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## The Quality Assurance Function of Trademarks

### Cover Page Footnote

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# THE QUALITY ASSURANCE FUNCTION OF TRADEMARKS

ELMER WILLIAM HANAK, III\*

## I. INTRODUCTION

A TRADEMARK traditionally has been viewed by American courts as functioning to identify the origin or source of the goods to which it is affixed. This judicial conception of the function of a trademark has its origins in "the uses to which marks were put in the Middle Ages."<sup>1</sup> In more recent times trademarks have been recognized as serving a second function—that of assuring the purchaser a certain degree of uniformity or quality in the products to which they are attached. It is not clear how or when judges and legal scholars came to recognize this second function. Much of the credit for developing the quality assurance theory of trademarks goes to Frank I. Schechter, a member of the New York bar who made substantial contributions in the field of trademark literature in the nineteen twenties. However, long before Mr. Schechter's writings, at least some courts had come to recognize and accept this dual role of a trademark. Writing for the Supreme Court in the 1883 case of *Manhattan Medicine Co. v. Wood*,<sup>2</sup> Justice Field noted that a "trademark is both a sign of the quality of the article and an assurance to the public that it is the genuine product of his [the owner's] manufacture."<sup>3</sup>

Today virtually every writer on trademark law accepts the quality assurance function. Harry D. Nims succinctly states that "[t]rade-marks may serve as indications not only of source but also of quality or of uniformity of quality."<sup>4</sup> Rudolf Callmann notes that a trademark "assures the public that goods bearing the same mark are similar in nature, quality or characteristics."<sup>5</sup> The Lanham Trademark Act of 1946<sup>6</sup> indirectly affirms the quality assurance function of trademarks in its definition of a "related company," which notes the need to control "the nature and quality of the goods . . . with which the mark is used."<sup>7</sup>

Indeed one can readily make the argument that in the world of

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1. F. Schechter, *The Historical Foundations of the Law Relating to Trade-Marks* 20 (1925).
2. 108 U.S. 218 (1883).
3. *Id.* at 222-23.
4. 1 H. Nims, *Unfair Competition and Trade-Marks* § 187, at 517 (4th ed. 1947).
5. 1 R. Callmann, *Unfair Competition, Trademarks and Monopolies* § 19.1(d), at 640 (3d ed. 1967).
6. Act of July 5, 1946, ch. 540, 60 Stat. 427 (codified at 15 U.S.C. §§ 1051 et seq. (1970)).
7. Lanham Act § 45, 15 U.S.C. § 1127 (1970).

modern marketing the primary function of a trademark is to indicate degree of quality, and only secondarily to indicate origin or source. Consumers rarely know or care about the origin of a product. As Mr. Callmann notes, "[t]he purchasing public does not usually know who manufactures the trademarked article, and is normally not interested in the details of the maker's commercial situation."<sup>8</sup> Their concern is to be able to relate trademarks to their own personal measure of quality. In short, a consumer wishes to match a trademark with what he likes and dislikes. If the origin of a product is of concern to a consumer, it is only because the manufacturer's products have come to be associated with a certain level of quality. In the 1920 Supreme Court case of *Coca-Cola Co. v. Koke Co. of America*,<sup>9</sup> Justice Holmes noted that the famous trademark COCA-COLA perhaps had become more associated in the public's mind with the product (quality) than with the producer (origin).<sup>10</sup> Today most trademarks clearly are associated more with the level of quality of the underlying product than with the source of the product. It is interesting to observe that as early as 1926, Mr. Schecter foresaw the dominance of the quality assurance function of trademarks when he wrote that "the *true* functions of the trademark are, then, to identify a product as satisfactory."<sup>11</sup>

Given the importance of the quality assurance function of a trademark, the question arises as to what occurs when the mark no longer serves this function. For example, if the trademark TUBORG has come to be associated by the American public with an imported beer of a certain quality, what results when the mark is used on a domestic beer of a decidedly different quality, whether that quality be higher or lower according to individual taste? Unless an explanation accompanies the change in the product, the public is deceived. Its members can no longer definitely rely on being able to match the trademark with what they like or dislike. While the cases dealing with this problem are relatively few in number, American courts generally have recognized its seriousness, and have sought ways of encouraging trademark owners to assure that their marks serve to represent a certain level of quality or uniformity. One purpose of this Article is to examine the means by which courts and concerned administrative agencies have sought to preserve the quality assurance function of trademarks, and to suggest other possible means.

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8. 3 R. Callmann, *Unfair Competition, Trademarks and Monopolies* § 82.2(a), at 774 (3d ed. 1969).

9. 254 U.S. 143 (1920).

10. *Id.* at 146.

