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POST-SALE RESTRICTIONS ON PATENTED SEEDS:
Which Law Governs?

By Rita S. Heimes *

ABSTRACT

Since the agrichemical industry entered the business of creating genetically engineered (“GE”) seeds, farming in America has never been the same. Patents on these GE seeds have been reinforced with so-called “license” agreements that accompany their sale to farmers. Failure to abide the terms of these agreements can land a farmer in federal district court defending a patent infringement lawsuit. Several states have passed legislation relating to the terms of these contracts (known in the industry as “Technology Use Agreements” or colloquially as “bag-tag” agreements). This article explores whether state laws relating to these bag-tag agreements are enforceable, or whether the agreements are, as the industry claims, non-exclusive patent licenses governed by federal patent law. In order to resolve that question, one must first determine whether the transfer of the seeds to the farmer exhausts the patent-holder’s rights in the technology accompanying the seeds. Generally, when someone purchases a patented good she is free to use it, take it apart and rebuild it, and even re-sell it to another without infringing the patent through the “first sale” or exhaustion doctrine. The seed industry, however, characterizes the transfer of patented seeds to the farmer not as a sale, but rather as a license to use the patented genes embodied in the seeds.

* Research Professor and Director, Center for Law & Innovation, University of Maine School of Law. Many thanks go to Peter Yu and Drake University School of Law for an opportunity to give an early presentation on this subject at the annual Summer Institute in Intellectual Property, Biotechnology and Agricultural Sciences. Thanks as well to Peter Pitegoff and the University of Maine School of Law for funding this project, and to the Law School faculty for allowing me to present a draft of this article at a faculty workshop. This article benefitted greatly from the helpful input of Tom Ward, Jay Kesan, Jennifer Wriggins, Dave Owen and Leonard Agneta.
Are the recently-passed state laws – designed to protect farmers and their private property interests from these potentially over-reaching licenses – preempted by federal patent law? This article explores these timely and important issues.
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INTRODUCTION

For millennia, farmers have planted, cultivated, and harvested their crops, often saving seeds from one harvest to create the next. During the last half of the twentieth century, however, agrichemical corporations have entered the seed business, creating genetically engineered ("GE") seeds and acquiring utility patents on their technologies. Yet personal property interests in something as fundamental to life as the right to grow seeds for food is in tension with seeds’ cultural past and inherent self-replicating nature. In line with modern intellectual property practices, moreover, patent holders on GE seeds are using contracts in the form of technology licenses that impose significant post-sale terms and restrictions on end-users (farmers or “growers”). Several state legislatures, perhaps instinctively inclined toward consumer protection and accustomed to setting the rules for contracts accompanying the sale of goods, have contemplated and even occasionally adopted legislation relating to so-called “bag-tag” or “technology use” agreements and the tort consequences from escaped GE pollen.

This article examines what law governs the terms of these agreements and in particular whether the states’ attempts to legislate in this arena will be preempted by federal law. In anticipation of that discussion, this article first briefly explains the history of germplasm development in the United States and the roles of various federal intellectual property laws to encourage innovation in plant biology. Part II discusses the entrance into the market of major agrichemical companies and their use of license agreements to maximize their patents’ leverage. In Part III, this article outlines state laws proposed and adopted in an effort to curb the impact of these technology-licensing agreements on farmers. Part IV addresses the Supreme Court’s latest discussion of patent exhaustion principles in Quanta Computer, Inc. v. LG Electronics, Inc. and the likelihood that these principles will apply to technology-licensing agreements accompanying the sale of patented GE seeds. Finally, Part V explores

1 See Daniel Charles, Lords of the Harvest, Biotech, Big Money and the Future of Food 111 (2001) (“Seeds are a paradox at the heart of agriculture. They are precious and irreplaceable, yet cheap. They exist in a twilight world somewhere between private property (like the farmer’s tractor or the chemical herbicides he buys every year) and the public good (like sunlight and rain). The life they hold is the stuff of myth and metaphor. Companies that sell seed do not completely own it, because the seed, by nature, multiplies in the hands of the customer. Just as the Iroquois and Apache once considered it ridiculous and unnatural for individuals to own land, so farmers and lawmakers around the world have resisted laws that would convert a kernel of grain into intellectual property.”).

the law of preemption and the application of state law to bag-tag contracts.

I. GERMPLASM AS PERSONAL PROPERTY

A. THE ROLE OF FARMERS AND THE FEDERAL GOVERNMENT IN U.S. CROP DEVELOPMENT

Farmers have long engaged in artificial selection and adaptation of plants to help maximize their utility in agriculture. As human populations migrated into new geographic areas, they transplanted seed germplasm and labored to adapt those crops to their new environment. Germplasm proved invaluable to colonial powers as they moved into North and South America. Because plant germplasm reproduces itself, “a single ‘taking’ of germplasm could provide the material base upon which whole new sectors of production could be elaborated.”

American farmers were actively engaged in developing a base of germplasm in the United States even before the Revolutionary War. Of course, a few wealthy landowners tended to be those most successful at importing and adapting seeds to American soil and climate conditions. Thomas Jefferson, for instance, was an avid seed collector who belonged to seed exchange societies that shared seeds and information and worked to introduce new varieties in various geographic areas. These societies sought help from the federal government in developing a base of germplasm in the United States even before the Revolutionary War.

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3 Nathan A. Busch, Jack and the Beanstalk: Property Rights in Genetically Modified Plants, 3 MINN. INTELL. PROP. REV. 1, 7-8 (2002).
4 Id. at 8 n.21 (“The collective genetic stock of a species of plant is called its germplasm.”) (citing JOHN MILTON POEHLMAN, BREEDING FIELD CROPS 4 (3d ed. 1987)).
6 Id. at 261-62.
8 Busch, supra note 3, at 8 (“The process of germplasm development, and the farmer’s role in that process, was well established before the independence of the United States, even though the product of the process was nowhere near mature in nature.”).
9 Id. at 8-9; Aoki, supra note 5, at 264.
10 Busch, supra note 3, at 9 (“As a result, members of agricultural societies were able to develop successful farms and plantations while simultaneously broadening the germplasm available in the United States.”). Thomas Jefferson wrote that “[t]he greatest service which can be rendered any country is to add a useful plant to its culture.” Thomas Jefferson, Memorandum of Services, in JEFFERSON: WRITINGS 702 (Merrill D. Peterson ed.,1984).
government in their aim to “determine which varieties of crops were capable of surviving in the American climate.”

The federal government soon acknowledged, however, that “neither individual altruism nor individual wealth could sustain plant collection over the time and at the scale needed to provide the country with the adapted base of germplasm it required for rapid agricultural development.” Because the common farmer was not in a position to join the exclusive agricultural societies, moreover, he had limited access to varieties of germplasm and could not meaningfully participate in the expansion of agricultural productivity in the United States. Beginning with an initiative of the Secretary of the Treasury in 1819, the federal government became engaged in the collection of plant germplasm from around the world, and expanded its role in 1836 when the United States Patent Office (“PTO”) established a repository for germplasm samples from the Navy’s global plant expeditions. In the 1840s, the PTO had an established program for sending seeds to farmers across the county. As described by agricultural historian Jack Kloppenburg:

The development of the adapted base of germplasm on which American agriculture was raised is the product of thousands of experiments by thousands of farmers committing millions of hours of labor in thousands of diverse ecological niches over a period of many decades. Introductions might or might not be successful, but in any case they had an opportunity to cross naturally with established land races, so that, even where they failed, they might leave a useful legacy of genetic variability.

. . . [T]he nation’s farmers employed simple mass selection to improve the land races of the crops they grew by screening out poorly adapted types and saving superior individuals and populations for seed.

A hallmark of the federal government’s early seed distribution program was that farmers received the seeds free of charge.

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11 Aoki, supra note 5, at 264.
12 Kloppenburg, supra note 7, at 54.
13 Busch, supra note 3, at 9.
14 Aoki, supra note 5, at 264-65.
15 Id. at 265.
16 Kloppenburg, supra note 7, at 56-57.
17 See Aoki, supra note 5, at 266-67; Busch, supra note 3, at 19 (“The underlying purpose of the government’s gratuitous seed program was to expand the germplasm available and to allow farmers to develop varieties that were particularly well suited
Although a small private seed industry existed at the time, it was primarily limited to vegetable and flower seeds enjoyed by home gardeners.\textsuperscript{18} Commercial farmers generally acquired seeds from the government, and produced their own next generation of seeds for trading to other farmers or planting themselves the next year.\textsuperscript{19}

**B. THE RISE OF THE COMMERCIAL SEED INDUSTRY AND AN INTELLECTUAL PROPERTY REGIME FOR PLANTS**

At least three major factors have been identified as contributing to the rise of the commercial seed industry in the twentieth century. One was the termination of the federal government’s gratuitous seed program in 1924, which took the government out of competition with the private sector.\textsuperscript{20}

Another was the “re-discovery” of Gregor Mendel’s plant genetics studies and the rapid growth and acceptance of hybridization. At this point in history, hybridization meant that “‘two varieties would be cross-bred, producing new genetic variability . . . and single line selection was then applied to the progeny of the cross,’ thereby transferring individual characteristics from one variety to another.”\textsuperscript{21}

Although publicly-funded land grant universities and private seed associations had previously dominated the research field in plant hybrids, private seed companies began to invest more resources in

\textsuperscript{18} See Aoki, \textit{supra} note 5, at 267; \textit{see also} Busch, \textit{supra} note 3, at 22 (noting that during the last forty years of the nineteenth century the seed manufacturing industry made “substantial inroads into the flower and vegetable seed markets” because the seed sets in such plants tend to mature after crops are harvested so that “the home gardener was disinclined to produce . . . seeds for himself”).

\textsuperscript{19} See Aoki, \textit{supra} note 5, at 267; Busch, \textit{supra} note 3, at 22 (“By the beginning of the twentieth century, the seed manufacturing industry had gained only a small fraction of the market for field crop seeds, a market that was almost exclusively dominated by on-farm production of seed and sale of the seed through inter-farm commerce.”).

\textsuperscript{20} See Busch, \textit{supra} note 3, at 24, 31.

\textsuperscript{21} Aoki, \textit{supra} note 5, at 269 (quoting KLOPPENBURG, \textit{supra} note 7, at 79) (quotation marks omitted). The techniques of selective breeding and cross-breeding are credited with creating the modern food crops we know today, which “have been altered to such an extent that their wild ancestors are unrecognizable, and in some cases they are unknown altogether.” H.R. SUBCOMM. ON BASIC RESEARCH OF J.R. COMM. ON SCIENCE, SEEDS OF OPPORTUNITY: AN ASSESSMENT OF THE BENEFITS, SAFETY, AND OVERSIGHT OF PLANT GENOMICS AND AGRICULTURAL BIOTECHNOLOGY, COMM. PRINT 106-B, at 10, 14 (2000).
improving existing plant varieties to express desirable traits such as disease or drought resistance, or higher yield.\textsuperscript{22} This, in turn, led private capital to invest in seed germplasm generation.\textsuperscript{23} One attractive characteristic of hybrids for investors was their first generation’s tendency to produce very high yields, while the second and third generations produced drastically lower yields.\textsuperscript{24} This encouraged farmers to return each year to the seed company for the next season’s high-yield crop.\textsuperscript{25} Seed manufacturers maintained the first generation inbred seed lines as trade secrets, moreover, selling only their progeny to the farmer.\textsuperscript{26} Thus any farmer wishing to remain productive and competitive was compelled to “abandon his traditional practice of saving seed to plant in the next crop cycle and instead become reliant on the seed manufacturing industry.”\textsuperscript{27}

A third development in the U.S. seed industry was the growing role of federal intellectual property law to encourage innovation in plant varieties and plant genetics. The first Patent Act was passed in 1790 pursuant to Article I, section 8, clause 8 of the U.S. Constitution.\textsuperscript{28} Section 101 of the Patent Act provides that patents may be granted for inventions or discoveries of “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.”\textsuperscript{29} Patents issued under this section of the Patent Act are known as “utility patents.”\textsuperscript{30} In 1930, Congress passed the Plant Patent Act (“PPA”),\textsuperscript{31} which for the first time expressly brought plants within the scope of useful things subject to

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\textsuperscript{22} See Aoki, supra note 5, at 269-70. See also Jorge Fernandez-Cornejo, Econ. Research Serv., U.S. Dept. of Agric., Agric. Information Bulletin No. 786, The Seed Industry in U.S. Agriculture: An Exploration of Data and Information on Crop Seed Markets, Regulation, Industry Structure and Research and Development 41, 42 (from 1960 to 1965 U.S. private research and development (R&D) expenditures increased by around $514 million while public R&D expenditures remained flat, resulting in a marked “shift of more R&D activity to the private sector”).

\textsuperscript{23} Aoki, supra note 5, at 271.

\textsuperscript{24} Id.

\textsuperscript{25} Id.

\textsuperscript{26} Busch, supra note 3, at 29.

\textsuperscript{27} Id.

\textsuperscript{28} 1 Chisum on Patents, § 1.01, at 1-9 (2004); See Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 228 (1964) (“Pursuant to [Article I, section 8, clause 8 of the U.S. Constitution], Congress in 1970 enacted the first federal patent and copyright law, 1 Stat. 109, and ever since that time has fixed the conditions upon which patents and copyrights shall be granted.”).


\textsuperscript{30} 1 Chisum on Patents, § 1.01, at 1-7 (2004).

The PPA amended the general utility patent provision as follows:

Any person who has invented or discovered any new and useful art, machine, manufacture, or composition of matter, or any new and useful improvements thereof, or who has invented or discovered and asexually reproduced any distinct and new variety of plant, other than a tuber-propagated plant, not known or used by others in this country, before his invention or discovery thereof, . . . may . . . obtain a patent therefor.33

Congress later amended the patent statute to place plant patents into a separate chapter of Title 35 entitled “Patents for plants.”34 The Supreme Court has characterized this change as “merely a housekeeping measure that did nothing to change the substantive rights or requirements for a plant patent.”35 Protection under the plant patent provisions was still limited to asexual reproduction of a plant, which “occurs by grafting, budding, or the like, and produces an offspring with a genetic combination identical to [its] parent.”36

In 1970, Congress passed the Plant Variety Protection Act (“PVPA”) to extend “patent-like protection to novel varieties of sexually reproduced plants.”37 Specifically, “the PVPA provides plant

35 J.E.M. Ag Supply, 534 U.S. at 133.
36 Id. at 132. The J.E.M. Ag Supply Court explained the timing of the PPA in light of the government’s “extensive free seed program” through 1924, and seed companies’ interests as of 1930 in trying to successfully commodify seeds. “There was no need to protect seed breeding because there were few markets for seeds.” Id. at 136 (citing KLOPPENBURG, supra note 7, at 71). Meanwhile, “nurseries at the time had successfully commercialized asexually reproduced fruit trees and flowers. These plants were regularly copied, draining profits from those who discovered or bred new varieties. Nurseries were the primary subjects of agricultural marketing so it is not surprising that they were the specific focus of the PPA.” Id. at 136-37 (citing Cary Fowler, The Plant Patent Act of 1930: A Sociological History of its Creation, 82 J. PAT. & TRADEMARK OFF. SOC’Y 621, 634-35; Orville H. Kneen, Patent Plants Enrich Our World, NATIONAL GEOGRAPHIC, Mar. 1948, at 357, 363).
37 Asgrow Seed Co. v. Winterboer, 513 U.S. 179, 181 (1995). See Plant Variety Protection Act, Pub. L. No. 91-577, § 1, 84 Stat. 1542 (1970) (codified as amended at 7 U.S.C. § 2321 (2006)). Janis and Kesan explain: “Also reflecting the progression of European thought, the PVPA emerged not because it was necessarily compelling on its own merits, or because it was an inevitable complement to existing patent protection, but because it appeared to be the politically least objectionable
variety protection for: ‘[t]he breeder of any sexually reproduced or tuber propagated plant variety (other than fungi or bacteria) who has so reproduced the variety. . . .’ 38 Novel variety developers may obtain a certificate of protection from the Plant Variety Protection Office. 39 Someone infringes a PVPA certificate if he, among other things, “sells or markets the protected variety, sexually multiplies the variety as a step in marketing, uses the variety in producing a hybrid, or dispenses the variety without notice that the variety is protected.” 40

The PVPA contains important liability exemptions. Under the so-called “brown-bag” exemption, farmers were allowed to save, replant, or resell to their neighbors PVPA-protected seeds. 41 Congress, in 1994, eliminated “the exemption from infringement liability for farmers who sell PVPA-protected seed to other farmers for reproductive purposes” 42 but the exemptions for saving and replanting seed remain. The Supreme Court has held that “saved seed” under the PVPA exemption applies to seed a farmer saves for replanting:

Farmers generally grow crops to sell. A harvested soybean crop is typically removed from the farmer’s premises in short order and taken to a grain elevator or processor. Sometimes, however, in the case of a plant such as the soybean, in which the crop is the seed, the farmer will have a portion of his crop cleaned and stored as seed for replanting his fields next season. We think it clear that this seed saved for replanting is what the provision [in the PVPA] means by “saved seed”—

38 J.E.M. Ag Supply, 534 U.S. at 138 (quoting 7 U.S.C. § 2402(a) (2006)).
39 See 7 U.S.C. §§ 2421, 2422, 2481-2483 (2006). To acquire a PVP certificate, an applicant must demonstrate to an examiner that the variety is new, distinct, uniform and stable. See Janis & Kesan, supra note 32, at 746 (citations omitted). The PVP regime differs from the utility patent regime in that it does not require applicants to demonstrate nonobviousness or meet the stringent enablement description of section 112 of the Patent Act. Id. at 748 (citations omitted).
40 J.E.M. Ag Supply, 534 U.S. at 139 (citing 7 U.S.C. § 2541(a) (2006)).
41 Aoki, supra note 5, at 284 (citing 7 U.S.C. § 2543 (2001)). “A brown-bag sale occurs when a farmer purchases seeds from a seed company, . . . plants the seeds in his own fields, harvests the crop, cleans it, and then sells the reproduced seed to other farmers (usually in nondescript brown bags) for them to plant as crop seed on their own farms.” Asgrow Seed Co., 513 U.S. at 182.
not merely regular uncleaned crop that is stored for later market sale or use as fodder.\textsuperscript{43}

In addition to the brown-bag exemption, the PVPA also has a research exemption which provides: “The use and reproduction of a protected variety for plant breeding or other bona fide research shall not constitute an infringement of the protection provided under this chapter.”\textsuperscript{44}

In summary, the PPA and the PVPA represent intellectual property laws specifically tailored to novel developments in plants and seeds, taking into account societal needs specific to the agricultural industries. These statutes do not, as demonstrated below, offer as much protection to innovators of genetically engineered plants as they would like; thus, they have turned to utility patents and contracts to carve out the broadest possible property interests. These instruments, in turn, offer farmers fewer options to save, replant, and sell their seeds.

