential feature of the theory that it is built on the policy behind the Lanham Act, and it allows both the naked licensing doctrine and false advertising laws to work together.

\textsuperscript{181} Hess, \textit{supra} note 8.

\textsuperscript{182} Vladeck, \textit{supra} note 141, at 1061.
CONCLUSION

Brands are powerful and multinational corporations own exceedingly lucrative trademarks that signify all of the associations consumers make with their brands. For many multinational corporations, a commitment to fair labor standards throughout the supply chain is a core feature of their brand’s image. In turn, consumers rely on the information they are given from multinational corporations when creating brand images and making purchase decisions. If corporations use their commitment to fair labor as a facet of their branding strategy, then they must be held accountable to ensure that what they espouse is true, in order to uphold the consumer protection policy behind the Lanham Act. With the proposed cause of action, consumers will be able to differentiate between the genuinely socially responsible brands and those providing misleading or incomplete information on their labor practices, amongst the thousands of brands they are confronted with daily.