11. Schecter, *The Rational Basis of Trademark Protection*, 40 *Harv. L. Rev.* 813, 818 (1927) (emphasis added).

Of course, some changes in the product represented by a trademark are expected by the public. Other changes are readily discernible. In neither case is the public deceived. While the quality assurance function of a trademark is not promoted by such changes, neither is it substantially weakened. Hence, courts always have permitted the trademark owner to make certain changes in the product without informing the public. The final portion of this Article is an analysis of what changes are permissible without explanation.

## II. MEANS TO PRESERVE THE QUALITY ASSURANCE FUNCTION

### A. *Denial of Relief Against Infringement*

The means most frequently employed by courts to encourage trademark owners to preserve the quality assurance function of their marks is to deny them relief in equity against infringers of the mark on the basis of unclean hands if the nature of the underlying product is secretly and substantially altered. While "a change in the quality or nature of the trademarked article" should not suggest abandonment of the mark, "it might result in a forfeiture" of any enforceable rights in the mark or a denial of "protection under the doctrine of unclean hands."<sup>12</sup> Professor McCarthy states that changes in the nature or ingredients of a product which are material and which deceive the public are grounds for denying relief for trademark infringement or unfair competition.<sup>13</sup>

One of the earliest cases holding that a trademark owner was not entitled to relief in equity for infringement of his mark because he secretly and substantially altered the nature of the underlying product was *Independent Baking Powder Co. v. Boorman*.<sup>14</sup> There the manufacturer of a baking powder with the trademark SOLAR had for many years used alum as the acid constituent. Later he substituted phosphate for alum without informing the public. When another manufacturer began using the trademark SOLAR on a baking powder, an infringement suit was brought. In denying relief to the plaintiff, the court noted that his actions in substituting phosphate were "deceptive to the trade and the public . . . and should not be countenanced by a court of equity."<sup>15</sup>

The leading case denying trademark protection to a plaintiff who

12. 3 R. Callmann, *Unfair Competition, Trademarks and Monopolies* § 79.3, at 531 (3d ed. 1969).

13. 1 J. McCarthy, *Trademarks and Unfair Competition* § 17:9, at 599 (1973); 2 *Id.* § 31:16, at 398.

14. 175 F. 448 (C.C.N.J. 1910).

15. *Id.* at 456.

uses his mark in a manner which deceives the public as to the altered nature of the underlying product is *Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc.*<sup>16</sup> Prior to World War I, a German concern manufactured under a secret process a cologne known as 4711. With the entrance of the United States into the War, the Alien Property Custodian seized the firm's American sales agency and subsequently sold it at auction to the plaintiff. However, the secret formula was neither seized nor sold since the actual manufacture of the cologne always had taken place exclusively in Germany. Nevertheless, the plaintiff, while not possessing the secret formula, manufactured his own cologne and applied the 4711 trademark to it. At no time did the plaintiff inform the American public of the altered nature of the cologne. After the War, the German concern established a new sales agency in the United States which began selling the genuine secret formula cologne along with other products under the old 4711 trademark. The plaintiff then brought suit alleging trademark infringement. The Court of Appeals for the Second Circuit, while recognizing that the forced sale of the trademark to the plaintiff had been lawful, refused to enjoin the German defendant from selling under the trademark those "articles as to which the mark connotes preparation under a secret formula."<sup>17</sup> The court reasoned that since the public expected 4711 cologne to be manufactured under the old secret formula, and since the plaintiff did not possess that formula, he "should not be protected in the use of a mark which he can himself use only deceptively."<sup>18</sup> However, the court did note that the plaintiff was the owner of the mark and hence protected the plaintiff in its use of the trademark on those types of products which the German defendant had not sold in America prior to the War.<sup>19</sup> With regard to such products the American public was not deceived since their nature had never been altered.

The use of the doctrine of unclean hands to promote the quality assurance function of trademarks recently has been sustained in *Menendez v. Faber, Coe & Gregg, Inc.*<sup>20</sup> There, the District Court for the Southern District of New York stated that "[t]here is no doubt that a trademark owner who deceives the public by debasing the quality of the product for which his trademark stands may be barred by unclean hands from maintaining an action for infringement."<sup>21</sup>

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16. 38 F.2d 287 (S.D.N.Y. 1929), rev'd on other grounds, 43 F.2d 937 (2d Cir.), cert. denied, 282 U.S. 881 (1930).

17. 43 F.2d at 940.

18. *Id.* at 939.

19. *Id.*

20. 345 F. Supp. 527 (S.D.N.Y. 1972), modified on other grounds sub nom. *Menendez v. Saks & Co.*, 485 F.2d 1355 (2d Cir. 1973), petition for cert. filed sub nom. *Republic of Cuba v. Saks & Co.*, 42 U.S.L.W. 3501 (U.S. Feb. 21, 1973) (No. 73-1287).