C. \textbf{TRANSGENIC PLANTS AND UTILITY PATENTS}

In the 1970s, Asgrow Corporation developed a variety of soybeans called Asgrow 3127 that “out-produced all other soybean varieties on the market, and gradually took over great sections of the Midwestern corn/soybean belt.”\textsuperscript{45} Although Asgrow was able to take some advantage of the PVPA to hold on to market share, the law did not prevent its rivals from crossbreeding 3127 with their own varieties and producing “copies,” nor did it “prevent farmers from planting their fields full of 3127, saving perhaps one percent of the harvest, cleaning the grain, and planting it right back in the field as [saved] seed the following year.”\textsuperscript{46} This may have seemed natural to the farmers, but it put them in competition with Asgrow.\textsuperscript{47}

Asgrow’s lawsuit against Iowa farmers Denny and Becky Winterboer helped to clarify the saved seed exemption under the PVPA and amounted to a win for plant breeders. The Supreme Court clarified what Congress intended to be the liabilities and exemptions

\textsuperscript{43} Id. at 188-89 (emphasis in original).
\textsuperscript{44} 7 U.S.C. § 2544 (2006). See Janis & Kesan, supra note 32, at 751 (“The presence of a research exemption separate from the noncommercial acts exemption may suggest that a competing plant breeder can appropriate a protected variety without authority, use it in a breeding program to develop new commercial varieties (that are not ‘essentially derived varieties’), and be free of any PVPA liability.”).
\textsuperscript{45} CHARLES, supra note 1, at 111.
\textsuperscript{46} Id.
\textsuperscript{47} Id.
for farmers under the PVPA. In particular, Congress created a property right for breeders of plant varieties who qualified for a PVPA certificate. Farmers who purchased seed protected under the PVPA in an authorized sale were allowed to plant the seed, and either sell the offspring for non-reproductive purposes (as a crop), or save some of the seed for replanting and sell the offspring of the saved seed as a crop. They were not allowed, the Supreme Court held, to harvest the offspring for the purpose of selling it to others for replanting, as that infringed the statutory rights of the PVPA-certificate holder.

Asgrow’s case signaled a shift in enforcement of plant intellectual property rights from litigation against corporate competitors to lawsuits against the end-user farmer. The case also marks the “transformation of the seed as a good that was purchased with no strings attached into a good subject to numerous statutory and contractual conditions. The seed is not only a commodity, but may also be licensed, as opposed to only purchased.” Meanwhile, as the advances in biotechnology were changing the seed business from a service business to an immensely profitable, high-technology industry, new opportunities and conflicts arose from patent law and licensing.

The product that best illustrates these technological and legal developments is the ROUNDUP READY soybean produced by Monsanto Corporation. Monsanto is one of the world’s largest agrichemical corporations. In the 1970s, Monsanto brought to market an herbicide made of a chemical known as glyphosate and

\[48\] Asgrow Seed Co., 513 U.S. at 188 n.3.
\[49\] Id. at 187-88.
\[50\] Id. at 188-89.
\[51\] Aoki, supra note 5, at 292.
\[53\] CHARLES, supra note 1, at 111-12 (“It was a service business; seed companies mainly saved farmers the work of cleaning, storing and testing seed.”).
\[54\] Id. at 113-14.
\[55\] See, e.g., Haley Stein, Intellectual Property and Genetically Modified Seeds: The United States, Trade, and the Developing World, 3 NW. J. OF TECH. & INTELL. PROP. 160, 164 (2005) (“Since the early nineties, Monsanto has purchased Holden's Foundation Seed for $1.2 billion, acquired a forty percent hold on the seed company Dekelo, and gained full ownership of Asgrow, Agractus, and Global Calgene--all major players in the global seed industry.”).
\[56\] See CHARLES, supra note 1, at 61-62; see also Monsanto Co. v. McFarling, 363 F.3d 1336, 1338 (Fed. Cir. 2004) (Glyphosate is “a chemical that indiscriminately kills vegetation by inhibiting the metabolic activity of a particular enzyme, 5-enolpyruvyl-shikimate-3 phosphate synthase (‘EPSPS’). EPSPS is necessary for the
The product was unique in its ability to kill “almost everything that was green and growing” and then “degrade[] quickly when exposed to sunlight and rain.”

Through genetic manipulation, Monsanto produced genetically engineered soybeans seeds that would not die when sprayed with glyphosate.

Monsanto also produced genetically engineered cotton, canola, and other species amenable to direct applications of its ROUNDPUP herbicide and marketed them all as “a comprehensive high-yield seed technology system.” These products were commonly sold under the ROUNDPUP READY trademark.

After the United States Patent and Trademark Office Board of Patent Appeals and Interferences had held in 1985 that plants were within the definition of “manufacture” or “composition of matter,” Monsanto confidently obtained several utility patents under section 101 of the Patent Act to cover its genetically engineered seeds.

For instance:

United States Patent No. 5,633,435 (“the ‘435 patent”) relates to the gene encoding the modified EPSPS enzyme, and sweepingly claims, inter alia, the “isolated DNA molecule” encoding it, . . . “[a] glyphosate-tolerant plant cell comprising” that DNA molecule . . . ;

conversion of sugars into amino acids—and thus for growth—in many plants and weeds.

58 CHARLES, supra note 1, at 61.
59 McFarling, 363 F.3d at 1338-39 (“In soybean seeds, the ROUNDPUP READY® technology operates by inserting the gene sequence for a variant of EPSPS that is not affected by the presence of glyphosate but that still performs the sugar-conversion function required for cell growth. Thus, ROUNDPUP READY® soybean seeds produce both a ‘natural’ version of EPSPS that is rendered ineffective in the presence of the glyphosate in ROUNDPUP® herbicide, and a genetically modified version of EPSPS that permits the soybean seeds to grow nonetheless. ROUNDPUP®, or other glyphosate-based herbicides, can thus be sprayed over the top of an entire field, killing the weeds without harming the ROUNDPUP READY® soybeans.”).
60 See Aoki, supra note 5, at 253.
63 Monsanto and other plant technology developers had confidently sought utility patents under section 101 for their genetically engineered plants and seeds. See J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred Int’l, Inc., 534 U.S. 124, 127 (2001) (by 2001 when the case was decided, the U.S. Patent and Trademark Office had “issued some 1,800 utility patents for plants, plant parts and seeds pursuant to 35 U.S.C. § 101.”).
“[a] glyphosate-tolerant [sic] plant comprising” that plant cell . . . ; “[a] seed of a glyphosate-tolerant plant,” . . . ; a particular “transgenic soybean plant,” . . . ; and “[a] method of producing genetically transformed plants which are tolerant toward glyphosate herbicide,” . . . .

The Supreme Court made clear in 2001 that utility patents appropriately applied to plants in *J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred International, Inc.* There, the U.S. Supreme Court considered whether the PPA and PVPA were the exclusive federal statutory rights available “to exclude others from reproducing, selling, or using plants or plant varieties.” It noted that in spite of the special protections Congress afforded asexually reproduced plants in the PPA and sexually reproduced plants in the PVPA, “plants have always had the potential to fall within the general subject matter of § 101, which is a dynamic provision designed to encompass new and unforeseen inventions.” It held that “newly developed plant breeds fall within the terms of § 101, and that neither the PPA nor the PVPA limits the scope of § 101’s coverage.”

Seeds are now commonly the subject of federal intellectual property laws, but their ownership as a form of personal property remains at odds with their history in American agriculture and their ability to self-replicate. The patent regime, moreover, turns out to be an imperfect means by which to control how seeds are made, used, and sold. Seed manufacturers and patent owners have therefore relied heavily on contracts in the form of technology licenses to create the broadest protection for their property interests.

II. “BAG-TAG” AGREEMENTS AND THEIR ENFORCEMENT

Long before *J.E.M. Ag Supply* confirmed the application of section 101 of the Patent Act to genetically engineered seeds, major agrochemical companies like Monsanto enhanced their intellectual property position through the use of licenses, with both the manufacturers of their patented seeds and the end-user farmers. Monsanto’s basic strategy was to become “the Microsoft of agriculture” by licensing its genetic engineering technologies to seed

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64 *McFarling*, 363 F.3d at 1338-39 (errors and additions in original).
66 *Id.*
67 *Id.* at 135.
68 *Id.* at 145.
69 *Charles*, supra note 1, at 124.
companies who could then sell seeds to farmers at a higher price, sharing the profit with Monsanto.\footnote{See id. at 120-24 (explaining Monsanto’s negotiations with Pioneer Hi-Bred Company to license Monsanto’s ROUNDUP READY technology, and its negotiations with Pioneer and other seed companies to license its Bt technology, which produced plants that killed corn borers and other pests).}

Journalist Daniel Charles explains in his book, Lords of the Harvest, how Monsanto and its licensees arrived at a business model to charge farmers a technology fee and require them to sign a “license agreement.” Monsanto realized not long after ROUNDUP READY seeds hit the market that farmers could not get their hands on enough of them.\footnote{Id. at 151.} The company had failed, however, in its early licensing arrangements to secure royalties worth nearly what it believed could be charged for the ROUNDUP READY technology, and “[m]ost of the seed industry seemed incapable of charging farmers what Monsanto thought the genes were worth.”\footnote{Id.}

[W]hen Monsanto licensed its genes to seed companies, it turned over control of these treasures, in Monsanto’s view, to weak-kneed enterprises with self esteem problems. There had to be a better way, Monsanto’s executives said to each other, a way for Monsanto to maintain control over these genes, to capture for itself more of their value. . . . The solution, as it finally took shape, was praised by some as a masterstroke of business strategy and condemned by others as a perfidious scheme to turn farmers into serfs.\footnote{Id. at 152.}

Concerned that if they simply quadrupled the price of a bag from $30 to $120 “the farmers would get mad,” seed company executives “got the idea of the farmer paying for the insecticidal portion separately.”\footnote{Id.}

Lights flashed in the heads of executives . . . ; bells rang. Perhaps farmers could pay a separate ‘technology fee’ to Monsanto, in effect buying the new genes in a separate transaction from the seed purchase. Indeed, perhaps Monsanto could license its patented genes directly to each farmer! The arrangement would make Monsanto the sole supplier of these genes to every farmer, allowing Monsanto to set and maintain a standard price for its genes. Even more important,
Monsanto could use that license to enforce a ban on farmers using part of their ROUNDUP READY harvest as seed for the following year.\textsuperscript{75}

Monsanto had to convince licensed seed companies to give up their rights to Monsanto’s genes, which many readily did once they realized Monsanto would be doing “the dirty work” of suing farmers.\textsuperscript{76} Pioneer Hi-Bred, which had negotiated royalty-free rights to the ROUNDUP READY technology, also was able to match Monsanto’s prices “and quietly insist on similar terms for its ROUNDUP READY soybeans, without taking much of the heat or surrendering any of the profits.”\textsuperscript{77}

In fact, Monsanto’s licensing scheme has had two components. First, Monsanto licenses its patented genes to seed manufacturing companies who gain the right to insert Monsanto’s patented genetic traits into the germplasm of their seeds.\textsuperscript{78} Monsanto receives a royalty, or “technology fee,” every time a bag of seed containing its technology is sold to a farmer.\textsuperscript{79} Seed manufacturers are prevented from selling seed to farmers, also known as “growers,” unless the farmer signs a license agreement.\textsuperscript{80}

The current version of Monsanto’s bag-tag agreement is titled “Monsanto Technology/Stewardship Agreement (Limited Use License).”\textsuperscript{81} This detailed form has been characterized by Monsanto and by federal courts as a license to use Monsanto’s patented technology, as opposed to an “unconditional sale” of the seeds as goods.\textsuperscript{82} The farmer/grower receives the right to “purchase and plant [s]eed”\textsuperscript{83} as well as “the right to use the Monsanto Technologies”\textsuperscript{84}.

\textsuperscript{75} Id.
\textsuperscript{76} Id. at 152-53.
\textsuperscript{77} Id. at 154.
\textsuperscript{78} See Monsanto Co. v. McFarling, 363 F.3d 1336, 1339 (Fed. Cir. 2004).
\textsuperscript{79} Id.
\textsuperscript{80} Monsanto Co. v. Scruggs, 459 F.3d 1328, 1333 (Fed. Cir. 2006) (“The licenses also impose certain restrictions on seed sellers, including that seed companies may not sell seed containing Monsanto’s technology to growers unless the grower signs one of Monsanto’s license agreements; and that seed so sold may be used by growers to grow only a single commercial crop.”); see also Monsanto Co. v. Trantham, 156 F. Supp. 2d 855, 865-66 (W.D. Tenn. 2001) (licensing agreements between Monsanto and seed producers require farmers purchasing seed grown with Monsanto’s technology to sign licensing agreements prohibiting farmers from saving seed).
\textsuperscript{82} See McFarling, 363 F.3d at 1339.
\textsuperscript{83} Monsanto Technology Agreement, supra note 81.
subject to several conditions. Those conditions require, among other things, that the farmer agrees:

To use Seed containing Monsanto Technologies solely for planting a single commercial crop.

Not to save or clean any crop produced from Seed for planting and not to supply Seed produced from Seed to anyone for planting other than to a Monsanto licensed seed company.

Not to transfer any Seed containing patented Monsanto Technologies to any other person or entity for planting.

To plant and/or clean Seed for Seed production, if and only if, Grower has entered into a valid, written Seed production agreement with a Seed company that is licensed by Monsanto to produce Seed. . . . Grower may not plant and may not transfer to others for planting any Seed . . . for crop breeding, research or generation of herbicide registration data.85

This version of the agreement, as well as prior versions, contains a forum selection clause specifying the U.S. District Court for the Eastern District of Missouri and provides that the contract shall be governed by Missouri law.86 Some of Monsanto’s earlier agreements with farmers allegedly contained provisions allowing Monsanto agents to enter the farmers’ land to test for infringement,87 and liquidated damages of up to 120 times the technology fee per bag of seed.88

Monsanto has not been shy about suing its customers. According to Monsanto’s website, it has filed 138 lawsuits against U.S. farmers since 1997, averaging about 10 per year.89 In these cases, Monsanto asserts patent infringement claims as well as breach of contract claims. The three examples that follow were selected for the impact they have made: first, on society’s awareness of

84 The “Monsanto Technologies” are defined to include several varieties of soybeans, corn, cotton, sugarbeets, canola and alfalfa bearing Monsanto’s trademarks and containing its patented genes. Id.
85 Id.
86 Id.
88 The Federal Circuit struck down the 120 multiplier as invalid under Missouri law. McFarling, 363 F.3d at 1347.
Monsanto’s investigation practices and litigiousness; and second, on the development of patent licensing law.

A. **Monsanto v. Schmeiser**

One of the most visible cases Monsanto brought was to enforce its Canadian patent on glyphosate-resistant canola. Monsanto sued Percy Schmeiser, a long-time Saskatchewan farmer, for growing canola containing Monsanto’s patented gene without signing a Technology Use Agreement. Among the controversial aspects of the case was Monsanto’s method of discovering Schmeiser’s infringing conduct. Monsanto hired an investigation agency to conduct random audits of local canola crops; the agency investigated Schmeiser’s farm specifically after receiving a tip that unlicensed ROUNDUP READY canola was growing there. Based on suspicion raised by positive tests of Schmeiser’s crops, Monsanto eventually obtained a court order to enter Schmeiser’s fields for additional testing.

Schmeiser repeatedly maintained that he did not intentionally plant Monsanto’s ROUNDUP READY canola and that Monsanto’s patented gene had drifted onto his field without his knowledge or consent. Monsanto prevailed in the case, which was sufficiently publicized in the United States to have influenced the proposed state laws discussed in this article’s next section.

B. **Monsanto v. McFarling**

Mississippi soybean farmer Homan McFarling purchased 1,000 bags of ROUNDUP READY soybeans in 1998 and signed a Technology Agreement with Monsanto. He saved 1,500 bushels of his 1998 harvest and replanted them in 1999. When McFarling sent his saved seed to be cleaned, Monsanto took samples and analyzed

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91 Id. (“Monsanto requires a farmer who wishes to grow ROUNDUP READY Canola to enter into a licensing arrangement called a Technology Use Agreement (“TUA”). . . . The TUA gives Monsanto the right to inspect the fields of the contracting farmer and to take samples to verify compliance with the TUA. The farmer must also pay a licensing fee for each acre planted with ROUNDUP READY Canola.”).
92 Id.
93 Id. ¶ 63-64.
94 Id. ¶ 6.
95 Monsanto Co. v. McFarling, 363 F.3d 1336, 1339 (Fed. Cir. 2004).
96 Id.
their genetic makeup. Monsanto then sued McFarling for patent infringement and breach of the Technology Agreement.

McFarling argued that the Technology Agreement’s restrictions against saving seed amounted to patent misuse, a doctrine intended “to prevent a patentee from using a patent to obtain market benefit beyond that which inures to the statutory patent right.” The classic formulation of the patent misuse test is “whether, by imposing conditions that derive their force from the patent, the patentee has impermissibly broadened the scope of the patent grant with anticompetitive effect.” McFarling argued that “by prohibiting seed-saving, Monsanto ha[d] extended its patent on the gene technology to include an unpatented product—the germplasm—or God-made soybean seed which is not within the terms of the patent.”

The Federal Circuit dismissed McFarling’s arguments that Monsanto impermissibly “tied” the patented genetic trait to the tangible seed and germplasm. The court noted that it considered for the first time whether a patent misuse argument could apply where the licensed goods made additional goods that were not incorporated in the underlying license agreement. It held that the Technology Agreement’s restrictions on the use of goods produced by the licensed product are not beyond the scope of the patent grant at issue: The licensed and patented product (the first-generation seeds) and the goods made by the licensed product (the second-generation seeds) are nearly identical copies. Thus, given that . . . Monsanto’s patent reads on the first-generation seeds, it also reads on the second-generation seeds.

Monsanto did not, therefore, misuse its patent rights by preventing the replanting of the second generation of ROUNDUP READY seeds.

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97 Id. at 1340.
98 Id.
99 Id. at 1341 (quoting Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 704 (Fed. Cir. 1992)).
100 Id. (quoting C.R. Bard, Inc. v. M3 Sys., Inc., 157 F.3d 1340, 1372 (Fed. Cir. 1998)).
101 Id.
102 Id. at 1342.
103 Id. at 1343.
104 Id.
105 35 U.S.C. § 271 (2006) (“Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within
C. **Monsanto v. Scruggs**

Eddie and Mitchell Scruggs purchased ROUNDPUP READY soybean and cotton seeds from seed companies licensed by Monsanto to incorporate Monsanto’s technology into their seed’s germplasm.\(^{107}\) These licenses prevented the seed companies from selling “seed containing Monsanto’s technology to growers unless the grower signs one of Monsanto’s license agreements.”\(^{108}\) The Scruggs purchased the seed without signing a license agreement, planted them, harvested their crop and planted the saved seed again the next year.\(^{109}\)

In the subsequent patent infringement case Monsanto brought against them, the Scruggs family argued that they were entitled to use the saved seed under the doctrine of patent exhaustion.\(^{110}\) The exhaustion doctrine, also known as the “first-sale” doctrine, will be explored in more detail later in this paper. In short, it “establishes that the unrestricted first sale by a patentee of his patented article exhausts his patent rights in the article.”\(^{111}\) The Federal Circuit dismissed the Scruggs’ argument with one citation:

The doctrine of patent exhaustion is not applicable in this case. There was no unrestricted sale because the use of the seeds by seed growers was conditioned on obtaining a license from Monsanto. Furthermore, the “first sale doctrine of exhaustion of the patent right is not implicated, as the new seeds grown from the original batch had never been sold.” *Monsanto v. McFarling*, 302 F.3d 1291, 1299 (Fed. Cir. 2002).