21. *Id.* at 556.

At this juncture one point should be made clear. The fact that the defendant infringer is perpetrating a greater fraud on the public and thus operating with even dirtier hands is of no avail to the plaintiff trademark owner. He still is denied relief against infringement if the underlying product has been substantially and secretly altered. As noted by the Court of Appeals for the First Circuit in *Renaud Sales Co. v. Davis*,<sup>22</sup> "[t]he courts do not, in such cases, take into consideration the attitude of the defendant."<sup>23</sup>

However, as Justice Holmes stated in the famous *Coca-Cola* case, "the defects of a plaintiff do not offer a very broad ground for allowing another to swindle him. The defence relied on here [unclean hands] should be scrutinized with a critical eye."<sup>24</sup> In that case the Coca-Cola Company sought to enjoin infringement of its trademark by preventing the defendant from using the trademark KOKE on its beverages. The defendant urged the Supreme Court to deny relief on the ground that the plaintiff had removed a key ingredient from its product without informing the public. Prior to 1900 the Coca-Cola Company had included in its famous beverage a small but significant amount of cocaine. Sometime between 1900 and the passage of the Food and Drug Act of 1906,<sup>25</sup> the plaintiff secretly stopped utilizing cocaine. Justice Holmes noted that whatever deceptive effects the plaintiff's actions might have created around the turn of the century had long since ceased to exist by the time of the suit (1920).<sup>26</sup> The defendant was enjoined from using the trademark KOKE.

The doctrine of unclean hands, in serving to assure that trademarks guarantee a certain level of quality, does have one serious limitation. Assuming that the trademark owner is denied relief because of his unclean hands, the result is not that both he and the infringer are prevented from using the deceptive mark, but rather that they both may use the mark. In short, the public now has to contend with two deceptive marks instead of one. Judges and writers have long been discontent with this limitation in the rule of unclean hands. In the 1897 case of *Hilson Co. v. Foster*,<sup>27</sup> the Circuit Court for the Southern District of New York urged that "this rule might be modified so as to permit the court, for the protection of the general public, to enjoin both parties."<sup>28</sup> As noted by Professor Chafee, leading scholars in the

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22. 104 F.2d 683 (1st Cir. 1939).

23. *Id.* at 685, quoting *Prince Mfg. Co. v. Prince's Metallic Paint Co.*, 135 N.Y. 24, 38, 31 N.E. 990, 993 (1892).

24. *Coca-Cola Co. v. Koke Co. of America*, 254 U.S. 143, 145 (1920).

25. Act of June 30, 1906, ch. 3915, 34 Stat. 768, repealed by Act of June 25, 1938, ch. 675, § 902(a), 52 Stat. 1059. (The subject is now covered by 21 U.S.C. §§ 301 et seq. (1970)).

26. 254 U.S. at 147.

27. 80 F. 896 (C.C.S.D.N.Y. 1897).

28. *Id.* at 901.

field of trademark law—Nims, Derenberg and Callmann—have been “equally critical of the unsatisfactory results of the clean hands doctrine in this group of cases.”<sup>29</sup> However, as Professor Chafee goes on to note, “there are practical obstacles to reform . . . . For a judge to decide flatly against both private parties to a suit in which the public has no representative does not fit well into our adversary system of justice.”<sup>30</sup> The resolution of the problem lies in recognizing that the denial of relief against infringement is not the only means of preserving the quality assurance function of trademarks.

### B. *Section 43(a) of the Lanham Act*

Perhaps the potentially most effective means of promoting the quality assurance function of trademarks lies in section 43(a) of the Lanham Act.<sup>31</sup> It provides in part that any person who applies “a false designation of origin, or any false description or representation” to goods or services and causes them to enter into commerce (which may lawfully be regulated by the federal government) shall be subject to liability in a civil action by any person who believes that he is or is likely to be damaged by such false description or representation.<sup>32</sup> To say the least, the scope of this section is quite broad. The use of a trademark that has become associated with goods of a high quality or certain nature well might be regarded as constituting a false representation when applied without notice to goods of a lesser quality or varying nature. The trademark owner, if he caused the goods to enter into commerce, could be sued by a competitor (or possibly a consumer) believing himself to be harmed by the false representation. As an example, the brewers of LOWENBRAU beer well might have brought suit against the brewers of TUBORG beer if the latter had not given notice that their brewing site had been changed from Denmark to America. The LOWENBRAU brewers could have alleged that the change in brewing sites would allow the holder of the trademark TUBORG to lower their prices and thus compete more effectively, although fraudulently, in the premium imported beer market.<sup>33</sup>

To date, there are no known cases where this precise issue has arisen. However, a study of section 43(a) since its passage in 1946 reveals that litigators and judges have very gradually come to appreciate and accept the potential scope of its coverage. In *L'Aiglon*

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29. Chafee, *Coming Into Equity With Clean Hands*, 47 Mich. L. Rev. 1065, 1079 (1949).

30. *Id.*

31. 15 U.S.C. § 1125(a) (1970).

32. *Id.*

33. See N.Y. Times, Aug. 27, 1973, at 43, col. 7.

*Apparel, Inc. v. Lana Lobell, Inc.*<sup>34</sup> the Court of Appeals for the Third Circuit recognized that for a defendant competitor to be liable under section 43(a) the plaintiff competitor did not have to prove that the defendant's false representation concerning his products actually diverted sales from the plaintiff's products to the defendant's, but only that it might do so.<sup>35</sup> In *Federal-Mogul-Bower Bearings, Inc. v. Azoff*<sup>36</sup> the Sixth Circuit determined that a false designation of origin did not simply mean geographic origin, but also included "origin of source or manufacture."<sup>37</sup>

Perhaps the case that comes closest to illustrating the use of section 43(a) as a potential means of promoting the quality assurance function of trademarks is *Potato Chip Institute v. General Mills, Inc.*<sup>38</sup> The Potato Chip Institute brought suit premised upon section 43(a), seeking an injunction to prevent General Mills from advertising and labeling as potato chips its product known as CHIPOS. It appeared that CHIPOS potato chips, instead of being sliced from raw potatoes—the traditional process for making potato chips—were produced from dried potato granules. While the court recognized that the two processes resulted in different ultimate products, it did not enjoin General Mills from advertising and labeling CHIPOS as potato chips. However, it did order General Mills to include in all advertisements and labels a prominent declaration that CHIPOS potato chips were made from dried or dehydrated potatoes.<sup>39</sup> It is not difficult to imagine that had General Mills originally made these potato chips by slicing raw potatoes and later secretly began producing them from dried potato granules, a court relying on section 43(a) would have had even more incentive to require the aforementioned declaration. Under such circumstances the chances for deception of the public would be much greater than in the actual case since the public would not only be relying on the words "potato chips," but also on the quality or nature of the original raw sliced CHIPOS potato chips to which they had grown accustomed.

In all of the aforementioned cases dealing with section 43(a) the plaintiffs were competitors or commercial concerns. The issue has arisen as to whether a consumer or class of consumers might bring an action premised on section 43(a) as a result of being damaged by a false representation concerning a product or service. Despite the fact that

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34. 214 F.2d 649 (3d Cir. 1954).

35. *Id.* at 651.

36. 313 F.2d 405 (6th Cir. 1963).

37. *Id.* at 408.

38. 333 F. Supp. 173 (D. Neb. 1971), *aff'd*, 461 F.2d 1088 (8th Cir. 1972).

39. *Id.* at 181.

section 43(a) speaks of "any person" being able to bring a suit, the Second Circuit in *Colligan v. Activities Club of New York, Ltd.*<sup>40</sup> held that consumers lacked standing to sue under the section. The court's concern was with the possibility that to hold otherwise "would lead to a veritable flood of claims brought in already overtaxed federal district courts."<sup>41</sup> This decision, with its restrictive reading of section 43(a), has received criticism for constituting "both bad policy and improper judicial interpretation of clear statutory language."<sup>42</sup> However, to date *Colligan* has not been overruled or even adversely commented upon by any other court. The scope of this Article is too limited to speculate on the possible viability of future consumer suits brought under section 43(a) or of future consumer class actions in general. Suffice it to say that as competitors become more aware of the possibilities of section 43(a), consumers will be the ultimate if unintended beneficiaries.

In 1956 Chief Judge Clark remarked in *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*<sup>43</sup> that "there is indication here and elsewhere that the bar has not yet realized the potential impact of this statutory provision."<sup>44</sup> While Judge Clark's statement is generally considered no longer accurate,<sup>45</sup> the fact remains that section 43(a) has yet to be utilized to promote the quality assurance function of trademarks. This is a regrettable situation since section 43(a) could be a very effective tool for this purpose as it does not suffer from the serious limitation of the unclean hands doctrine—permitting the public to be plagued by a number of deceptive marks.

### C. Denial of Registration on the Federal Principal Register

Registration of a trademark on the federal principal register<sup>46</sup> provides a number of procedural and substantive advantages not found in common law. Several benefits are gained by such registration. First, registration on the principal register "shall be *prima facie* evidence of the validity of the registration, registrant's ownership of the mark, and of registrant's exclusive right to use the mark in commerce in connection with the goods or services specified in the certificate [of registration]."<sup>47</sup> After five years, a registration on the principal register

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40. 442 F.2d 686 (2d Cir.), cert. denied, 404 U.S. 1004 (1971).

41. *Id.* at 693.