Without the actual sale of the second generation seed to Scruggs, there can be no patent exhaustion. The fact that a patented technology can replicate itself does not give a purchaser the right to use replicated copies of the technology. Applying the first sale doctrine to subsequent generations of self-replicating technology would eviscerate the rights of the patent holder.\(^{112}\)

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the United States, or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.”).  
\(^{106}\) *McFarling*, 363 F.3d at 1343.  
\(^{107}\) *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1333 (Fed. Cir. 2006).  
\(^{108}\) *Id.*  
\(^{109}\) *Id.*  
\(^{110}\) *Id.* at 1335.  
\(^{111}\) *Id.* at 1336 (citing Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 701 (Fed. Cir. 1992)).  
\(^{112}\) *Id.*
The Federal Circuit also rejected the Scruggs’ argument that they had an implied license to use Monsanto’s patented technology. “It is undisputed that Monsanto requires all licensees to place a notice on all bags of ROUNDUP READY seeds stating that the seeds are covered by U.S. Patents, that the purchase of the seeds conveys no license, and that a license from Monsanto must be obtained before using the seeds.”\textsuperscript{113} The court found no circumstances surrounding the sale of the seeds that granted the Scruggs an implied license, nor authority on behalf of the seed distributors “to confer a right to use Monsanto’s biotechnology” or “any sort of license to use the seeds.”\textsuperscript{114}

Since the Scruggs case was decided, the U.S. Supreme Court broadened the patent exhaustion doctrine in \textit{Quanta Computer, Inc. v. LG Electronics, Inc.},\textsuperscript{115} reversing the Federal Circuit’s narrow application of the doctrine. Whether the doctrine applies to the sale of patented, self-generating technology like seeds remains an open question this article will explore in Part IV. Should the doctrine snuff out the patent rights upon sale to the grower, then the Technology Agreement the grower signs is not really a license conveying rights under the patent. It is, instead, a contract accompanying the sale of goods, subject to interpretation under state law. Indeed, several states have already considered or passed legislation pertaining to aspects of the contractual relationship between farmers and owners of biotech patents on seeds. The next section of this article briefly discusses those initiatives in order to illustrate the various states’ interests in so-called “farmers’ rights.”

III. STATES CONSIDER “FARMERS’ RIGHTS” LEGISLATION

Monsanto’s aggressive pursuit of farmers to enforce its patent rights and bag-tag agreements prompted proposed legislation in several states to protect local farmers’ private property interests, prevent them from being hailed into distant courts to defend themselves, provide them with defenses to patent infringement suits if they were unwitting victims of inadvertent pollen drift onto their fields, and invalidate certain provisions of Technology Use Agreements as contrary to state law.

For instance, Article 2.6 of the California Seed Law, titled “Genetically Engineered Plants,” sets forth certain procedures that must be followed “[b]efore a person or his agent holding a patent on a genetically engineered plant, may enter upon any land farmed by

\textsuperscript{113} Id.
\textsuperscript{114} Id.
\textsuperscript{115} 128 S. Ct. 2109 (2008).
another for the purpose of obtaining crop samples to determine
whether breach of contract or patent infringement has occurred.”\footnote{116} It
further provides that “[a] farmer shall not be liable based on the
presence or possession of a patented genetically engineered plant on
real property owned or occupied by the farmer when the farmer did
not knowingly buy or otherwise knowingly acquire the genetically
engineered plant, the farmer acted in good faith and without
knowledge of the genetically engineered nature of the plant, and when
the genetically engineered plant is detected at a de minimis level.”\footnote{117}
North Dakota and South Dakota have similar laws with regard to the
responsibilities of patent holders of genetically modified seeds wishing
to enter a farmer’s land for investigation of patent infringement.\footnote{118}

Maine law requires “the manufacturer or seed dealer of
genetically engineered plants, plant parts or seeds” to “provide written
instructions to all growers on how to plant” the parts or seeds so as “to
minimize potential cross-contamination.”\footnote{119} It also declares that if a
farmer possesses on his property a genetically engineered product in
either de minimis quantities or without his intent, “the farmer is not
liable for breach of a seed contract nor for any damages claimed by the
manufacturer.”\footnote{120} In addition, Maine’s agriculture law provides that
any infringement lawsuit brought against a farmer not currently
operating under a technology use agreement with a seed manufacture
shall be brought “where the farmer resides or where the disputed crop
was grown,”\footnote{121} rather than the Eastern District of Missouri where
Monsanto’s form agreement requires that suit be brought.\footnote{122}

Indiana law defines a “seed contract” as “a written contract
between a seed supplier and a farmer that a farmer must sign to obtain
the seed or the right to plant the seed.”\footnote{123} Under the law, seed
contracts “may not give or be interpreted to give a seed supplier or an
agent of a seed supplier the right to enter real property owned or
occupied by the farmer to acquire samples of the crop grown” unless
several enumerated conditions are met.\footnote{124} Failure to follow the
required steps may give rise to a cause of action by the farmer against

\footnote{116} CAL. FOOD & AGRIC. CODE § 52301(a) (West 2009).
\footnote{117} Id. § 52305.
\footnote{118} N.D. CENT. CODE § 4-24-13(2)(a) (2009); S.D. CODIFIED LAWS § 38-1-45 (2009).
\footnote{119} ME. REV. STAT. ANN. tit. 7, § 1052(1) (2009).
\footnote{120} Id. § 1053(2).
\footnote{121} Id.
\footnote{122} See Monsanto Technology Agreement, supra note 81.
\footnote{123} IND. CODE ANN. § 15-15-7-6 (2008).
\footnote{124} Id. § 15-15-7-10(b). A “seed supplier” is defined as “a person engaged in
commercial production or supply of either” a seed or “technology engineered into a
seed.” Id. § 15-15-7-7.
the seed supplier. The statute further requires that notice be given to the director of Indiana’s agriculture department when a seed supplier files suit to enforce a seed contract. Provisions within the seed contract that conflict with or purport to waive Indiana’s law are unenforceable against the farmer.

Many of these laws and bills proposed in other states were promoted by the Center for Food Safety. The national trade association for biotechnology industries, Biotechnology Industry Organization, or BIO, routinely submitted statements in opposition to the legislation. BIO’s successful opposition to Montana’s House Bill 445, a law similar to California’s Article 2.6, argued that, among other things, the bill would “improperly restrict federal patent and plant variety protection rights established by the U.S Constitution and federal intellectual property law” and would likely “be preempted by federal law.”

Whether BIO is right will be addressed in Part V. Because pre-emption questions will turn in part on whether the Technology Use Agreements are to be interpreted under federal law as non-exclusive patent licenses or instead as mere contracts for the sale of goods, we first address the patent exhaustion doctrine as it applies to the commercial distribution of patented seeds.

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125 Id. § 15-15-7-12 (giving a farmer a right of action against a seed supplier for entering the farmer’s real property in violation of the statute, and providing for recovery by the farmer of actual damages, attorney’s fees and costs).
126 Id. § 15-15-7-11.
128 Personal communication with Kristina Hubbard (Nov. 6, 2009) (on file with author); see The Center for Food Safety, About Us, http://truefoodnow.org/about (“The Center for Food Safety works to protect human health and the environment by curbing the proliferation of harmful food production technologies and by promoting organic and other forms of sustainable agriculture.”) (last visited Apr. 14, 2010).
129 See About BIO, http://bio.org/aboutbio/ (“BIO is the world’s largest biotechnology organization, providing advocacy, business development and communications services for more than 1,200 members worldwide. Our mission is to be the champion of biotechnology and the advocate for our member organizations—both large and small.”) (last visited Apr. 14, 2010).
130 Montana’s proposed legislation would have exempted from liability a farmer who possessed “a patented plant on real property owned or occupied by the farmer if the farmer did not knowingly buy or otherwise knowingly acquire the patented plant and if the farmer acted in good faith without knowledge of the patented nature of the plant.” H.B. 445, 61st Leg. (Mont. 2009).
131 Statement in Opposition to H.B. 445 before the Montana House Agriculture Committee (Feb. 12, 2009) (on file with author).
IV. EXHAUSTION OF PATENT RIGHTS ON SELF-REPLICATING TECHNOLOGIES

As Part V explains, because they are contracts, patent licenses may be subject to interpretation under state law regardless of the application of first-sale principles to the patented goods at issue. If, however, a particular transaction accompanied by a so-called license exhausts the patent rights, then the agreement is nothing more than a mere contract. Therefore, this section explores application of the exhaustion doctrine to the sale of patented seeds accompanied by a conditional license.

When the United States grants someone a patent on her invention, it grants the “right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States.” The patent exhaustion doctrine—also known as the first sale doctrine—is based on the notion that “[a]n incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it.” The patent holder receives consideration for its use upon selling the patented item, and thus “parts with the right to restrict that use.” As the Supreme Court has held:

The purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and . . . once that purpose is realized the patent

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132 The licenses referred to here are Technology Stewardship Agreements, which are cast as non-exclusive licenses to make, use, and sell patented genetically engineered seeds. While not all contracts are licenses, all licenses are contracts.

133 See Gen. Talking Pictures Corp. v. W. Elec. Co., 305 U.S. 124, 128 (1938) (Black, J., dissenting) (“[W]hen an article described in a patent is sold and ‘passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress. Contracts in relation to it are regulated by the laws of the State, and are subject to State jurisdiction.’”) (quoting Bloomer v. McQuewan, 14 How. 539, 549-50 (1852)).


135 United States v. Univis Lens Co., 316 U.S. 249 (1942); see also Adams v. Burke, 84 U.S. 453, 455 (1873) (holding that “the sale by a person who has the full right to make, sell and use . . . a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time.”); Bloomer v. McQuewan, 55 U.S. 539, 549 (holding that “when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly.”).

136 Adams, 84 U.S. at 456 (“[W]hen the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use.”).
law affords no basis for restraining the use and enjoyment of the thing sold.\textsuperscript{137}

Enter the patent license, an agreement between the patent holder and another party—a manufacturer of the patented goods, a distributor, even an end user/consumer—that transfers some or all of the rights to exclude and amounts to a promise not to sue the licensee for patent infringement. Our intellectual property regime fully supports maximizing the economic value of patent rights through exclusive and non-exclusive licenses, through field of use licenses and geographic territory licenses.\textsuperscript{138} Indeed, a patent holder can license only some of the rights to exclude, such as the right to make and use a patented article, but withhold other rights to exclude, such as the right to sell the patented article.\textsuperscript{139}

But can a label on goods, containing post-sale restrictions on a purchaser’s ability to make, use, or sell those patented goods, survive the exhaustion doctrine as a nonexclusive license to use the goods or the technology imbedded in them? The Federal Circuit in the \textit{McFarling} and \textit{Scruggs} cases held it can with regard to seeds.\textsuperscript{140} The Supreme Court has never squarely addressed the issue. Its most recent patent exhaustion decision, \textit{Quanta Computer, Inc. v. LG Electronics, Inc.}, broadened the application of the exhaustion doctrine beyond what the Federal Circuit had previously recognized, but did not expressly overturn Federal Circuit precedent in all respects.

\textbf{A. PRE-\textit{QUANTA COMPUTER} SUPREME COURT PATENT EXHAUSTION CASES}

The Supreme Court’s patent exhaustion jurisprudence demonstrates at once an appreciation for maximizing patent rights through licensing and a healthy skepticism of potentially over-reaching patent owners.

One of the earliest cases exploring the exhaustion doctrine involved an undertaker named Burke who lived in Natick, Massachusetts, some seventeen miles outside Boston.\textsuperscript{141} Burke had purchased coffin lids from a Boston-based company that was licensed to make and sell the patented lids in Boston and within a ten-mile radius of it.\textsuperscript{142} Another company had the license to make and sell the patented coffin lids outside of the ten-mile radius of Boston, a territory

\begin{itemize}
  \item \textsuperscript{137} \textit{Univis Lens Co.}, 316 U.S. at 249.
  \item \textsuperscript{139} \textit{United States v. Gen. Elec. Co.}, 272 U.S. 476, 490 (1926).
  \item \textsuperscript{140} See supra notes 95-115 and accompanying text.
  \item \textsuperscript{141} \textit{Adams}, 84 U.S. at 454.
  \item \textsuperscript{142} \textit{Id.}\
\end{itemize}
that included the town of Natick.\textsuperscript{143} That company sued Burke for using his coffin lids in their territory.\textsuperscript{144} The Supreme Court in \textit{Adams v. Burke} held that because Burke had purchased the coffin lids in Boston, the rights to use the patented lids was exhausted by that sale and he was free then to use them anywhere, even beyond ten miles of Boston.\textsuperscript{145}

[S]o far as the use of it was concerned, the patentee had received his consideration, and it was no longer within the monopoly of the patent. It would be to engraft a limitation upon the right of use not contemplated by the statute nor within the reason of the contract to say that it could only be used within the ten-mile circle.\textsuperscript{146}

The \textit{Adams v. Burke} holding was analyzed and applied affirmatively in \textit{Keeler v. Standard Folding-Bed Co.},\textsuperscript{147} another case involving purchase of goods within one territory and use of them in another patent licensee’s territory.\textsuperscript{148} The Supreme Court held that “one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place.”\textsuperscript{149} Significantly, the Court went on to note:

Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not

\textsuperscript{143} \textit{Id.}
\textsuperscript{144} \textit{Id.}
\textsuperscript{145} \textit{Id.} at 456 (“It seems to us that, although the right of [the Boston seller] to manufacture, to sell, and to use these coffin-lids was limited to the circle of ten miles around Boston, that a purchaser from them of a single coffin acquired the right to use that coffin for the purpose for which all coffins are used. That so far as the use of it was concerned, the patentee had received his consideration, and it was no longer within the monopoly of the patent.”).
\textsuperscript{146} \textit{Id.} The Court in \textit{Adams} was careful to distinguish between exhaustion of the right to \textit{use} the invention and the ongoing restrictions on the ability to \textit{make} and \textit{sell} the patented invention. “Whatever, therefore, may be the rule when patentees subdivide territorially their patents, as to the exclusive right to \textit{make} or to \textit{sell} within a limited territory, we hold that in the class of machines or implements we have described, when they are once lawfully made and sold, there is no restriction on their \textit{use} to be implied for the benefit of the patentee or his assignees or licensees.” \textit{Id.} at 456-457 (emphasis in original).
\textsuperscript{147} 157 U.S. 659, 666 (1895).
\textsuperscript{148} \textit{Id.} at 660.
\textsuperscript{149} \textit{Id.} at 666.
as one under the inherent meaning and effect of the patent laws.\textsuperscript{150}

In a brief departure from its patent exhaustion jurisprudence, the Court in \textit{Henry v. A.B. Dick Co.}\textsuperscript{151} upheld contributory patent infringement claims brought against an ink manufacturer who sold non-A.B. Dick ink for use on an A.B. Dick machine in spite of a prominent notice posted on the machines that prohibited use of non-A.B. Dick ink.\textsuperscript{152} The Supreme Court held that an \textit{unconditional} sale of a patented article exhausts the patent-holder’s rights to it; but if the right of use was restricted by the terms of a license agreement, use outside the bounds permitted by the license constitutes patent infringement.\textsuperscript{153} Congress soon thereafter passed the Clayton Act,\textsuperscript{154} however, and thereby made it unlawful to fix “by contract” a price for goods or otherwise “substantially lessen competition or tend to create a monopoly in any line of commerce” whether the goods were patented or unpatented.\textsuperscript{155} The Supreme Court also expressly overruled \textit{A.B. Dick Co.} in \textit{Motion Picture Patents Co. v. Universal Film Manufacturing Co.}\textsuperscript{156}

The Court reaffirmed that patent licenses are permissible under patent law in \textit{General Talking Pictures Corp. v. Western Electric Co.}\textsuperscript{157} In that case, licenses to manufacture and sell patented amplifier technology were given by a patent pool to manufacturers in multiple fields of use, including the commercial field and the “private or home
field.”\textsuperscript{158} One licensee for the “private or home field” manufactured and sold amplifiers for commercial use in violation of the terms of its license agreement.\textsuperscript{159} The Court framed the issues presented by the parties as follows:

1. Can the owner of a patent, by means thereof, restrict the use made of a device manufactured under the patent, after the device has passed into the hands of a purchaser in the ordinary channels of trade, and full consideration paid therefor?

2. Can a patent owner, merely by a “license notice” attached to a device made under the patent, and sold in the ordinary channels of trade, place an enforceable restriction on the purchaser thereof as to the use to which the purchaser may put the device?\textsuperscript{160}

The Court avoided these issues:

Upon further hearing we are of opinion that neither question should be answered. For we find that, while the devices embody the inventions of the patents in suit, they were not manufactured or sold under the patent(s) and did not pass into the hands of a purchaser in the ordinary channels of trade.\textsuperscript{161}

Instead, the licensee made amplifiers for commercial use when it had the rights to make them only for non-commercial use, and the purchaser ordered and purchased the amplifiers knowing the licensee was acting outside the scope of its license.\textsuperscript{162} The Court held that the “field of use” restrictions in a license were indeed legal, and the violation of them amounted to patent infringement.\textsuperscript{163} Interestingly, the Supreme Court did not squarely address the enforceability of label notices as patent licenses in \textit{General Talking Pictures}, although the case has been cited as if it affirms them.\textsuperscript{164}

In 1942, the Supreme Court weighed in again on the limitations of end user restrictions pursuant to a so-called “license” agreement in the context of an antitrust suit brought by the United States against the holder of patents on multifocal lenses.\textsuperscript{165} The Univis

\textsuperscript{158} Id. at 125-26.
\textsuperscript{159} Id. at 126.
\textsuperscript{160} Id. at 125.
\textsuperscript{161} Id. (internal quotations omitted).
\textsuperscript{162} Id. at 126.
\textsuperscript{163} Id. at 127.
\textsuperscript{165} United States v. Univis Lens Co., 316 U.S. 241 (1942).
Lens Company had developed an ingenious and profitable licensing system, whereby it licensed a lens manufacturer to make blank lenses and then required wholesalers, finishing retailers, and prescription retailers (collectively “sellers”) to acquire a license to purchase the lens blanks from the manufacturer and finish them as necessary for their customers.\textsuperscript{166} The licenses to the sellers allowed them to sell the finished lenses only at prices fixed by Univis.\textsuperscript{167} The Court applied the exhaustion doctrine even though the patent owner parted initially not with goods that fully embodied the patent, but instead with an incomplete article requiring that the purchaser practice additional patented steps to create a complete, marketable product.\textsuperscript{168} It held:

The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers. Whether the licensee sells the patented article in its completed form or sells it before completion for the purpose of enabling the buyer to finish and sell it, he has equally parted with the article, and made it the vehicle for transferring to the buyer ownership of the invention with respect to that article. To that extent he has parted with his patent monopoly in either case, he has received in the purchase price every benefit of that monopoly which the patent law secures to him.\textsuperscript{169}

In sum, the bulk of the Supreme Court’s pre-\textit{Quanta Computer} patent exhaustion jurisprudence liberally applies the patent exhaustion principles to sales, for consideration, of patented goods in commerce even under licensing scenarios. As discussed below, the Court has not squarely addressed whether “label licenses” or other end-user agreements are properly construed under patent licensing law, the violation of which amounts to patent infringement, or instead are to be treated as contracts, the breach of which is a question of state contract law. The Federal Circuit, by contrast, has addressed these issues and has generally not applied the patent exhaustion doctrine to these carefully drafted licensing arrangements.