42. 2 J. McCarthy, Trademarks and Unfair Competition § 27:4, at 249 (1973).

43. 234 F.2d 538 (2d Cir. 1956).

44. *Id.* at 546.

45. See Derenberg, The Twenty-Fifth Year of Administration of the Lanham Trademark Act of 1946, 62 Trademark Rep. 393, 493 (1972).

46. Lanham Act § 45, 15 U.S.C. § 1127 (1970).

47. 15 U.S.C. § 1057(b) (1970) (emphasis added).

may become "incontestable,"<sup>48</sup> and, as such, it "shall be *conclusive evidence* of the registrant's exclusive right to use the registered mark," subject only to a limited number of defenses.<sup>49</sup> Second, registration on the principal register can be the basis of federal jurisdiction for trademark infringement (or other actions arising under the Lanham Act) "*without* regard to the amount in controversy or to diversity or lack of diversity of the citizenship of the parties."<sup>50</sup> In federal court actions arising under the Lanham Act, profits, damages (up to treble the actual amount) and costs are recoverable.<sup>51</sup> Third, registration on the principal register serves as "constructive notice of the registrant's claim of ownership,"<sup>52</sup> and thus eliminates the defense of good faith adoption in an infringement suit against a subsequent user of the same or confusingly similar mark. Fourth, registration on the principal register prevents (at least theoretically) the legal importation of any article which copies or simulates the registered trademark.<sup>53</sup>

If an owner uses his trademark in a manner violative of its quality assurance function, he may be denied federal registration and its attendant benefits. This possibility can serve to encourage an owner to preserve the quality assurance function of his mark.

With regard to marks that have not yet achieved federal registration, section 2(a) of the Lanham Act directs the Commissioner of Patents to refuse registration if the mark "consists of . . . deceptive . . . matter."<sup>54</sup> Additionally, section 13 permits "[a]ny person who believes that he would be damaged by the registration" to file a notice of opposition with the Patent Office.<sup>55</sup> These provisions permit the Commissioner, on his own initiative or at the request of a third party, to deny registration of a mark that materially deceives the public as to the altered nature or quality of the product.

As for marks already on the principal register, section 14 of the Lanham Act permits any person who believes that he is damaged by the registration to file a petition with the Patent Office to have the registration cancelled.<sup>56</sup> When a registrant secretly changes the nature of the product, his competitors, as well as his customers, may be harmed. The secret change could enable the registrant to lower his

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48. Id. § 1065.

49. Id. § 1115(b) (emphasis added).

50. Id. § 1121 (emphasis added).

51. Id. § 1117. Plaintiff's right to recover is subject to other provisions of the Act. See Id.

§§ 1111, 1114.

52. Id. § 1072.

53. Id. § 1124.

54. Id. § 1052.

55. Id. § 1063.

56. Id. § 1064.

prices and thus compete unfairly. In *Hy-Cross Hatchery, Inc. v. Osborne*,<sup>57</sup> an appeal was taken to the Court of Customs and Patent Appeals after the Trademark Trial and Appeal Board had denied a petition to cancel the registration of the trademark HY-CROSS for live poultry. It appeared that the owner of the trademark had varied the breed of chickens sold under the mark. The court recognized that the trademark could be cancelled if the registrant deceptively and materially had altered the nature of the product. However, the court upheld the Trademark Trial and Appeal Board and refused to order cancellation of the mark since it appeared that the registrant had indicated by means other than the trademark the type of chickens sold.<sup>58</sup>

A key element of section 14 is the period within which a petition to cancel may be brought. During the first five years after the date of registration, a petition to cancel may be brought based on any reason.<sup>59</sup> After five years, however, a petition must be based on one of the reasons enumerated in subsections (c), (d) or (e) of section 14.<sup>60</sup> Subsection (c)<sup>61</sup> states in part that a registration may be cancelled if it was obtained in a manner contrary to the provisions of section 2(a), which prohibits the registration of deceptive marks.<sup>62</sup> Hence, if the quality or nature of the underlying product was deceptively altered *before* the registration was granted, a petition to cancel could be brought at any time. If the deceptive alteration occurred *after* the trademark was registered, however, section 2(a) does not apply. Since subsections (c), (d) or (e) do not expressly deal with such a situation, a court might hold that a petition to cancel must be brought during the first five years of registration. It is rather doubtful that a court would set such time constraints since such a narrow interpretation of section 14 is directly contrary to the intent of the Lanham Act—to prevent fraud and deception of consumers and protect against unfair competition.<sup>63</sup> Additionally, the adoption of such a narrow construction would preclude even the Federal Trade Commission, once the five year period of registration has lapsed, from petitioning to cancel a mark that has become deceptive, for the Commission's rights are no greater than those of private parties under subsections (c) and (e).