\textsuperscript{166} \textit{Id.} at 244.
\textsuperscript{167} \textit{Id.} at 245.
\textsuperscript{168} \textit{Id.} at 250-51 (“[W]here one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article. . . . He has thus parted with his right to assert the patent monopoly with respect to it and is no longer free to control the price at which it may be sold either in its unfinished or finished form.”).
\textsuperscript{169} \textit{Id.} at 252.
B. The Federal Circuit’s Exhaustion Jurisprudence

The Court of Appeals for the Federal Circuit\textsuperscript{170} has adopted a favorable view of post-sale contractual restrictions cast as patent licenses. In the seminal decision \textit{Mallinckrodt v. Medipart}, the Federal Circuit considered whether the manufacturer and patent owner of a medical device could, consistent with the Patent Act, restrict hospital-purchasers to a “single use only” through notices on the device.\textsuperscript{171} Hospitals had been flaunting the notice by sending the devices to defendant Medipart for reconditioning and then using the devices again.\textsuperscript{172} Patent-holder Mallinckrodt described the reuse restriction as “a label license for a specified field of use wherein the field is single (i.e. disposable) use.”\textsuperscript{173} The Federal Circuit, relying on \textit{General Talking Pictures}, upheld Mallinckrodt’s restrictive use license as a valid application of patent law\textsuperscript{174} and distinguished other Supreme Court patent exhaustion cases, including \textit{Univis}, as relying on some other law or policy, such as patent misuse or antitrust law.\textsuperscript{175} It took pains to point out that “the enforceability of a restriction to a particular use is [not] determined by whether the purchaser acquired the device from a manufacturing licensee or from a manufacturing patentee” calling such distinctions “formalistic line drawing” of no economic or legal consequence.\textsuperscript{176}

Building on the \textit{Mallinckrodt} opinion in the 1997 case \textit{B. Braun Medical Inc. v. Abbott Laboratories},\textsuperscript{177} the Federal Circuit explained the exhaustion doctrine as follows:

\begin{quote}
[A]n unconditional sale of a patented device exhausts the patentee’s right to control the purchaser’s use of the device thereafter. The theory behind this rule is that in such a transaction, the patentee has bargained for, and received, an amount equal to the full value of the goods. This exhaustion doctrine, however, does not apply to an expressly conditional
\end{quote}

\textsuperscript{171} \textit{Mallinckrodt Inc. v. Medipart Inc.}, 976 F.2d 700 (Fed. Cir. 1992).
\textsuperscript{172} \textit{Id.} at 702. The patented device was “an apparatus for delivery of radioactive or therapeutic material in aerosol mist form to the lungs of a patient, for diagnosis and treatment of pulmonary disease.” \textit{Id.} at 701.
\textsuperscript{173} \textit{Id.} at 703.
\textsuperscript{174} \textit{Id.} at 709.
\textsuperscript{175} \textit{Id.} at 706-08.
\textsuperscript{176} \textit{Id.} at 705.
\textsuperscript{177} 124 F.3d 1419, 1426 (Fed. Cir. 1997).
sale or license. In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the ‘use’ rights conferred by the patentee.\footnote{Id. at 1426 (citing Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 706 (Fed. Cir. 1992)) (emphasis added).}

The Federal Circuit further clarified its exhaustion jurisprudence in \textit{Monsanto Co. v. McFarling}.\footnote{Id. at 1336.} McFarling, as discussed briefly in Part II.B above, claimed the restrictions against saving and replanting seed in Monsanto’s Technology Use Agreement amounted to patent misuse because it “tied” the patented genetic trait to the physical seed itself.\footnote{Id. at 1342.} The court restated McFarling’s argument as seeking “a compulsory license to use the patent rights in conjunction with the second-generation \textsc{Roundup Ready®} soybeans in his possession after harvest.”\footnote{Id. at 1343.} It held that the patent grant extended beyond use of the goods themselves to use of the goods produced by the patented product.\footnote{Id.} The court stated: “Because [Monsanto’s] patent would read on all generations of soybeans produced, we hold that the restrictions in the Technology Agreement prohibiting the replanting of the second generation \textsc{Roundup Ready®} soybeans do not extend Monsanto’s rights under the patent statute.”\footnote{Id.}

\textit{Monsanto v. Scruggs} is the Federal Circuit’s most recent decision involving patent exhaustion as applied to self-generating technology.\footnote{Monsanto Co. v. Scruggs, 459 F.3d 1328 (Fed. Cir. 2006).} As quoted in Part II above, the Federal Circuit found the doctrine inapplicable.\footnote{Id. at 1336.} At issue was the farmer’s ability to save seeds from the harvest for replanting or sale in violation of Monsanto’s license agreement, which the farmer failed to sign.\footnote{Id. at 1333.} As to the saved second-generation seeds, not the first-generation purchased seeds, the court found the patent applied as if no purchase had occurred for, indeed, the second generation seeds had never been sold.\footnote{Id. at 1336.}

The \textit{Scruggs} decision was decided before the Supreme Court’s ruling in \textit{Quanta Computer v. LG Electronics}, the latest in the Supreme Court’s apparent efforts to rein in the Federal Circuit’s
patent-friendly rulings and a decision with significant implications for the transgenic seed industry.

C. **Quanta Computer v. LG Electronics**

LG Electronics (LGE) owned a portfolio of computer technology patents including utility patents that described methods for retrieving certain types of data in an efficient manner and for prioritizing system users.\(^{188}\) LGE entered into a license agreement with Intel Corporation permitting Intel “to manufacture and sell microprocessors and chipsets that use the LGE patents.”\(^{189}\) The parties’ agreement further authorized Intel to “make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of its own products practicing the LGE Patents.”\(^{190}\) Intel agreed to give written notice to its customers that they were not authorized to combine the Intel products they purchased with any non-Intel products in a manner that practiced LGE’s patents.\(^{191}\) Quanta Computer did just that, using Intel parts in combination with non-Intel parts in ways that practiced LGE’s patented methods.\(^{192}\) The Federal Circuit found in LGE’s favor on its patent infringement claims against Quanta Computer, holding that Intel’s sales to customers were “conditional” and thus did not trigger patent exhaustion.\(^{193}\)

LGE urged the Supreme Court to affirm, arguing in part:

[B]ecause method patents are linked not to a tangible article but to a process, they can never be exhausted through a sale. Rather, practicing the patent—which occurs upon each use of an article embodying a method patent – is permissible only to the extent rights are transferred in an assignment contract.\(^{194}\)

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189 Id. at 2114.
190 Id. (internal quotation omitted).
191 Id.
192 Id.
193 LG Elecs., Inc. v. BizCom Elecs., Inc., 453 F.2d 1364, 1370 (Fed. Cir. 2006) (“The LGE-Intel license expressly disclaims granting a license allowing computer system manufacturers to combine Intel's licensed parts with other non-Intel components. Moreover, this conditional agreement required Intel to notify its customers of the limited scope of the license, which it did. Although Intel was free to sell its microprocessors and chipsets, those sales were conditional, and Intel's customers were expressly prohibited from infringing LGE's combination patents. . . . The “exhaustion doctrine . . . does not apply to an expressly conditional sale or license,” so LGE's rights in asserting infringement of its system claims were not exhausted.”) (citations omitted)).
194 Quanta Computer, 128 S. Ct. at 2117.
The Court disagreed, finding that exhaustion applies to method claims and that any other ruling would encourage inventors “to draft their patent claims to describe a method rather than an apparatus” and thereby make an “end run around exhaustion.”

Having rejected the notion that method patents deserve special treatment under the patent law, the Court considered “the extent to which a product must embody a patent in order to trigger exhaustion.” Relying on Univis, the Court held that exhaustion can be triggered by sale of articles that may not themselves fully embody the patent if their “only reasonable and intended use” is to practice the patent and if they embody “essential features of the patented invention.” Exhaustion was triggered when Intel sold Quanta Computer its products because even though the products themselves did not carry out the desired functions, they did so when attached to standard system components and without requiring Quanta Computer to “make any creative or inventive decision” in adding the components.

Lastly, the Court applied the exhaustion doctrine to the specific licensing scheme at issue in Quanta Computer. Rather than using the Federal Circuit’s language (“an unconditional sale of a patented device exhausts the patentee's right to control the purchaser’s use of the device thereafter”) the Court stated the test as follows: “Exhaustion is triggered only by a sale authorized by the patent holder.”

LGE argued that Intel was not authorized under its license agreement with LGE “to sell its products for use in combination with non-Intel products to practice the LGE patents,” relying on General Talking Pictures Corp. v. Western Electric Co. The Court rejected that argument, noting that the license agreement between LGE and Intel permitted Intel to “make, use or sell products free of LGE’s patent claims.” Moreover, even though Intel was obliged by its contracts with LGE to give notice to its customers that they were not

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195 Id. at 2117-18.
196 Id. at 2118.
197 Id. at 2119 (citing and quoting United States v. Univis Lens Co., 316 U.S. at 249).
198 Id. at 2120. The Court focused not on whether the final step in the process involved adding or deleting material but rather whether “the final step to practice the patent is common and noninventive” such as “grinding a lens to the customer’s prescription, or connecting a microprocessor or chipset to buses or memory.”
200 Quanta Computer, 128 S. Ct. at 2121 (citing United States v. Univis Lens Co, 316 U.S. 241 at 249 (1942)) (emphasis added).
202 Quanta Computer, 128 S. Ct. at 2121.
authorized to practice LGE’s patents, LGE did not contend that this requirement was a condition of its patent license agreement. In sum, “[n]o conditions limited Intel’s authority to sell products substantially embodying the patents. Because Intel was authorized to sell its products to Quanta Computer, the doctrine of patent exhaustion prevents LGE from further asserting its patent rights with respect to the patents substantially embodied by those products.”

The Supreme Court carefully applied its articulation of the exhaustion doctrine in *Quanta Computer* to LGE’s particular licensing scheme with Intel. It previously had denied certiorari to the Federal Circuit in *Monsanto v. Scruggs*, leaving wide open the question of whether licensing systems like Monsanto’s for ROUNDUP READY seeds would survive exhaustion. The next section explores whether the Federal Circuit’s exhaustion analysis in *Monsanto v. McFarling* and *Monsanto v. Scruggs* are still good law after *Quanta Computer*.

D. **ARE PATENTS IN TRANSGENIC SEEDS EXHAUSTED UPON SALE WITH A CONDITIONAL LABEL LICENSE?**

Three aspects of the *Quanta Computer* opinion must be applied to the transgenic seed industry’s licensing and distribution practices to determine if patent exhaustion is triggered. First, are self-replicating technologies in a category to themselves for purposes of applying the exhaustion doctrine? Second, when transgenic seeds are sold to a grower what patent rights are exhausted (if any) by that sale? And third, does the licensing scheme used by Monsanto (for example) mirror that of LGE such that *Quanta Computer’s* ruling directly applies or is it somehow distinguishable and therefore does not trigger exhaustion?

The Supreme Court carefully applied its articulation of the exhaustion doctrine in *Quanta Computer* to the LGE’s particular licensing scheme with Intel. It previously had denied certiorari to the Federal Circuit in *Monsanto v. Scruggs*, leaving wide open the question whether licensing systems like Monsanto’s for ROUNDUP READY seeds would survive exhaustion. The next section explores whether the Federal Circuit’s exhaustion analysis in *Monsanto v. McFarling* and *Monsanto v. Scruggs* are still good law after *Quanta Computer*.

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203 *Id.*
204 *Id.* at 2122.
1. Treating Self-Replicating Technologies Differently

The *Quanta Computer* Court categorically refused to create an exception to the exhaustion doctrine for method patents. A patent on a genetically modified plant is commonly a composition of matter patent, the embodiment of which is typically in an article or tangible thing (seed) and thus even more likely to fall under exhaustion principles upon sale than something more ephemeral like methods or processes. Nonetheless, because the particular embodiment of the patent right, the seed, is self-replicating, the Federal Circuit and others contend that it should fall outside the classic exhaustion principles into a category of its own. The Court did not address this issue in *Quanta Computer*, but self-replicating technologies like plants and other biological material, and even software, should be treated with the same exhaustion standards as all other subject matter under section 101 of the Patent Act.

Since the Supreme Court confirmed in 1980 that man-made life forms are proper subject matter of utility patents, and again in the *J.E.M. Ag Supply* case acknowledged that plant technology may properly be the subject of utility patents even though they may also enjoy the benefits of the Plant Variety Protection Act, the transgenic seed industry has taken advantage of section 101 protection. They must as well accept the consequences, which include being subject to the exhaustion doctrine. Arguments that innovation in plant technologies will be stifled if their self-replicating nature is not given special status for exhaustion purposes are not likely to carry the day with this Court. The *Quanta Computer* opinion reflects the Court’s skepticism of creating exhaustion-free categories for patent protection, as they invite clever claims drafting in an attempt to “end run” around the doctrine.

Another argument against applying exhaustion to patented seed technology is that the second-generation seed has not been sold to the farmer and thus patent rights in it could not be exhausted. The Supreme Court would likely treat this argument as it did LGE’s

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206 *Quanta Computer*, 128 S. Ct. at 2117-18. The Court’s decision was significantly influenced by a commentator’s recommendations that claims drafters convert apparatus claims into method claims to “survive numerous transactions regarding the patented good, allowing the force of the patent to intrude deeply into the stream of commerce.” Id. at 2118 n.5 (quoting Thomas, Of Text, Technique, and the Tangible: Drafting Patent Claims Around Patent Rules, 17 J. MARSHALL J. COMPUTER & INFO. L. 219, 252 (1998)).
attempts to convince the court that exhaustion “does not apply to postsale restrictions on ‘making’ an article.”\textsuperscript{207} The Court held: “[M]aking a product that substantially embodies a patent is, for exhaustion purposes, no different from making the patented article itself.”\textsuperscript{208} Thus, a farmer who makes a new seed that embodies the patented composition of matter claimed is not engaged in additional “making” or the exhaustion doctrine would never have meaning. In other words, if the Supreme Court refuses to create an exhaustion exemption for self-replicating technologies then it must, to be consistent, find that the progeny of these technologies do not practice the patent for exhaustion purposes.

The seed patent owners convinced the Federal Circuit in \textit{Scruggs}, and argued passionately in an amicus brief to the Supreme Court in \textit{Quanta Computer}, that economic concerns foreclosed application of the exhaustion doctrine to second-generation seeds. According to the American Seed Trade Association, the price charged for the original seed reflects only part of the value of the article sold, namely, the value of the first-generation seeds.\textsuperscript{209} It contends that patent owners can reap the reward of their significant research investments only in repeated sales of its technology to the same customers, that depriving them of these future sales by allowing farmers to save and replant the patented seed would force them to recoup their investment in a single transaction, and that the price for that transaction would be “so prohibitively expensive that few farmers could afford to purchase it.”\textsuperscript{210}

The Court has routinely emphasized, however, that the fundamental purpose behind patent law is not the enrichment of the inventor, but rather the encouragement of innovation for the public’s sake.\textsuperscript{211} Nearly a century ago, the Court applied the exhaustion doctrine to a restrictive licensing scheme with the following reminder:

A restriction which would give to the plaintiff such a potential power for evil over an industry . . . is plainly

\textsuperscript{207} \textit{Quanta Computer}, 128 S. Ct. at 2122.
\textsuperscript{208} \textit{Id.}
\textsuperscript{209} Brief Amicus Curiae, \textit{supra} note 205, at 20.
\textsuperscript{210} \textit{Id.} at 16.
\textsuperscript{211} See Harry First, \textit{Controlling the Intellectual Property Grab: Protect Innovation, Not Innovators}, 38 \textit{Rutgers L.J.} 365, 390 (2007) (“The principle of parsimony argues that the extraction of the rents in the first sale should be enough of an incentive for innovation. In the least, a ‘first sale’ should shift the burden to the patentee to justify in economic terms its restrictions on downstream use. Simple resort to property rights language, focusing on the ‘rights’ of the innovator to exclude others from use, as the Federal Circuit has done, should not be enough. ‘It is innovation, not innovators, that the [intellectual property] Acts protect.”’).
void, because wholly without the scope and purpose of our patent laws and because, if sustained, it would be gravely injurious to that public interest, which we have seen is more a favorite of the law than is the promotion of private fortunes.\textsuperscript{212}

Conceivably, application of the exhaustion doctrine may in fact promote innovation, rather than stifle it as the industry claims. Monsanto and other agrichemical companies may be encouraged to create new technologies that growers will want to buy each year, as opposed to saving seed embodying the old technology. Seed engineers may indeed pursue more aggressively so-called “terminator technologies” or genetic use restriction technologies (“GURTS”)—genetically modified seeds designed to produce sterile offspring.\textsuperscript{213} The merits of these technologies from an environmental and public policy perspective are very much in debate, but they nonetheless belie the argument that patent exhaustion will stifle innovation in the seed industry.\textsuperscript{214}

\textsuperscript{212} Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 519 (1917).

\textsuperscript{213} See, e.g., Jason Savich, Monsanto v. Scruggs: The Negative Impact of Patent Exhaustion on Self-Replicating Technology, 22 BERKELEY TECH. L.J. 115, 132 (2007) (“These technologies function by introducing genetic elements into the plants which produce a toxin late in seed maturation. The toxin kills the seed after the plant has matured, producing a safe but sterile crop for the farmer, forcing him to purchase new seeds each year because the seeds produced in growing the crop are not viable for replanting.”) (citations omitted); Neil D. Hamilton, Legal Issues Shaping Society’s Acceptance of Biototechnology and Genetically Modified Organisms, 6 DRAKE J. AG. L. 81, 106-07 (2001) (“[T]he technology would allow the sale of improved seeds in markets or countries where the legal protections for intellectual property rights on plant genetics are seen as inadequate or non-existent. It would also let companies avoid the necessity of requiring producers to sign contracts promising not to save seed and the related need to police farmers’ actions, such as Monsanto’s aggressive enforcement of ‘seed piracy’ for ROUNDUP READY® soybeans.”); Jeremy P. Oczek, In the Aftermath of the “Terminator” Technology Controversy: Intellectual Property Protections for Genetically Engineered Seeds and the Right To Save and Replant Seed, 41 B.C. L. REV. 627, 627-28 (2000) (“On March 3, 1998, the United States Patent and Trademark Office granted Patent No. 5,723, 765, titled “Control of Plant Gene Expression,” jointly to the United States Department of Agriculture (“USDA”) and the Delta and Pine Land Co. (“D&PL”) for a technology that blocks genetically altered seeds from germinating after one season. This new technology, officially named the “Technology Protection System,” provides the ability to genetically alter seeds so that the crops produced from these seeds will in turn bear sterile seeds.”).

\textsuperscript{214} Should the courts apply exhaustion to the sale of patented transgenic seeds, the industry would not be without property rights. The Plant Variety Protection Act remains applicable to sexually reproduced plants and creates a “patent-like” property right still available to and used by the transgenic seed industry. Indeed, the Supreme Court has recently confirmed that in spite of liability exemptions for seed saving and
2. What Rights are Exhausted by the Sale of Seeds?

Assuming patented seeds are not treated differently than other patented goods for exhaustion purposes, what rights of the patent owner are exhausted by the seeds’ transfer to a grower? A patent allows its owner to exclude others from making, using, and selling the invention. By the time a farmer purchases seed from a distributor, it has been manufactured and sold at least once. The manufacturing may involve the actual insertion of the gene into the seed, a process that nature does not accomplish on its own, which is why the end result is appropriate subject matter for a utility patent. The farmer pays money to acquire the genetically engineered seed—consideration for acquiring from the patent owner the right to use the seed. According to *Quanta Computer*, a patented item carries with it the right to use it “to the full extent to which it can be used.” This includes any reasonable non-infringing use and steps which are common and non-inventive.\footnote{215}

The seed industry characterizes the transaction of patented seeds into the hands of growers for consideration not as a sale, but as a license.\footnote{216} A fee is paid (to the distributor) for the tangible goods. According to the seed industry, this fee is less than what is necessary to fully compensate the patent owner for the costs of its innovation, or, put it another way, lower than necessary to encourage innovation in plant technology.\footnote{217} It is, at a minimum, less than a willing grower is willing to pay to acquire the seeds, since many willingly pay the technology fee separately to acquire the license.

After this transaction takes place, what does the grower own? It may depend on the qualities of the particular seed at issue. A seed research expressly provided in the PVPA, the statute does not allow growers to sell their saved seed to third parties other than as feed. In fact, the careful consideration Congress gave to the relationship between farmers, seed saving practices, and the property rights of seed manufacturers demonstrates the need for legislation tailored to this unique industry. Asgrow Seed Co. v. Winterboer, 513 U.S. 175, 181 (1995). The utility patent provisions of the Patent Act, on the other hand, simply do not permit the fine-tuned remedies and exemptions appropriate to the seed industry and judges should not try to force a fit. Thus, even if the exhaustion doctrine prevents unlimited downstream distribution of seeds patented under the utility patent provisions of the Patent Act, application of the PVPA to seed technology puts an end to a farmer’s ability to commercially distribute saved seed. This, ironically, may make the PVPA once again an attractive option for the seed industry.

\footnote{215}{See Wegner, supra note 170, at 696-97.} 
\footnote{216}{Personal interview with Prof. Jay Kesan, University of Illinois School of Law and expert witness to Pioneer Hi-Bred Seed Company, in December 2009.} 
\footnote{217}{See Brief Amicus Curiae, supra note 205, at 16.}
“treated” for planting may have no other function. In that case, to plant the seed and harvest its progeny is to use the patented technology. Alternatively, the seeds themselves may be used for myriad purposes depending on the plant species, so we would assume that without the license agreement the grower has acquired tangible goods he can use as feed or forage, fuel, or some other function. The transaction is designed to confer the right to plant the seed only upon signing a license agreement; “use” of the seed for purposes of growing a crop is not, according to the seed industry, inherent in the acquisition of the tangible goods. Instead, one may plant the seed and grow new ones only with a license from the patent holder granting permission to plant and restricting what can be done with the harvest.

If, when the grower purchases the tangible seeds from a dealer, the transaction is a sale of goods limited, if at all, by contractual restrictions on the label, the analysis is different. Planting and harvesting—and even saving—the seeds would be embodied in the “use” of the goods. Such “use” would also, in some cases, result in the creation of new seeds genetically identical to the purchased ones, although not necessarily made in the same way as the first generation seeds.

All the money is bet on whether the patent owner also parts with the right to sell—or save and plant—the harvest. However, is that fairly embodied within the purchaser’s rights or does the right to

218 See Monsanto Canada Inc. v. Schmeiser, [2004] 1 S.C.R. 902, 2004 SCC 34 (Can.) (noting that the defendant had his saved seed treated for replanting and “once treated, [the seeds] could be put to no other use”).
219 See id. (finding defendant used the patented technology by saving seed containing the patented gene and replanting it).
220 See Busch, supra note 3, at 108 (Arguing that “[m]echanical and biological reproduction must be treated the same under patent law, therefore, the doctrine of exhaustion does not apply to biological reproduction and Jack, upon buying patented seed, does not acquire the right of production of the beans for sale, either for non-reproductive or for reproductive purposes. Jack only acquires the property right transfer, use, and waste of the beans that he originally purchased.”).
221 Monsanto, at least, concerns itself through its “unique” licensing arrangement not so much with the initial planting “use” but instead with the “use” to which progeny seeds can be put. In an unpublished opinion limiting McFarling’s damages even after the jury found willful infringement, the district court judge remarked upon the unprecedented strategy Monsanto uses for seed distribution: “Monsanto’s selected marketing method appears unique. Monsanto decided to charge the seed companies a relatively low license fee per bag of seed sold by the seed companies, but then to restrict the end users’-the farmers’-use of their own crops. In other words, ‘the Technology Agreement does not impose a restriction on the use of the product purchased under the license, but rather imposes a restriction on the use of the goods made by the licensed product.’” Monsanto v. McFarling, No. 4:00CV84 CDP, 2005 WL 1490051, at *4 (E.D. Mo. June 23, 2005) (quoting McFarling v. Monsanto, 363 F.3d 1336, 1342-43 (Fed. Cir. 2004)).
sell not transfer to the purchaser for purposes of patent law? Certainly it is understood that a farmer will at a minimum sell the crop produced. Historically, the farmer would also save a portion of the harvest for replanting. Nothing is inherently true of the patent in genetic material that separates the right to sell from the right to make or use. If a patent owner wishes to restrict that right, it should do so by contract and not rely exclusively on patent law or licenses.

3. Are Sales to Farmers “Authorized” under the Quanta Computer Standard?

The Supreme Court has not precisely addressed whether a patent holder may, by requiring its licensees to place labels with conditions directed at a consumer’s post-sale behavior, avoid the exhaustion doctrine and sue consumers for patent infringement. In General Talking Pictures the Court expressly avoided that issue, finding instead that the licensee and the purchaser both infringed the patent because both knew that the manufacturing, sale and use of the product was outside the scope of the initial license. Courts rely on this decision—and the Federal Circuit’s Mallinckrodt opinion—to uphold label licenses against exhaustion claims.

The Quanta Computer decision can be read not to address the issue squarely either, as the Court ultimately applied the exhaustion doctrine to the facts at issue and turned to the language of LGE’s licenses with Quanta Computer. The Supreme Court raised the issue of exhaustion as applied to patented seeds during the Quanta Computer oral argument, but did not address the issue in its opinion.

224 See Wegner, supra note 170, at 696 (“Scruggs is open to scrutiny based upon Quanta. Although not carried forward in the opinion itself, an issue raised during oral argument focuses upon whether a farmer can ‘now freely harvest, sell or replant the progeny seeds,’ freed from patent law restrictions, ‘assuming that the patent covers the seeds, themselves or the method of growing such seeds.’” (original emphasis omitted) (citing Transcript of Oral Argument at 15-16, Quanta Computer, 128 S. Ct. 2109 (question of Justice Kennedy) (“Are there cases where some downstream restrictions on use might be necessary to prevent the patent from becoming worthless, i.e., in the biological area for replication of seeds in agriculture and so forth?”))). The following exchange at oral argument also suggests the Mallinckrodt decision, on which McFarling and Scruggs relied, has been seriously undermined by Quanta:

Justice Stevens: Am I correct in understanding that you do not defend the Mallinckrodt decision?
Scholars contend Monsanto’s seed licensing scheme avoids the *Quanta Computer* exhaustion ruling because it is distinguishable from LGE’s licensing scheme. They further contend that because the Supreme Court in *Quanta Computer* was urged to overturn the Federal Circuit’s *Mallinckrodt* opinion and did not, its principles and the cases relying upon it—including *Scruggs*—continue to uphold the validity of Monsanto-style technology agreements as patent licenses. In particular, the argument goes:

>The Supreme Court's basis for reversal came down to something quite simple: the Federal Circuit found, in its

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*[LGE’s Counsel]: I do not defend the *Mallinckrodt* decision, Justice Stevens, and clearly I don't believe I have to. All I need to do is have this Court recognize that the central limiting feature of *Univis* was the fact that it was all one patent and that all you were doing was fulfilling the rights that had been provided for you in that single patent, and that that's fundamentally—and that the Court recognized that if there were a separate patent involved and you were trying to enforce those rights, that would be a completely different matter.*


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See Mary LaFrance, *The Supreme Court’s Broad Interpretation of Patent Exhaustion in Quanta Computer, Inc. v. LG Electronics, Inc.*, 2008 U.S. LEXIS 4702 at *5 (June 9, 2008) (“Quanta does not appear to undermine the Federal Circuit’s decision in *Monsanto v. McFarling*, . . . which upheld a finding of patent infringement where a farmer saved and replanted seeds from a harvest that was grown from patented seeds, in violation of an express condition of his licensing agreement.”) (referring to Monsanto Co. v. McFarling, 488 F.3d 973 (Fed. Cir. 2007)); see also Jay Kesan, * Licensing Restrictions and Appropriating Market Benefits from Plant Innovation*, 16 FORDHAM INT’L L.J. 1081, 1086-87 (2006) (“One may also ask, in the case of seeds, why not permit seed saving? This is the ‘God-made-germplasm’ argument. The simple problem is that it is just not true. The value chain in the modern food sector is enormously complicated. It begins with start-up agbiotech companies performing a great deal of research and development in genetics. University departments of agricultural-science and agricultural engineering have moved away from germlasm breeding toward work in genetics . . . . By the time we arrive at a farmer, we are much farther along in the value chain. He takes advantage of all the genetically modified technologies that the start-up agbiotech companies, universities, and large-life science companies have worked on, and the benefits that accrue to him do not derive from his labor, innovation, or investment alone . . . . We need a system where parties in the value chain in the modern food sector can share in the risks and benefits of R&D; then they can coordinate their activities as the product goes through the value chain, rather than enabling a system where one player takes all the risk, and another receives all the benefits. Allowing the farmer to save seed goes back to a simple principle: he is trying to reap where he did not sow . . . . This rationale may be exclusive to agricultural biotechnology. The same protection extended to Monsanto may not apply to other companies, such as Lexmark.”)

reading of the license agreements, conditions on Intel's ability to sell; and the Supreme Court, in its reading, did not. This decision is not the grand, course-altering ruling that many had asked for. Instead, by its approach, the Quanta Computer decision quietly affirmed Mallinckrodt and its progeny. The fundamental teaching of Mallinckrodt (drawing on earlier Supreme Court precedent) is that an intellectual property holder may place conditions on a license or sale. That remains the law after Quanta Computer.²²⁷

This argument has merit. It allows patent owners more control over their property rights through strategic contracts called “licenses.” It allows them to avoid, in essence, a “sale” event by calling the transaction the licensing of technology that happens to be transported through a tangible item—either a disc for software, or a soybean for glyphosate-resistant traits, and so on.

Applying the holding of Quanta Computer to Monsanto’s licensing scheme is still meaningful, although it warrants mention that whether exhaustion applies in any case is a highly fact-specific question impossible to answer unflinchingly in the abstract. With that caveat: Monsanto’s licensing regime appears to resemble LGE’s in that both Monsanto and LGE licensed to manufacturers the right to make and sell to others the patented technology. Monsanto and LGE also apparently require of their manufacturers that they notify end-users/customers of the patents, and restrict their post-sale behavior. Monsanto expressly requires that customers (farmers) enter a “technology agreement” with Monsanto in order to have the right even to use (plant) the first-generation seeds, extracting an additional payment from farmers in the form of a technology fee at that time.²²⁸

²²⁷ Id.
²²⁸ Monsanto’s agreements with licensed seed manufacturers have not been litigated as its lawsuits are typically brought against its customers. A similar licensing system employed by Pioneer Hi-Bred might aid in the analysis: “[D]istribution of Pioneer® brand seed corn to Pioneer authorized Sales Representatives or dealers . . . were conditioned by the terms of the representatives’ or dealers’ limited licenses to resell the patented products, which prohibited sales representatives from selling to individuals or groups for resale, and permitted dealers to resell only to other licensed dealers or persons who would use the seed to produce grain or forage.” Pioneer Hi-Bred Int’l, Inc. v. Ottawa Plant Food, Inc., 283 F. Supp. 2d 1018, 1024 (N.D. Iowa 2003). It appears that like LGE, the holders of patented seeds authorize their licensees to sell manufactured seeds to farmers albeit with notice of restrictions. Monsanto does not, after all, sue its licensees for breach of contract indicating that sales to farmers are “authorized” for Quanta exhaustion purposes. See Wegner, supra note 170, at 694 (“At first blush, particularly when reading the opinion of the Federal Circuit below, it would appear that the question of patent exhaustion may have been
This same agreement restricts the use of progeny seeds as well. Courts applying *Quanta Computer* to this type of transaction will have to determine whether the patent holder’s strategy successfully maintains the transfer of tangible goods from its licensee to the farmers as merely a license to use patented goods or instead is the sale of goods accompanied by terms enforceable, if at all, under contract law.

Under *Mallinckrodt*, the mere notice of use restrictions on bags of patented seeds makes such sales “conditional” and therefore impervious to exhaustion. As *Mallinckrodt* has not been overturned it remains good law. Note, however, that the Supreme Court suggested that post-sale restrictions on consumers would be enforceable, if at all, under contract law in *Keeler Folding Bed*; avoided the issue in *General Talking Pictures*, and came close to expressly so holding in *Quanta Computer*. If the Court should face the issue again in a case involving patented seeds, it may well confirm that when consumers purchase patented goods, or tangible goods containing patented technology within them, the transaction is a sale, and label licenses will be enforced under contract law, not patent law.

subservient to contractual provisions in the license from LGE to Intel. But, the Court reached its conclusion of freedom from patent liability strictly keyed to patent exhaustion principles, *without* resorting to any contractual proscriptions in the license agreement.”).

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229 See supra notes 147-150 and accompanying text.
230 See supra notes 157-164 and accompanying text.
231 See supra notes 199-204 and accompanying text.
232 See Intel Corp. v. ULSI Sys. Tech., Inc., 995 F.2d 1566, 1569 (Fed. Cir. 1993). In that case, Intel entered a cross-licensing agreement with Hewlett Packard under which they each granted to the other licenses to patents and patent applications “having an effective date prior to January 1, 2000.” *Id.* at 1567. ULSI Systems Technology hired HP to produce a math coprocessor (the ‘C87 coprocessor), using ULSI’s design and specifications, which competed with Intel’s patented coprocessor. *Id.* HP produced and sold to ULSI the ‘C87 coprocessor, after which Intel sued ULSI for patent infringement. *Id.* Noting “an authorized sale of a patented product places that product beyond the reach of the patent,” *id.* at 1568, the court continued: “Intel does not dispute that HP was authorized under the broad terms of the licensing agreement to sell the chips at issue. To the extent that Intel had a patent covering the chips, HP’s conceded right to sell the chips deprives Intel of any claim of infringement, as long as HP sold the chips. If it had not granted that license or if the license had been limited in some relevant way, that would be a different case from the one before us. Intel might thereby have retained its right to proceed against those who entered into foundry agreements such as the present one. While Intel may not in retrospect be pleased with the deal that it made permitting HP to make unrestricted sales, it nevertheless granted HP that right in 1983, presumably for consideration it believed to be of value at that time. It cannot now renege on that grant to avoid its consequences.” *Id.* at 159. This holding simply underscores the importance to the exhaustion analysis of the precise language of the patent holder’s licensing
The next section, therefore, examines the role of state law in such contracts, with and without patent exhaustion’s application to the transaction.

V. APPLICATION OF STATE LAW TO POST-SALE RESTRICTIONS ON PATENTED SEEDS

Should courts apply *Quanta Computer* to prevent patent holders from enforcing post-sale restrictions on the use of patented seeds, agreements between patent holders and end users/farmers are likely to be labeled “contracts” and therefore interpreted under state law. Should the holding in *Scruggs* continue to apply, would state law nonetheless govern certain provisions of the non-exclusive license agreements between seed-patent holders and end users/farmers? State law generally applies to contract construction, even of agreements purporting to license rights arising under federal patent law, but federal common law may override state common law that interferes with underlying purposes of the Patent Act. Specifically, several federal courts have held that federal common law governs the issue of assignability of nonexclusive patent licenses, preempting application of state law.233 These rulings are subject to question, however, and it may be argued that the contractual issues state legislatures seem eager to address are different from assignability matters and remain fully within the province of state law. On the other hand, state law may not allow patent owners to expand their rights beyond what federal patent law would permit, an outcome which typically encourages courts to apply federal common law. As the *Quanta Computer* opinion will likely embolden already eager state legislatures to affirmatively legislate the terms of so-called technology licensing agreements between agriculture innovators and farmers purchasing their goods, this issue grows ever more important.