Like section 43(a) of the Lanham Act, the denial of registration on the federal principal register could be an effective tool in promoting

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57. 303 F.2d 947 (C.C.P.A. 1962).

58. *Id.* at 950. The original designation "No. 111 HY-CROSS AMERICAN WHITES" had been changed to "HY-CROSS 501."

59. Lanham Act §§ 14(a), (b), 15 U.S.C. §§ 1064(a), (b) (1970).

60. 15 U.S.C. §§ 1064(c), (d), (e) (1970).

61. *Id.* § 1064(c).

62. *Id.* § 1052(a).

63. *Id.* § 1127.

the quality assurance function of trademarks. While denial of registration does not prohibit use of a trademark, it does limit the advantages attendant to the mark. One would hope that in the future this tool will be employed more often to promote the quality assurance function.

#### D. *Federal Trade Commission*

Despite broad authority, the Federal Trade Commission rarely has concerned itself with forcing trademark owners to assure that their marks serve to indicate a certain level of quality or uniformity. As previously mentioned, section 14 of the Lanham Act permits the Commission to petition for cancellation of trademark registrations on various grounds, including deceptiveness. However, with one notable exception,<sup>64</sup> the Commission rarely has used the authority granted it. To the knowledge of this writer, there has been no instance when the Commission has sought to petition for cancellation of a mark on the basis that it was being used in violation of its quality assurance function.

The Federal Trade Commission also has authority under section 5 of the Federal Trade Commission Act to prevent unfair competition, including that involving deceptive trademarks.<sup>65</sup> The Commission has issued numerous cease and desist orders prohibiting the use of trademarks that inherently are deceptive. An example of such inherent deceptiveness is the use of the word "liver" in the trademark CARTER'S LITTLE LIVER PILLS when the pills have absolutely no effect on the liver.<sup>66</sup>

However, with one exception,<sup>67</sup> the Federal Trade Commission has not used section 5 to prohibit the use of trademarks that are not inherently deceptive, but have become deceptive because applied to products that have been substantially and secretly altered. Hopefully the Commission will develop a greater sense of awareness regarding the true function of trademarks, and thereby become more concerned with protecting consumers from the fraud, and competitors from the unfair competition, that may result when a trademark owner materially and secretly alters the quality or nature of the underlying product.

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64. *Bart Schwarz Int'l Textiles, Ltd. v. FTC*, 289 F.2d 665 (C.C.P.A. 1961) (FTC petitioned for cancellation of registration where registrant used the term "fiocco" to describe its continuous filament rayon, other synthetic fibers and cotton, although the term commonly described staple rayon yarn).

65. Federal Trade Commission Act § 5, 15 U.S.C. § 45 (1970).

66. *In re Carter Prods., Inc.*, 53 F.T.C. 307 (1956), *aff'd*, 268 F.2d 461 (9th Cir.), cert. denied, 361 U.S. 884 (1959). See also *FTC v. Algoma Lumber Co.*, 291 U.S. 67 (1934) (use of trademark CALIFORNIA WHITE PINE on lumber made from western yellow pine enjoined because of deceptive connotation that lumber was made from a true white pine).

67. *FTC v. Royal Baking Powder Co.*, 4 F.T.C. 1 (1921), *aff'd*, 281 F. 744 (2d Cir. 1922).

### III. DEGREE OF PERMISSIBLE CHANGE IN PRODUCTS REPRESENTED BY TRADEMARKS

Changes in a product do not affect the owner's rights in the trademark unless such changes are regarded as deceptive. "The owner may change the character and quality of his product and so long as he does not deceive the public, his trade-mark rights are not affected."<sup>68</sup>

If a trademark owner decides to alter his product, the safest course for preserving his trademark rights is fully and clearly to inform the public of the changes. When the trademark TUBORG was changed from a foreign to a domestic beer, the owners of the mark, in addition to labeling the change on the product, conducted an extensive television and magazine advertising campaign explaining the change. Courts have uniformly held that an adequate explanation negates the possibility of deception and hence the loss of trademark rights. For example, in *Hy-Cross Hatchery* it was held that a change in the breed of chickens did not constitute grounds for cancellation of the trademark when "the type of chick appears to have been otherwise indicated than by the trademark."<sup>69</sup> Similarly, in *Menendez*, enforceable rights in a trademark formerly applied to cigars made exclusively in Cuba of Cuban tobacco were not forfeited when the mark was applied to cigars made in Florida of non-Cuban tobacco since this fact was stated on the cigar boxes.<sup>70</sup>

Of course, not all unlabeled changes are deceptive. Some are readily discernible by the public. General Motors need not inform prospective buyers of the styling changes embodied in its new PONTIAC automobile, although for purely promotional purposes it spends vast sums heralding such changes. Other changes are not so discernible, and might be regarded as deceptive depending upon the underlying product involved. If the product is one normally purchased without careful scrutiny, changes not readily discernible would prove deceptive. In the two previously discussed cases involving baking powders, the courts, in finding the continued use of the trademarks on altered products to be deceptive, were no doubt influenced by the fact that purchasers have neither the time nor inclination to scrutinize mundane household products purchased relatively frequently at nominal prices.<sup>71</sup> Indeed in *Royal Baking Powder*, despite the fact that the

68. 1 H. Nims, *Unfair Competition and Trade-Marks* § 187, at 517 (4th ed. 1947).