A. FEDERAL INTELLECTUAL PROPERTY LAW PRE-EMPTION OF STATE LAW

Federal law preempts state law, pursuant to the Supremacy Clause of the U.S. Constitution,234 when either the field is one within exclusive federal control (“field preemption”) or federal law explicitly

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234 U.S. CONST. art. vi, cl. 2.
or implicitly conflicts with state law ("conflict preemption").\(^{235}\) Conflict preemption may arise in either a case of direct federal-state law conflict or when the state law stands as an obstacle to the purposes of federal law (either statutory, regulatory, or constitutional in derivation).\(^{236}\)

State law traditionally governs construction and enforcement of commercial agreements, even those relating to intellectual property.\(^{237}\) “[S]tates are free to regulate the use of . . . intellectual property in any manner not inconsistent with federal law.”\(^{238}\) The Patent Act, unlike the Copyright Act,\(^{239}\) lacks a preemption provision.\(^{240}\) Thus, to determine if federal patent law preempts state law, courts consider whether a state’s law “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress,” and if not the state law governs.\(^{241}\)

The Supreme Court has articulated three purposes behind the federal patent system to aid in preemption analysis:

First, patent law seeks to foster and reward invention; second it promotes the disclosure of inventions, to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public.\(^{242}\)

A leading case involving a state statute held preempted by the Patent Act is \textit{Bonito Boats, Inc. v. Thunder Craft Boats, Inc.},\(^{243}\) in which the Supreme Court struck down on preemption grounds a Florida statute that made it “unlawful for any person to use the direct molding process to duplicate for the purpose of sale any manufactured vessel hull or component part of a vessel made by another without the written permission of that other person.”\(^ {244}\) These vessel hulls and

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\(^{236}\) Id. at 745.


\(^{238}\) \textit{Id.} (citing \textit{Kewanee Oil Co. v. Bicron Corp.}, 416 U.S. 470, 479 (1974)).


\(^{240}\) \textit{See generally}, Miller, \textit{supra} note 235, at 752 ("[I]n the grand scheme of federal preemption of state idea protection regimes, the Patent Act is all bark and no bite. This is because the Act lacks a preemption provision, patents protect only a subset of expressions of applied ideas (those that are novel, useful, and nonobvious), and common law idea protection is far less exclusive or comprehensive than patent.").

\(^{241}\) \textit{Aronson}, 440 U.S. at 262 (quoting \textit{Hines v. Davidowitz}, 312 U.S. 52, 67 (1941)).

\(^{242}\) \textit{Id.} (citing \textit{Kewanee Oil Co.}, 416 U.S. at 480-81).


\(^{244}\) \textit{Id.} at 145 (quoting \textit{Fla. Stat. § 559.94} (1987)).
their parts would not otherwise have qualified for protection under patent law. Thus, the Court held:

[A] state law that substantially interferes with the enjoyment of an unpatented utilitarian or design conception which has been freely disclosed by its author to the public at large impermissibly contravenes the ultimate goal of public disclosure and use which is the centerpiece of federal patent policy. Moreover, through the creation of patent-like rights, the States could essentially redirect inventive efforts away from the careful criteria of patentability developed by Congress over the last 200 years.²⁴⁵

A common theme in contract preemption cases arising under patent law is that the patent owner seeks to acquire, by contract, rights not otherwise provided by federal patent policy. For instance, in Lear v. Adkins,²⁴⁶ the Supreme Court rejected on preemption grounds a contract that required a patent licensee to give up his rights to challenge a patent’s validity.²⁴⁷ The Court found that “overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.”²⁴⁸ Contracts that extend a patent licensor’s control over a licensee beyond the patent’s term or scope are also generally upheld, or invalidated, under federal patent policies, not state contract law.²⁴⁹

Another controversial area where federal common law has been evoked to preempt state law is in determining whether nonexclusive patent licenses may be assigned to other parties absent

²⁴⁵ Id. at 157. Although applying preemption to a state statute in Bonito Boats, the Court was eager to assuage concerns that its preemption jurisprudence, and in particular the decision in Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), to strike down application of state misappropriation law on preemption grounds, was absolute and rigid: “[W]hile Sears speaks in absolutist terms, its conclusion that the States may place some conditions on the use of trade dress indicates an implicit recognition that all state regulation of potentially patentable but unpatented subject matter is not ipso facto pre-empted by the federal patent laws.” Bonito Boats, 489 U.S. at 154.
²⁴⁸ Lear, 395 U.S. at 673.
²⁴⁹ See Lemley, supra note 247, at 127. Patentees may attempt to exert control over their licensees “by granting licenses that: (1) extend the term of the patent beyond [the statutory maximum]; (2) tie patented to unpatented products in an attempt to capture the market for both; (3) require that the licensee grant back the rights to any improvement patents; or (4) employ other means.” Id.
language expressly permitting assignment in the contract. Cases concluding that nonexclusive patent licenses may not be assigned, contrary to state law, which generally encourages the alienability of personal property, assume that under federal common law allowing assignment would materially erode the incentive to innovate underlying the Patent Act’s monopoly grant. The Seventh Circuit’s opinion in *Unarco Industries v. Kelley Co.*

At issue was whether, without Kelley’s consent, Unarco Industries could assign to Overhead Door Company the nonexclusive patent license Unarco Industries had received from Kelley. The district court applied the law of Illinois to the question of contract assignability, but the Seventh Circuit reversed, finding the issue to fall within one of the exceptions to *Erie Railroad v. Tompkins* and requiring the application of federal common law. The court made the sweeping conclusion that the patent “monopoly conferred by federal statute as well as the policy perpetuating this monopoly, so affects the licensing of patents, and the policy behind such licensing is so intertwined with the sweep of federal statutes, that any question with respect thereto must be governed by federal law.”

Most courts refuse to go as far as the Seventh Circuit in *Unarco* with regard to applying federal common law to all issues arising under a patent license. Indeed, the Ninth Circuit in the federal bankruptcy case *CFLC, Inc. v. Cadtrak Corp.* commented that the *Unarco* conclusion quoted above is “insupportably broad given the general rule that most questions with respect to the construction of patent licenses are governed by state law.”

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250 465 F.2d 1303 (7th Cir. 1972).
251 *Id.* at 1305.
252 304 U.S. 64, 78 (1938) (“Except in matters governed by the Federal Constitution or by Acts of Congress, the law to be applied in any case is the law of the state.”).
253 *Unarco*, 465. F.2d at 1305, 1306.
254 *Id.* at 1306 (emphasis added). The court cited no authority for this proposition and the breadth of this holding has been challenged. See Aaron Xavier Fellmeth, *Control Without Interest: State Law of Assignment, Federal Preemption, and the Intellectual Property License*, 6 Va. J.L. & Tech. 8, ¶ 36 (2001) (“[T]he court did cite three Supreme Court cases at least eighty years old by that time, two Eighth Circuit cases at least fifty years old, and a treatise, to support its blanket assertion that no license agreement is assignable absent the licensor’s express consent. These cases were not controlling of the issue before the court; none of them had applied this theory to an exclusive license. Three applied to a nonexclusive license . . . which is intuitively more personal because it is essentially an agreement by a licensor not to sue the licensee for particular conduct that would otherwise infringe the licensor’s intellectual property.”), http://www.vjolt.net/vol6/issue1/v6i1a08-Fellmeth.html.
255 Everex Sys. v. Cadtrak Corp. (*In re CFLC, Inc.*), 89 F.3d 673, 679 (9th Cir. 1996).
found an exception to the *Erie* doctrine appropriate with regard to assignment of patent licenses, summarizing its analysis as follows:

Allowing free assignability—or, more accurately, allowing states to allow free assignability—of nonexclusive patent licenses would undermine the reward that encourages invention because a party seeking to use the patented invention could either seek a license from the patent holder or seek an assignment of an existing patent license from a licensee. In essence, every licensee would become a potential competitor with the licensor-patent holder in the market for licenses under the patents. And while the patent holder could presumably control the absolute number of licenses in existence under a free-assignability regime, it would lose the very important ability to control the identity of its licensees. . . . Thus, federal law governs the assignability of patent licenses because of the conflict between federal patent policy and state laws, such as California’s, that would allow assignability.  

The most notable case reaching the contrary result is the California Supreme Court’s 1957 opinion in *Farmland Irrigation Co. v. Dopplmaier*, in which Justice Traynor discussed at length the circumstances in which state law governed, even though the action involved a United States patent. The court recited the “established U.S. Supreme Court practice of applying state law to many aspects of patent licenses” unless the dispute “‘arise[s] under’ or ‘depend[s] upon the construction’ of a federal statute.” Because the Patent Act “makes no reference to the free assignability *vel non* of a license

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256 Id. The Ninth Circuit’s opinion has been criticized as avoiding conflict between state law and federal bankruptcy law rather than federal patent law. *See* Carol A. Quinn and R. Scott Weide, *Violation of the Erie Doctrine: Application of a Rule of Federal Common Law to Issues of Patent License Transferability*, 32 CREIGHTON L. REV. 1121, 1142 (1999). The authors contend that federal patent law allows a patentee to transfer her exclusive rights to make, use, sell and offer for sale a patented invention, but “does not ensure that a patentee receives adequate compensation, whether in the form of royalties or other compensation, any more than it protects the patentee from making a bad decision involving the transfer of the patentee’s rights.” *Id.*

257 *Farmland Irrigation Co. v. Dopplmaier*, 308 P.2d 732, 737 (“Every action that involves, no matter how incidentally, a United States patent is not for that reason governed exclusively by federal law.”).


259 *Id.* ¶ 48.
agreement[,] patent licenses have no federal statutory basis” and the assignability question “must arise under and be governed by the general common law of contracts.” Of course state law is still preempted by federal common law if it conflicts with some federal policy. The Dopplmaier court held, however, that no policy underlying federal patent law “requires a uniform federal rule of construction of license contracts to determine their assignability.” State law applies so long as it “does not destroy the advantages of” the patent monopoly, significantly affect the patent’s value, or “hamper the patentee’s right to profit from his monopoly by licensing under it.”

State contract law has also been held not to conflict with the underlying purposes behind intellectual property law in cases involving post-sale restrictions found in end-user license agreements. Indeed, the Supreme Court in Keeler v. Standard Folding-Bed Co. held that when a patent holder enters into contracts with purchasers of its patented products the validity and enforceability of those agreements “arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.”

In the copyright context, the leading case is ProCD v. Zeidenberg. There, the Seventh Circuit considered whether an end user license agreement accompanying a computer database, which it concluded was a contract governed by the Uniform Commercial Code, was preempted by the Copyright Act. The license restricted the consumer’s use of the program to non-commercial purposes. Section 301(a) of the Copyright Act, a provision not mirrored in the Patent Act, preempts any “legal or equitable rights [under state law] that are equivalent to any of the exclusive rights within the general scope of copyright.” The court assumed the database was not protectable subject matter under the Copyright Act and went on to determine whether restrictions could be placed on their usage through contract where copyright law would commit them to the public domain. The court held that the rights created by the contract were not “equivalent to any of the exclusive rights within the general scope of

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260 Id.
261 Id.
262 Dopplmaier, 308 P.2d at 739.
263 Id.
264 Keeler v. Standard Folding-Bed Co., 157 U.S. 659 (1895); see, supra notes 147-150 and accompanying text.
265 86 F.3d 1447 (7th Cir. 1996).
266 Id. at 1450.
267 Id. at 1453-54.
268 Id. at 1450.
copyright” in part because: “[a] copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create ‘exclusive rights.’”

Noting that “Congress possesses power to preempt even the enforcement of contracts about intellectual property . . . courts usually read preemption clauses to leave private contracts unaffected.” This is appropriate, according to ProCD, because “[t]erms and conditions offered by contract reflect private ordering, essential to the efficient functioning of markets.”

The ProCD opinion and its progeny have been vigorously attacked by numerous scholars fearful that application of state contract law will override important federal public policies reflected in the Copyright Act, including fair use rights, the first sale doctrine, and even the subject matter of copyright itself. The primary concern is that the careful balance struck by Congress in creating intellectual property rights—providing adequate incentives to encourage innovation but stopping short of giving absolute control—would be obliterated by allowing intellectual property owners to, through contract, take away public rights granted by copyright and patent laws. Indeed, proposed Article 2B of the Uniform Commercial Code—and its later

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270 ProCD, 86 F.3d at 1454.
271 Id. at 1454.
272 Cf. id. at 1455, with Vault Corp. v. Quaid Software, Ltd., 847 F.2d 255 (5th Cir. 1988) (holding state law prohibiting all copying of a computer program is preempted by Copyright Act).
273 See, e.g., Bowers v. Baystate Technologies, Inc., 320 F.3d 1317 (Fed. Cir. 2003) (holding Copyright Act did not preempt end user license agreement that prohibited reverse engineering of software program and citing cases holding parties may waive in a contract their affirmative defenses and statutory rights).
274 See, e.g., Lemley, supra note 247, at 129-33. But cf. Fellmeth, supra note 254, ¶ 5 (“[S]ome courts have allowed copyright owners to continue to control copies after sale by characterizing the sales agreement as a ‘license’ supposedly not subject to the First Sale Doctrine. By deferring to the language of the contract to override the congressional intent behind the First Sale Doctrine, courts have sometimes allowed copyright owners whose rights have been extinguished by the sale of their product to reach out beyond the grave to try to strangle statutory or common law rights of licensees.”).
275 See Lemley, supra note 247, at 125-26 (“As Larry Lessig has observed, ‘while we protect real property to protect the owner from harm, we protect intellectual property to provide the owner sufficient incentive to produce such property. ‘Sufficient incentive,’ however, is something less than ‘perfect control.’ Giving the parties unlimited power under contract law to vary the rules of intellectual property creates considerable tension with this balanced incentive structure. And permitting the parties to alter intellectual property law with a standard-form, unsigned ‘shrinkwrap license,’ in which even the fiction of ‘agreement’ is stretched to the vanishing point, exalts the (standard) form of contract law over the substance of intellectual property.’”) (citing Lawrence Lessig, Intellectual Property and Code, 11 ST. JOHN’S J. LEGAL COMMENT. 635, 638 (1996)).
iteration, the Uniform Computer Information Transactions Act (“UCITA”)—were widely seen as endorsing ProCD and favoring information technology manufacturers to the detriment of the consuming public.\textsuperscript{276} Only two states adopted the act and many passed anti-UCITA statutes.\textsuperscript{277}

In contrast to the reputation UCITA earned, state laws expressly relating to the terms of agreements accompanying the sale of seeds are protective of consumers and restrictive on seed sellers and manufacturers. They seek to limit a seed manufacturer’s ability, through a standard form contract, to gain permission for entry onto

\textsuperscript{276} J.H. Reichman and Jonathan A. Franklin, \textit{Privately Legislated Intellectual Property Rights: Reconciling Freedom of Contract with Public Good Uses of Information}, 147 U. Pa. L. Rev. 875, 882 (1999) ("[D]igital technologies, when combined with mass-market contracts, enable information providers to alter the existing legislative balance between public and private interests in unexpected and socially harmful ways. . . . [T]he uniform state laws proposed to validate these private rights have been crafted without balancing the social costs of legal incentives to innovate against the benefits of free competition, and without regard for the constitutional mandate to ‘promote the [p]rogress of [s]cience and useful [a]rts.’ On the contrary, the drafters of Article 2B empower purveyors of digitized information goods to undermine, by contract, long-standing policies and practices that directly promote cumulative and sequential innovation as well as the public interest in education, science, research, competition, and freedom of expression.").

\textsuperscript{277} See I. Lan Sys., Inc. v. Netscout Serv. Level Corp., 183 F. Supp. 2d 328 (D. Mass. 2002). The court explained that although licenses for software do not neatly fall within the UCC’s rules for sales (Article 2) or leases (Article 2A), the UCC is a better fit for such transactions than the common law:

In Massachusetts and across most of the nation, software licenses exist in a legislative void. Legal scholars, among them the Uniform Commissioners on State Laws, have tried to fill that void, but their efforts have not kept pace with the world of business. Lawmakers began to draft a new Article 2B (licenses) for the UCC, which would have been the logical complement to Article 2 (sales) and Article 2A (leases), but after a few years of drafting, those lawmakers decided instead to draft an independent body of law for software licenses, which is now known as the Uniform Computer Information Transactions Act (“UCITA”). So far only Maryland and Virginia have adopted UCITA; Massachusetts has not. Accordingly, the Court will not spend its time considering UCITA. At the same time, the Court will not overlook Article 2 simply because its provisions are imperfect in today’s world. Software licenses are entered into every day, and business persons reasonably expect that some law will govern them. For the time being, Article 2’s familiar provisions—which are the inspiration for UCITA—better fulfill those expectations than would the common law. Article 2 technically does not, and certainly will not in the future, govern software licenses, but for the time being, the Court will assume it does.

\textit{Id.} at 332 (citations omitted).
real property, or limit liability in tort, or sue in an inconvenient venue. Thus the preemption arguments typically leveled against proposed Article 2B as upsetting the balance Congress has struck between private property—copyright or patents—and the public interest do not apply to current state laws aimed at the sale of patented seeds.

B. **Do State Laws Relating to Bag-Tag Agreements Conflict with Federal Statutes or Federal Patent Policy?**

Generally speaking, seeds are included within the Uniform Commercial Code’s definition of “goods,” so that contracts that accompany the sale of seeds—patented or not—would be interpreted under UCC Article 2. If a bag-tag agreement, also known as a label license, is interpreted under the UCC, several issues arise. Is the grower a “merchant”? Is it an adhesion contract? Are liability limitations valid and enforceable? Do limited license labels

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278 U.C.C. § 2-103(1)(k) (2003) (“‘Goods’ means all things that are movable at the time of identification to a contract for sale. The term includes future goods, specially manufactured goods, the unborn young of animals, growing crops, and other identified things attached to realty as described in Section 2-107. The term does not include information, the money in which the price is to be paid, investment securities under Article 8, the subject matter of foreign exchange transactions, or choses in action.”).


280 See McEowen, *supra* note 279, at 612 (“The proliferation of GMOs in crop agriculture gives rise to numerous contract-based legal issues, especially those involving the existence in warranties in sales transactions. Article 2 of the Uniform Commercial Code (U.C.C.) governs the law of sales of goods. If a farmer is a “merchant” with respect to the sale of goods, liability may arise for breach of an implied warranty. However, an express warranty may be creative irrespective of whether the seller of goods is a merchant.”) (footnotes omitted).

281 *Id.* at 618 (“Producers may not be in a strong bargaining position with respect to GMO seed sale contracts. As a result, contracts may be offered on a ‘take it or leave it basis.’ The vulnerability of producers is evidenced in that many producers may be unable, as a practical matter, to do more than rely on labels and seed company representations as to what is GMO and non-GMO seed. Thus, consideration must be given to challenging such contracts on the basis that they constitute contracts of adhesion.”).

282 *Id.* (“[I]f contract language attempts to limit the company’s liability to the cost of the seed purchased, the language may be challenged on the basis that it is unconscionable and unenforceable as an adhesion contract.”).
“materially alter” the parties’ agreement and, if so, is notice of objection required?

Certain terms are likely to be upheld under the UCC. For instance, the typical bag-tag agreement purports to limit the activities of the purchaser by relying on the patent monopoly held by the seed’s manufacturer (or its licensor). The agreement grants the grower the “right” to plant the purchased seed, and prevents many uses of the seeds’ progeny, including sale to others for replanting or research. These terms are generally upheld under a UCC Article 2 analysis.

Several state laws have sought to dictate the terms of these technology licenses, voiding those agreements that do not comply. These laws are not, however, found under the sections of the states’ laws that adopt the Uniform Commercial Code, but rather are codified under different sections of the states’ various statutes. These statutes, among other things: create rules for notifying farmers in advance of entering their real property to test for alleged infringement or breach; address rights of due process and private property interests appropriately within the purview of states; do not limit the scope of the personal property rights conferred upon patent holders under federal law; do not reduce the patent law’s incentives to innovate and disclose the innovation; and do not create new rights within Congress’s exclusive domain. They do not defeat the underlying purposes behind the patent law. As such, they are not preempted by federal law.

More problematic are state laws that exempt from liability farmers who innocently or in de minimis quantities possess on their property genetically engineered plants. These laws attempt to actually create affirmative defenses to patent infringement as well as breach of contract claims. To the extent mere possession of a patented gene or sequence in the form of a living plant can constitute “use” or “making” of the patented material, and therefore infringement, these laws would be preempted by federal law. The Patent Act creates strict liability for infringers; knowledge, intent, and more than de minimis quantities are not factors a patent holder must prove to prevail. Accordingly, state laws that create affirmative defenses to patent infringement on these grounds conflict directly with the express language of the Patent Act. Further, they undermine the monopoly interests provided by Congress and therefore undermine the purposes and intent of the law. As such,

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284 See id. at 1047-49 (N.D. Iowa 2003).
they will likely fail to protect farmers from patent infringement liability even if the presence of pollen contaminating their crops is caused by pollen drift.\textsuperscript{287}

As state legislatures consider additional proposed legislation, it bears noting that state laws directly permitting farmers to sell cultivated seed for replanting would conflict with the express terms of the PVPA, provided the seeds were protected under the Act. If patent exhaustion did not apply to the transaction in which the farmer acquired the seed from the owner of a utility patent, moreover, such laws would also conflict with federal utility patent law. If patent exhaustion did apply, such a state law would not conflict with any express provisions of the U.S. Patent Act because the harvest would no longer be subject to a federally sanctioned monopoly.

Given that terms accompanying the seed sale would be interpreted under the UCC, it is still possible for bag-tag agreements to prohibit farmers from selling seed for replanting under state contract law provided the agreements meet the other conditions required for enforceable agreements accompanying the sale of goods. Thus, states may pass statutes voiding contract provisions that eliminate the right to resell harvest for research or replanting purposes, but those statutes would have to apply only to seed not covered by a PVPA certificate or a utility patent, or rely upon exhaustion of the utility patent rights through sale. To date, however, no enacted state laws go that far.

CONCLUSION

Labeling patented goods—or goods embodying patented subject matter—with terms and conditions restricting their post-sale use is not a twenty-first, or even a twentieth-century phenomenon, although it became a ubiquitous practice with the software industry and now applies to some biotechnology as well. The Supreme Court has treated some of these restrictions as licenses under patent law and some of them as mere contracts. It has never conclusively held that such label agreements are always mere contracts due to exhaustion of the patent rights by sale. Instead, the Court studies each transaction before it to determine if the patent holder has cleverly orchestrated the transfer of tangible goods without transferring anything more than a

\textsuperscript{287} This does not mean, of course, that patent owners will aggressively pursue such claims, and does not address whether—as in the \textit{Monsanto v. Schmeiser} case—damages will be based on unrealized profits and therefore amount to zero. It also does not mean that states cannot enact or enforce laws creating tort liability on behalf of GE seed producers for trespass, negligence, strict liability or nuisance and the resulting property damage associated with pollen drift. See, e.g. McEown, \textit{supra} note 279 at 618-25; Hamilton, \textit{supra} note 213, at 103-04.
limited license to practice the patent. Whether the Supreme Court would find that Monsanto’s system of requiring growers to sign technology use agreements avoids patent exhaustion—as the Federal Circuit has found—is an open question. Regardless of what Monsanto (or similarly situated agribusinesses) calls the agreement between itself and the farmers, the Court is likely to find that farmers have purchased the seeds and the right to use them, thereby exhausting the patent rights in those seeds, at least with regard to their use. Of course whether “use” includes making, saving, and replanting the progeny seeds is subject to debate and expert opinion.

States have boldly passed legislation relating to the terms of such label licenses anyway, confident that even as nonexclusive patent licenses, such agreements are subject to interpretation under state law. For the most part, they are. In some areas, however, the states have reached beyond their purview into the domain of federal intellectual property law. In particular, state laws creating affirmative defenses to patent infringement due to innocent or de minimis possession of patented plants conflicts directly with federal patent law. And state laws—which have yet to pass—creating a right to save, replant, or sell for planting the progeny of patented seeds would also likely be preempted by the PVPA, and by the utility patent provisions as well if exhaustion does not apply to the seeds’ sale.
VENUE REFORM IN PATENT LITIGATION:
TO TRANSFER OR NOT TO TRANSFER

By Tsai-fang Chen®

ABSTRACT

Issues of venue and forum shopping have always been present in patent litigation, but they recently have attracted the attention not only of practitioners and litigants, but lawmakers as well. This article first examines the perceived problems associated with the current venue rules and suggests that forum shopping is just a symptom of the underlying disparity in the speed, quality, and certainty of the various district courts in resolving patent disputes. Restrictive venue statutes are not capable of solving these underlying problems. This article further analyzes the proposed bills in the 111th Congress, and argues that these bills will not solve the perceived problems, but instead increase the burden imposed on the federal judicial system. Finally, this article provides a new proposal with an emphasis on limiting the application of venue transfer rules, which would increase certainty and fairness in venue selection and improve the overall efficiency of the resolution of patent cases.

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I. INTRODUCTION

The venue statutes limit a plaintiff’s choice of forum. The current rule regarding venue in patent litigation is clear and straightforward—for the corporate defendant, proper venue is any district court that has personal jurisdiction.\(^1\) Accordingly, venue is primarily “a matter of choosing a convenient forum.”\(^2\) This certainly gives a wide margin of discretion to patent holders regarding the choice of venue. Yet there remains a concentration of patent cases in a handful of district courts.

Indeed, issues of venue and forum shopping have always been present in patent litigation. These issues are part of the reason for the establishment of the Court of Appeals for the Federal Circuit.\(^3\) However, the practice of forum shopping does not seem to have diminished and recently has attracted the attention of not only practitioners and litigants, but lawmakers as well.

Notably, in the 111th Congress, three bills, H.R. 1260, S. 515, and S. 610, each entitled the Patent Reform Act of 2009, have been introduced which attempt to respond to current concerns about the patent process.\(^4\) As of the day of this writing, the amended S. 515 has been reported to the Senate.\(^5\) All bills include detailed and restrictive proposals regarding venue choices.\(^6\)

Notwithstanding the profound effects they would have on patent litigation and the federal judicial system, these provisions have mostly been ignored in the literature with the exception of Rooklidge and Stasio\(^7\) and Rosenzweig,\(^8\) who provide criticism regarding similar provisions passed in previous Congressional sessions. These authors have pointed out the unintended consequences that the proposed provisions would bring to litigants and courts due to the rules’ subjective and ambiguous nature.\(^9\) Yet Rooklidge and Stasio do not

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\(^5\) S. 515, 111th Cong. (1st Sess. 2009).
\(^6\) See sources cited supra note 4.
\(^7\) See William C. Rooklidge & Renée L. Stasio, Venue in Patent Litigation: The Unintended Consequences of Reform, 20 INTELL. PROP. & TECH. L.J. 1, 1 n. 3 (2008).
\(^9\) See id. at 8; Rooklidge & Stasio, supra note 7, at 1 n. 3.
provide alternative provisions to the bills, while the proposal suggested by Rosenzweig\textsuperscript{10} only modestly reduces the ambiguities of the bills’ provisions and does not recognize the fundamental issues involved in the venue disputes; thus each fails to provide a comprehensive solution to the problems forum shopping and the proposed bills would cause. The traditional methods of venue restriction would inevitably increase venue related disputes. A solution to the patent venue issues should recognize the real problems of forum shopping and address their incentives.

This article examines the perceived problems associated with the current venue rules and suggests that concerns regarding forum shopping should not be overstated. Forum shopping is just a symptom of the underlying disparity in the speed, quality, and certainty of the various district courts in resolving patent disputes. Restrictive venue statues are not capable of solving these underlying problems. Any reform regarding patent venue statutes should first clearly articulate the relationship between any perceived concerns relating to venue and forum shopping before the legitimate choice of the plaintiff in choosing a venue based upon proper considerations is sacrificed, such as the prompt resolution of its case, efficiency of the system governing its litigation obligations, and the limited resources of the federal courts.

In addition, this article points out that venue transfer rules that prolong the litigation process and impose a grave burden on the federal courts, constitute the real problems in the patent venue disputes. This article suggests that a comprehensive venue reform should address the problems venue transfer rules have caused.

This article further analyzes the proposed bills in the 111th Congress, and argues that the regulating models utilized in these bills will not solve the perceived problems, but instead increase the burden imposed on the federal judicial system. Finally, by addressing the incentives associated with forum shopping, this article provides an alternative proposal to increase certainty in venue selection and improve the overall efficiency of the resolution of patent cases. This article is the first to suggest the real solution to the venue issue should address the incentives of forum shopping through an amendment to the venue transfer rules. This article recognizes that the traditional methods of regulation would only cause more venue-related disputes. Instead, this article suggests that by providing incentives to litigants with regard to problematic venue transfer rules, it would effectively reduce the occurrence of forum shopping while addressing the overall burden related to venue issues.

\textsuperscript{10} Rosenzweig, \textit{supra} note 8, at 16.
II. CURRENT RULES

A. BACKGROUND

In patent infringement cases, venue is governed by a special venue statute, 28 U.S.C. § 1400(b).\footnote{VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574, 1576-77 (Fed. Cir. 1990).} This statute provides that a patent infringement suit may be brought in any judicial district where 1) “the defendant resides” or 2) the defendant has “committed acts of infringement and has a regular and established place of business.”\footnote{28 U.S.C. § 1400(b) (2006); VE Holding, 917 F.2d at 1577-78.} On its face, the venue statute for patent infringement cases is more restrictive than the general venue statute, 28 U.S.C. § 1391(b)–(c), but this was not the intent of Congress in enacting special venue statutes for patent cases.

At the time just before the venue statutes for patent litigation were enacted, the general venue rule was very restrictive. The intent of Congress in enacting patent venue rules was to liberalize the venue choices for patent owners.\footnote{14D CHARLES ALAN WRIGHT, ARTHUR R. MILLER & EDWARD H. COOPER, FEDERAL PRACTICE AND PROCEDURE: JURISDICTION § 3823 (Thomson Reuters, 3d ed. 2007 & Supp. 2009) (noting that “there is ample evidence in the legislative history of the provision that Congress thought that the 1887 general statute did restrict patent infringement actions and that it wished to provide a broader choice of venue for [patent] actions.”).} Even though the Supreme Court did not fully appreciate the legislative intent in some previous cases,\footnote{See Fourco Glass., 353 U.S. at 228 (holding that the general definition of corporate residence does not apply to patent infringement actions); Stonite Prod. Co. v. Melvin Lloyd Co., 315 U.S. 561, 566 (1942) (noting that the patent venue provision, i.e., the Act of 1897, “was a restrictive measure, limiting a prior, broader venue.”). But see WRIGHT ET AL., supra note 13, § 3823 (noting that these cases are no longer good law in light of the 1998 amendment to the corporate venue statute).} and disputes remain regarding this intent,\footnote{Rosenzweig, supra note 8, at 7.} in a unanimous decision in *Brunette Machine Works v. Kochum Industries*, Justice Marshall noted explicitly that the 1897 statute “was rather less restrictive than the general venue provision then applicable to claims arising under federal law.”\footnote{Brunette Mach. Works, Ltd. v. Kochum Indus., 406 U.S. 706, 712-13 (1972); WRIGHT ET AL., supra note 13, § 3823.}

Prior to 1988, for venue purposes in patent infringement litigation, a corporation was deemed to reside in its state of incorporation only.\footnote{VE Holding, 917 F.2d at 1578.} Thus, the application of the special venue statute resulted in time-consuming disputes regarding whether a defendant’s...
presence in a district constituted “a regular and established place of business” or whether “acts of infringement” were committed in the district.\(^{18}\) The venue requirements were so heavily litigated that the pocket part to the United States Code Annotated had twenty-six columns of annotations on the former concept and fifteen more columns on the latter concept by the year 1985.\(^ {19}\) Important judicial resources have been wasted on the resolutions of procedural questions to determine what is the most convenient location to try a case.

B. CURRENT INTERPRETATION

In 1988, a new definition of “reside” as it applies to venue for corporate defendants was adopted.\(^ {20}\) Under 28 U.S.C § 1391(c), a corporation is deemed to reside in any judicial district to which it could be subject to personal jurisdiction at the time the action is commenced.\(^ {21}\) In VE Holding v. Johnson Gas Appliance, the Federal Circuit ruled that this definition applies to patent venue statute § 1400(b) as well.\(^ {22}\) While there has been some controversy as to the correctness of the ruling,\(^ {23}\) the legislative history appears to confirm the court’s conclusion in VE Holding.\(^ {24}\) Accordingly, based on the plain language of § 1391(c) and the legislative history of the 1988 Act with regard to a corporate defendant, which is the norm in patent

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\(^{18}\) See Richard C. Wydick, *Venue in Actions for Patent Infringement*, 25 STAN. L. REV. 551, 551 (1973) (noting that “[a]ll too often, patent infringement suits begin with a battle over where the war is to be fought. These wasteful preliminary jousts are occasioned by the patent venue statute, which places strict limits on the plaintiff’s choice of forum in suits for patent infringement. The statute has become encrusted with hypertechnical case law . . . . The statute’s original purpose has been frustrated by judicial opinions, and its continued existence serves merely to consume the time and effort of lawyers and judges and to strain the purses and patience of persons seeking prompt, efficient adjudication of their rights.”); see also Rosenzweig, supra note 8, at 7. Rita M. Irani, *Jurisdiction and Venue in Patent Cases: Effect of the Federal Circuit on Construction of the Patent Venue Statute*, 69 J. PAT. & TRADEMARK OFF. SOC’Y 445, 445 (1987).

\(^{19}\) *WRIGHT ET AL.*, supra note 13, § 3823; Rosenzweig, supra note 8, at 7.


\(^{22}\) VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574, 1584 (Fed. Cir. 1990).


\(^{24}\) For a review of the litigation history regarding the 1998 amendment, see *WRIGHT ET AL.*, supra note 13, § 3823.
litigation, venue is proper in patent infringement action in any district in which the defendant is subject to personal jurisdiction.

Section 1391(c) also reflects a recognition that in light of technological advances in transportation and communication, at least for corporate defendants, issues of inconvenience warrant less consideration. Thus, the inherent costs for the court and the parties associated with the restrictiveness of the venue statutes should be given more weight in the equation. Furthermore, having one simple set of standards controlling both the personal jurisdiction and venue rules offers advantages for federal courts as well.25

Commentators argue that it is much less rigorous to satisfy the venue requirements for patent cases, which allow “substantial room for forum shopping” than in other areas of the law.26 While there is indeed room for forum shopping in patent cases, it is less clear that the patent venue requirements are much more lenient in patent cases. Compared to general venue statutes, for example, 28 U.S.C. § 1391(b) does not differ substantially from the first element in U.S.C. § 1400(b), while the addition of the second element is of limited use in patent litigation.27 Accordingly, the perceived forum shopping problem in patent litigation is not caused by rules less rigorous than in other areas of the law.

It should be noted that patent infringement actions and declaratory actions for patent non-infringement invalidity are governed under two different venue statutes (the former under the special venue statute, 28 U.S.C § 1400; the latter under the general venue statute, 28 U.S.C § 1391(b) and (c)).28 There is no clear policy reason to distinguish these two kinds of actions in terms of venue, yet as far as corporate defendants are concerned, there is no substantial difference between how they are treated under these two rules.29 This

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25 See id. § 3811 (stating that “there is a great advantage in having one standard” for both minimum contact and venue doctrines rather than “complicating an already difficult matter by having two different standards”).
26 Robert J. Gunther, Jr., Motions to Dismiss, to Transfer, to Strike, in ANATOMY OF A PATENT CASE 35, 40 (2009).
28 See, e.g., Emerson Elec. Co. v. Black & Decker Mfg. Co., 606 F.2d 234, 238-39 (8th Cir. 1979) (“Venue in a declaratory judgment action for patent invalidity and noninfringement is governed by the general venue state, 28 U.S.C § 1391(b) and (c), not the patent infringement venue statue, 28 U.S.C. § 1400(b),” (citation omitted)); see also VE Holding, 917 F.2d at 1583; Dorothy R. Auth et al., Selecting Forum and Venue for Your Patent Litigation, in 3RD ANNUAL PATENT LAW INSTITUTE 597, 620 (2009).
29 If there is any reason to distinguish the venue for these two types of cases, the appropriate forums should be much more limited in the declaratory action cases since all focus is on the patent itself instead of the infringing activity. Auth et al., supra note 28, at 620.
is a clear indication that under current rules, there is no substantial difference between venue for patent infringement and venue for general actions. Special patent venue statutes are not less rigorous than general venue statutes.