69. *Hy-Cross Hatchery, Inc. v. Osborne*, 303 F.2d 947, 950 (C.C.P.A. 1962) (emphasis omitted).

70. *Menendez v. Faber, Coe & Gregg, Inc.*, 345 F. Supp. 527, 557 (S.D.N.Y. 1972), modified on other grounds sub nom. *Menendez v. Saks & Co.*, 485 F.2d 1355 (2d Cir. 1973), petition for cert. filed sub nom. *Republic of Cuba v. Saks & Co.*, 42 U.S.L.W. 3501 (U.S. Feb. 21, 1973) (No. 73-1287).

71. See *Royal Baking Powder Co. v. FTC*, 281 F. 744 (2d Cir. 1922); *Independent Baking Powder Co. v. Boorman*, 175 F. 448 (C.C.D.N.J. 1910).

trademark owner made a token effort to label the change, the court found the trademark use to be deceptive.

At the other end of the continuum from baking powders are products such as diamonds<sup>72</sup> or very expensive cigars<sup>73</sup> which usually are not purchased until after some examination. In such cases courts require at most minimal labeling to avoid deception. Indeed, labeling of the change might not be required at all.

Finally, it should be made clear that some minor changes, while neither labeled nor discernible, are expected by the consumer and hence are not considered deceptive. The purchaser of a new PONTIAC automobile, while unable to discern all the mechanical changes from prior models, fully expects changes to exist, and, unless they are radical in nature, he is not deceived. In short, "the modern concept of a trade-mark is not so rigid as to forbid *slight* variations necessitated by trade discoveries, newer and more economical methods of making the same product, or changed manufacturing conditions . . . ."<sup>74</sup>

This raises the crucial question of what constitutes a "slight" variation. On this point the cases are not in agreement. Some hold that a change in the ingredients of a product will not result in a loss of trademark rights so long as the quality of the product is not impaired. In *Royal Milling Co. v. J.F. Imbs Milling Co.*,<sup>75</sup> the Court of Appeals for the District of Columbia held that a manufacturer of flour did not lose his trademark rights by secretly substituting hard wheat for soft wheat since the flour always remained consistently "good." Similarly, *Beech-Nut Packing Co. v. P. Lorillard Co.*,<sup>76</sup> an opinion ultimately affirmed by the Supreme Court, stated that the Lorillard Company could alter the formula of certain chewing tobacco without forfeiting its trademark rights if the goal of the change was to "improve the tobacco in any way which would make it marketable."<sup>77</sup> However, this was a very great extension of the holding in *Royal Milling*. In that case, while the variety of wheat used secretly had been changed, the flour was found to be basically the same in quality and nature.<sup>78</sup> In

72. *J.R. Wood & Sons, Inc. v. Reese Jewelry Corp.*, 278 F.2d 157, 159 (2d Cir. 1960) (distinction between diamond ring trademarks ARTCARVED and ART CREST was sufficient to avoid confusion).

73. *Menendez v. Faber, Coe & Gregg, Inc.*, 345 F. Supp. 527, 557 (S.D.N.Y. 1972), modified on other grounds sub nom. *Menendez v. Saks & Co.*, 485 F.2d 1355 (2d Cir. 1973), petition for cert. filed sub nom. *Republic of Cuba v. Saks & Co.*, 42 U.S.L.W. 3501 (U.S. Feb. 21, 1973) (No. 73-1287).

74. *Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc.*, 38 F.2d 287, 295 (S.D.N.Y. 1929) (emphasis added), rev'd on other grounds, 43 F.2d 937 (2d Cir.), cert. denied, 282 U.S. 881 (1930).

75. 44 App. D.C. 207, 208 (D.C. Cir. 1915).

76. 299 F. 834 (D.N.J. 1924), aff'd, 7 F.2d 967 (3d Cir. 1925), aff'd, 273 U.S. 629 (1927).

77. *Id.* at 849.

78. 44 App. D.C. at 208.

*Beech-Nut*, however, by secretly altering the formula Lorillard produced a sweet chewing tobacco quite unlike the original natural chewing tobacco sold under the mark. While the court stressed that the quality of the tobacco had been improved, it could not deny that the nature of the tobacco had been altered drastically.<sup>79</sup> Since quality as applied to chewing tobacco is mainly a matter of individual taste, and since a purchaser of the tobacco expecting a natural flavor would be deceived, it seems that this decision does not promote the quality assurance function of trademarks. It is noteworthy, however, that the change in formula had taken place only after that particular brand of chewing tobacco had been off the market for a few years. Hence, the number of purchasers relying on the trademark to assure a quality natural tobacco was minimal.

Today there still is respectable authority supporting the position that a change in the ingredients of a product will not result in a loss of trademark rights as long as the quality of the product is not impaired. In *Menendez*, the Second Circuit noted in dictum that even had the trademark owner not informed the public that his cigars no longer contained Cuban tobacco, there would be no loss of trademark rights since the purchasing public would not be deceived "if the marks were now used on a *high-quality* non-Cuban tobacco."<sup>80</sup>

Not all courts accept the view that a change in the ingredients, if not accompanied by a reduction in quality, constitutes only a "slight" variation. The other view is that any substitution of one important ingredient for another, even if the quality of the final product remains constant or is improved, results in deception of the public and a forfeiture of trademark rights. In *Independent Baking Powder*, the court stated that "substitution of one *important* ingredient for another . . . worked a forfeiture of whatever trade-mark rights" existed, and the fact that the substituted ingredient was better was immaterial.<sup>81</sup> In the famous 4711 case, the court, while stating that "a variation in formula resulting in a highly inferior" product would result in a loss of trademark rights, also noted that these rights would be lost if the variation resulted in a "wholly different product" regardless of the quality of the product.<sup>82</sup> More recently, the Court of Appeals for the Eighth Circuit, in *Pepsico, Inc. v. Grapette Co.*,<sup>83</sup> held that the use of a trademark formerly associated with a cola type soft drink on a

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79. 299 F. at 849.

80. *Menendez v. Saks & Co.*, 485 F.2d at 1377 (emphasis added).

81. 175 F. at 455 (emphasis added).

82. *Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc.*, 38 F.2d 287, 295 (S.D.N.Y. 1929), rev'd on other grounds, 43 F.2d 937 (2d Cir.), cert. denied, 282 U.S. 881 (1930).

83. 416 F.2d 285 (8th Cir. 1969).

“pepper” type soft drink would deceive the public and result in the loss of trademark rights no matter how high the quality of the pepper drink.<sup>84</sup>

Perhaps the issue of whether the loss of trademark rights should depend upon whether the quality of the product is lowered, or upon whether the nature of the product has been altered, can best be resolved on an individual case basis. As suggested by Professor Chafee, in each case “the real question is what customers care about.”<sup>85</sup> If buyers of flour do not care whether it is made from hard or soft wheat, then the only issue regarding possible loss of trademark rights should be whether the quality of the flour secretly has been lowered. On the other hand, if a buyer of chewing tobacco has come to rely on a certain trademark as representing a natural tobacco, courts should be very concerned when the mark is used without explanation on a sweet tobacco regardless of how good that sweet tobacco may be. The wisdom of looking to see what the customer really cares about was at least touched upon in *Independent Baking Powder*. The court noted that while alum, phosphate or cream of tartar all function to combine with soda in the liberation of gas, the purchasing public makes “much ado” over which ingredient is used.<sup>86</sup> In sum, courts and administrative agencies would be wise in also making “much ado” over the true concerns of the customer.

#### IV. CONCLUSION

There can be no doubt that a trademark serves not only to identify the origin of the product to which it is affixed, but also to assure the purchaser that the product is of a certain quality. Indeed, today’s purchaser often is more concerned with a trademark as indicative of a particular quality as opposed to a particular producer.

In light of the manner in which many, if not most, consumers perceive the role of a trademark, it becomes apparent that an unannounced change in the underlying product—unless the change is discernable, expected or only “slight” in nature—destroys the quality assurance function of the mark and deceives the purchaser. Nevertheless, producers rarely are forced or even encouraged to make certain that their marks serve to assure a certain quality.

The resolution of this problem involves two steps. First, consumers, courts, concerned administrative bodies (particularly the Federal Trade Commission and the Patent Office) and even commercial concerns must become more acutely aware of the importance of

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84. *Id.* at 290.

85. Chafee, *Coming Into Equity With Clean Hands*, 47 Mich. L. Rev. 1065, 1077 (1949).

86. *Independent Baking Powder Co. v. Boorman*, 175 F. 448, 454 (C.C.D.N.J. 1910).

trademarks as guarantees of quality. And second, present laws—such as section 43(a) and the registration provisions of the Lanham Act and section 5 of the Federal Trade Commission Act—must be fully recognized as potential means to promote the quality assurance function of trademarks.