C. Venue Transfer

Venue transfer, together with venue selection, constitutes complete regulation of venue issues. 28 U.S.C. § 1404(a) provides that “[f]or the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought.”30 Before its enactment, a federal court could only dismiss an action brought in an inconvenient but otherwise proper district under the doctrine of forum non conveniens.31 The addition of § 1404(a) does not guarantee the most convenient forum; it allows a district court to make a discretionary and individualized determination as to whether a case can be tried more conveniently in another forum.32

This provision, however, adds another layer to already complex litigation and diverts the district court judge from engaging in the merits of the case.33 It also can be used as a “delaying tactic.”34 In

32 WRIGHT ET AL., supra note 31, § 3841; see also Edmund W. Kitch, Section 1404(a) of the Judicial Code: In the Interest of Justice or Injustice?, 40 IND. L.J. 99, 99-100 (1965) (noting that the objective of this section is “to make it possible for a district court where the action has been properly brought to transfer the action the most desirable district for trial”).
33 15 WRIGHT ET AL., supra note 31, § 3841 (“The greatest cost is that an extra decision point has been added to what frequently is already complex litigation.”); David E. Steinberg, Simplifying the Choice of Forum: A Response to Professor Clermont and Professor Eisenberg, 75 WASH. U. L.Q. 1479, 1496 (1997) (noting that evidentiary hearings that may be necessary to reach accurate factual decisions regarding the transfer motion “only would add to the delay and the expense that normally accompanies transfer litigation”); Irving R. Kaufman, Observations on Transfers Under Section 1404(a) of the New Judicial Code, 10 F.R.D. 595, 595, 607 (1951) (noting that “[n]o relief from the deluge of transfer application is foreseeable,” observing that “the district judge must be able to see through the voluminous affidavits presented” and determine who are the key witnesses, but expressing hope that “the eventual crystallizing of the criteria and boundaries of 1404(a)” would reduce the burden imposed on the district judges).
34 WRIGHT ET AL., supra note 31, § 3841; Steinberg, supra note 33, at 1493 (estimating that parties annually litigate at least 5,500 unsuccessful section 1404(a)
addition to the time and expenses, the transfer statute may also increase the overall unpredictability of the litigation process.\textsuperscript{35} Appellate review of venue decisions under this provision is also problematic.\textsuperscript{36} One commentator noted that appellate courts are not well suited to decide the most appropriate forum of the case, and it certainly prolongs the process of the litigation.\textsuperscript{37} The burden it imposes on the litigation system\textsuperscript{38} may not outweigh the benefits.\textsuperscript{39} Accordingly, the design of the venue transfer rule may be in need of some modification in order to achieve the optimal judicial efficiency

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\textsuperscript{35} See Stowell R.R. Kelner, \textit{“Adrift on an Uncharted Sea”: A Survey of Section 1404(a) Transfer in the Federal System}, 67 N.Y.U. L. REV. 612, 632-33 (1992) (noting that the discretionary application of the transfer provision “make[s] the outcome of transfer motions rather unpredictable,” which increases costs, “leads to fewer meritorious transfer motions” and results in less uniformity in the decision-making); Steinberg, supra note 33, at 446-47 (describing the provision that “as a delaying tactic it has few equals”).

\textsuperscript{36} See David P. Currie, \textit{The Federal Courts and the American Law Institute (Part II)}, 36 U. Chi. L. Rev. 268, 309 (1968-1969) (“One of the big factors causing delay in the determination of transfer motions has been the uncertainty surrounding reviewability of decisions to transfer or not to transfer.”); Kitch, supra note 32, at 141-42 (concluding that “appellate intervention in the transfer process in turn entails such a substantial burden of delay that it outweighs the advantages of the section”); Kaufman, supra note 33, at 595 (noting that appeals from transfer decisions “are appearing with great frequency on the calendars of the appellate courts”).

\textsuperscript{37} \textit{Wright et al.}, supra note 31, § 3841.

\textsuperscript{38} See Kelner, supra note 35, at 614 (noting that the statute “has spawned a bewildering amount of litigation”).

\textsuperscript{39} \textit{Wright et al.}, supra note 31, § 3841; Currie, supra note 36, at 307 (“The theory is good, but it is practically unworkable. It would be mellow to try every action in the most convenient forum. But deciding where that forum is costs altogether too much time and money.”); Kitch, supra note 32, at 101, 141-42 (expressing the opinion that “the cure is itself a serious disease” and concluding that “[s]ection 1404(a) suffers from an irremediable defect” and that “it is better to bear with the small number of true hardship situations that would arise under a well drawn venue code than with the burdens which will inevitably result from a transfer provision like section 1404(a)”).
in patent litigation.\textsuperscript{40} Indeed, a comprehensive venue reform should address the problem venue transfer rules have caused.

D. PERCEIVED PROBLEMS UNDER THE CURRENT RULE

1. The “Evils” of Forum Shopping

Commentators contend that forum shopping under the current venue rules causes two basic problems: the normative evils and economic inefficiency.\textsuperscript{41} Regarding the normative evils, the view that the “intensity of forum shopping by parties suggests that the view of law as immutable is ultimately unfulfillable”\textsuperscript{42} does not lead to the conclusion that restrictive venue statutes could achieve uniformity in the legal system. The existence of forum shopping is merely a symptom of the lack of uniformity in the patent litigation system.\textsuperscript{43} The venue statute is neither the cause nor the cure for this underlying problem. Removing uncertainty in the patent legal system is the most efficient way of solving the existence of forum shopping, a topic beyond the scope of this article.\textsuperscript{44}

\textsuperscript{40} See, e.g., Steinberg, supra note 33, at 448, 512-23 (under the context of general litigation, proposing that “[c]ourts should decide most transfer motions only by considering the location of relevant witnesses and documents” in order to promote predictability in transfer decisions and to ease the burden of the district judges). Steinberg, however, acknowledged that this suggestion “probably would produce only a modest change in the status quo.” Steinberg, supra note 33, at 1505. Some critics of the transfer statute advocated the elimination of the transfer provisions while restricting plaintiff’s initial venue choices. See also Steinberg, supra note 33, at 1509; Currie, supra note 36, at 309; Kitch, supra note 32, at 138-39. This suggestion, however, may simply divert the focus of the disputes from transfer motions back to initial venue selections, which would not provide a comprehensive solution to the burden caused by venue issues.


\textsuperscript{42} Id.

\textsuperscript{43} See Scott Atkinson et al., The Economics of a Centralized Judiciary: Uniformity, Forum Shopping and the Federal Circuit, 52 J.L & ECON. 411, 441 (2009) (noting that “[f]orum shopping is not an ill, in and of itself, but is a symptom of non-uniformity”); Moore, supra note 41, at 560 (“If all patent cases were resolved predictably and uniformly by the district courts, there would be no need for forum shopping.”). But see Kelner, supra note 35, at 614 (“Plaintiff forum shopping is not an evil to be avoided, but rather is an inherent part of our federal court network.”).

\textsuperscript{44} See Atkinson et al., supra note 43, at 441 (noting “the root cause of the forum shopping was the non-uniformity of validity outcomes” and reduced risks associated with the uncertainty of litigation should be connected to less need to search judicial forums).
Regarding economic inefficiency, it has been argued that forum shopping wastes resources by increasing litigation costs as “parties dispute forum or pursue the most favorable forum.” The suggested response is to restrict the plaintiff’s options at the outset through venue statutes. In terms of efficiency, however, it is acknowledged that where patent cases have concentrated in a few district courts as a result of forum shopping, judges in those courts have developed an expertise in handling such cases and thus efficiency has been enhanced.

The inconvenience of litigating in a distant forum will be discussed in the next section. Regarding the procedural costs of fighting over the appropriate forum, these costs undoubtedly would continue under the proposed restrictive and mandatory venue provisions, as with cases prior to 1988. This article acknowledges, however, that fights over transfer motions are problematic and steps should be taken to reduce costs and to enhance certainty.

Another issue worth considering is whether forum shopping is truly unique to patent cases. It has been argued that the 1982 creation of the U.S. Court of Appeals for the Federal Circuit alleviated forum shopping issues in patent litigation. Others argue that the creation of the Federal Circuit does not diminish forum shopping but simply changes its form. As Rosenzweig pointed out, similar to forum shopping in non-patent civil cases, forum shopping in patent infringement litigation prior to the creation of the Federal Circuit was driven by disparate interpretation of the law in different circuits, which was obscured by the availability of many district courts in a single circuit who held favorable views for patent holders. Further, plaintiffs were drawn to different circuits depending on their particular

45 Moore, supra note 41, at 590.
46 Id. at 590-91.
47 Id. at 590.
48 See generally Irani, supra note 18 (explaining problems implicit to venue-fighting, including Rule 11 sanctions, problems with determining the location of the defendant(s), corporate veil-piercing and inconsistent holdings of the circuit courts as well as a lack of holdings at that time by the Federal Circuit).
49 See Wright et al., supra note 13, § 3823 (noting that the creation of the court “has lessened greatly the need for a restrictive patent venue statute” because there were no longer “divergences in the interpretation of patent law among the courts of appeal”); see also Atkinson et al., supra note 43, at 441 (noting forum shopping appears to have been mitigated since the establishment of the Federal Circuit).
50 Rosenzweig, supra note 8, at 8; see also Moore, supra note 41, at 561 (noting that “choice of forum continues to play a critical role in the outcome of patent litigation” and patent cases are “consolidated in a few select jurisdictions”).
51 Rosenzweig, supra note 8, at 8.
legal issues.\textsuperscript{52} No concentration in a few district courts could be easily observed.

Since these factors no longer exist, patent cases visibly concentrate in several districts perceived to be patent-friendly.\textsuperscript{53} However, theoretically, there is no justification to regulate the venue restrictively only for patent cases, particularly if such regulation creates unintended burdens to the legal system.\textsuperscript{54}

The “hot” district courts particularly attractive to patent plaintiffs tend to be temporary. Factors regarding whether a particular court is perceived as “patent-friendly” may include speed, local rules, pro-plaintiff juries, proclivity to granting dispositive motions, experience of the judges, etc.\textsuperscript{55} Speed is considered one of the most important factors for a district to be “patent-friendly.” It is hardly any “exploitation” of the system for a plaintiff to look for efficient venues. Furthermore, any “rocket docket” district which attracts a large volume of plaintiffs would inevitably grow larger and slower.\textsuperscript{56} In addition, the Federal Circuit and the Fifth Circuit have been willing to issue writs of mandamus to transfer venue.\textsuperscript{57} Any concentration of patent cases in a particular district is, to a large extent, temporary, which does not warrant disparate treatment for patent cases. Even if there will be a next Eastern District of Texas,\textsuperscript{58} that would be temporary too, particularly if the Federal Circuit is willing to intervene in the matter.

\textsuperscript{52} Id.

\textsuperscript{53} Id. at 9.

\textsuperscript{54} But see id. (arguing that since “the forum shopping in patent cases is transparent . . . it is reasonable for Congress to address any concern that justice is administered in the federal courts haphazardly in favor of plaintiffs.”).

\textsuperscript{55} See id. at 3; William D. Belanger, Strategic Considerations in Forum Selection: Where To File a Patent Infringement Lawsuit and the Consequences 1 (2006), http://www.aipla.org/Content/ContentGroups/Speaker_Papers/Mid-Winter1/20063/BelangerDOC.pdf; Moore, supra note 41, at 561 (“The differing procedures for resolving patent cases and differing potential outcomes create an environment in which forum shopping has a major impact on litigation.”).

\textsuperscript{56} For the discussion of the Eastern District of Texas, see Roderick R. McKelvie, Forum Selection in Patent Litigation: A Traffic Report, 19 INTELL. PROP. & TECH. L.J. 1, 3 (2007) (concluding that the judges in the District “are beginning to fall behind”); Rosenzweig, supra note 8, at 9.

\textsuperscript{57} See The Eastern District of Texas–No Longer the Venue of Choice?, METROPOLITAN CORPORATE COUNSEL, Feb. 2009, at 23, available at http://www.metrocorpcounsel.com/pdf/2009/February23.pdf. See generally In re TS Tech USA Corp., 551 F.3d 1315 (Fed. Cir. 2008); In re Volkswagen, Inc., 545 F.3d 304 (5th Cir. 2008). As a result of In re TS Tech and the current backlog, more cases are likely to be transferred out of the Eastern District of Texas.

\textsuperscript{58} See Rosenzweig, supra note 8, at 9 (arguing that “a Marshall-like situation will arise somewhere else sometime soon”).
2. Inconvenience for the Defendants

The present state of technology is much different from that in the 19th Century. Arguably, the ease of communication and transportation dramatically reduce the difficulty in distant litigation.\footnote{Moore, supra note 41, at 567 (“In this age of national and international commerce, however, convenience of the parties, witnesses, and location of evidence is becoming less significant in the parties' calculus than other considerations.”).} It is more so for modern corporations, who are capable of selling products nationally or internationally, which under the theory of personal jurisdiction does purposefully avail them to almost any possible forum insomuch as they do (or would) engage in infringing activity there.

Certainly, for some particular corporations sued for patent infringement dozens of times a year, conducting trials in forums across the country is not an insignificant burden. However, the core of this issue lies in harassment patent lawsuits, not in venue provisions. A change of the venue rules, which could impact all patent owners negatively, is not warranted by the marginal relief it will bring to the corporations regularly targeted by infringement suits.

The major concern of defendants is arguably not convenience \emph{per se}. The real concern may be some particular “patent-friendly” district courts.\footnote{See Rosenzwig, supra note 8, at 6.} Potential favoritism towards plaintiffs in particular districts could be a problem, but it is a problem in its own right, and cannot be solved by the change in the venue rules, which does not address the inequality within the problematic district.

The term “patent-friendly” can also be associated with the expertise of the judges, the implementation of the local rules that set forth procedures for handling patent cases, or less crowded civil and criminal dockets, which better lead to predictable and cheaper litigations.\footnote{See Xuan-Thao Nguyen, Justice Scalia’s “Renegade Jurisdiction”: Lessons for Patent Law Reform, 83 TUL. L. REV. 111, 114 (2008).} These are not “problems” that Congress should counteract. More importantly, venue statues, which aim for locating a convenient forum, are not designed to deal with this kind of concern. By removing choices of plaintiffs and mandatorily allocating all cases to different forums determined by statutes, the disparate treatment of patent holders is not solved. It simply encourages the activity of “venue manufacturing” in the future.
3. No Contact with the Forum at All

In Beverly Hills Fan v. Royal Sovereign, the Federal Circuit held that personal jurisdiction exists over an accused infringer when it placed the infringing products into the stream of commerce, knowing that the likely destination of the products would be the forum state. Viewed with VE Holding, it has been argued that the effect of these decisions is that venue is proper “wherever an alleged infringing product can be found” in a patent infringement suit. When infringing products are sold nationally, the potential venue may include any one of the 94 judicial districts in the United States.

Commentators thus argue that under current venue rules, litigations usually take place in a forum with no contact with any of the parties. The district court is chosen simply because it is a “patent-friendly” forum. It should be noted, however, that under current venue statutes, the district judge maintains the discretion to transfer the case. In addition, there is recourse for remedy of potential abuse of this discretion. Even if the judge does not transfer the case out, the minimum protection for the corporate defendant is the required personal jurisdiction.

For the district court to have personal jurisdiction over the corporate defendant, two bases are possible: general and specific jurisdiction. The connection between the defendant and the forum is sufficient in the situation of general jurisdiction, on the one hand, where the defendant has “continuous and systematic” contacts with the forum state. “Sporadic and insubstantial contacts with the forum state” are not sufficient to establish general jurisdiction over the defendants in the forum.

Specific jurisdiction, on the other hand, requires the defendant to have established sufficient “minimum contacts” with the forum “such that [it] should reasonably anticipate being haled into court

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62 Beverly Hills Fan Co. v. Royal Sovereign Corp., 21 F.3d 1558, 1566 (Fed. Cir. 1994); see also Gunther, Jr., supra note 26, at 38.
64 Id.
65 See Campbell Pet Co. v. Miale, 542 F.3d 879, 884 (Fed. Cir. 2008); Breckenridge Pharm., Inc. v. Metabolite Labs., Inc., 444 F.3d 1356, 1360-61 (Fed. Cir. 2006).
67 Campbell Pet Co., 542 F.3d at 884.
there,” and “such that maintenance of the suit does not offend ‘traditional notions of fair play and substantial justice.’” In addition to satisfying the long-arm statute of the forum state, the specific personal jurisdiction over “a non-consenting out-of-state defendant” is subject to a three-prong test of due process requirements. First, the Federal Circuit has held that the district court must determine whether the defendant “purposefully directed his activities at residents of the forum.” Second, the claim must “arise[] out of or relate[] to those activities.” Third, the assertion of specific personal jurisdiction must be “reasonable and fair.” This indicates that due process constraints on personal jurisdiction could ensure a proper showing of minimum connection between the defendant and the forum state. The forum may not be the most convenient forum for the corporate defendant, but it will not be the one with no connection to it at all.

III. REFORM PROPOSALS

A. PATENT REFORM IN THE 111TH CONGRESS

In the 111th Congress, three bills, H.R. 1260, S. 515, and S. 610, each entitled the Patent Reform Act of 2009, have been
introduced which attempt to respond to current concerns about the patent process. As of the day of this writing, the amended S. 515 has been reported to the Senate. All bills include proposals regarding venue reform. Among the major broader concerns the pending legislation attempts to address, litigation costs and potential abuses by patent speculators may have their roles in venue reform. As will be discussed below, venue reform actually could increase the litigation costs for the parties and impose huge burdens on the federal judicial system as a whole.

1. H.R. 1260 and S. 610

H.R. 1260 and S. 610 generally proposed that venue exist based on the following criteria:

(1) The restrictive location of the defendant: where the defendant has its principal place of business, or is incorporated.

(2) The infringing activity: “where the defendant has committed substantial acts of infringement and has a regular and established physical facility that defendant controls and that constitutes a substantial portion of the operations of the defendant,” or “where the defendant has committed acts of infringement and has a regular and established physical facility.”

(3) The identity of the plaintiff: “where the primary plaintiff resides” if the primary plaintiff is an institution of higher education or its non-profit patent and licensing organization, and “where the plaintiff resides” if the sole plaintiff is an individual inventor.

(4) The location related to the invention: Where the claimed invention “was conceived or actually reduced to practice”, or where “significant research and development” of the claimed invention “occurred at a regular and established physical facility.”

(5) The location related to research, development, or manufacturing: Where a party has and controls a regular and
established physical facility devoted to research, development, or manufacturing with respect to the claimed invention.\(^8^4\)

(6) The consent of the defendant.\(^8^5\)

H.R. 1260 also would amend § 1400(b)\(^8^6\) to require that “a party shall not manufacture venue by assignment, incorporation, or otherwise to invoke the venue of a specific district court.”\(^8^7\)

2.  S. 515

On the other hand, S. 515 focuses on venue transfer rules via an attempt to codify the venue change rules of the Court of Appeals for the Fifth Circuit, which were later adopted by the Federal Circuit in TS Tech, instead of initial venue choices. It provides that

\[
\text{[f]or the convenience of parties and witnesses, in the interest of justice, a district court shall transfer any civil action arising under any Act of Congress relating to patents upon a showing that the transferee venue is clearly more convenient than the venue in which the civil action is pending.}^{8^8}
\]

This is amended from S. 515 as introduced in Senate, which contained significant restrictions on the venue choices.\(^8^9\) The modification seems to be influenced by the increased willingness of the Federal Circuit and the Fifth Circuit to issue writs of mandamus to transfer venue when another forum is clearly more convenient.\(^9^0\) This standard is accordingly adopted by the reported S. 515 and applied to patent cases generally.\(^9^1\)

B.  REGULATING MODELS COMPARISONS

There are basically three types of regulating models regarding venue statutes in patent litigation. The current regulating model (“current model”) regarding venue rules is to grant discretion to plaintiffs and at the same time reserve judicial discretion to transfer

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\(^8^4\) S. 610 § 8(b)(6).
\(^8^5\) S. 610 § 8(b)(3).
\(^8^6\) H.R. 1260 § 10(a).
\(^8^7\) H.R. 1260 § 10(b).
\(^8^8\) S. 515, § 8(a) (emphasis added).
\(^8^9\) S. Rep. No. 111-018, supra note 63, at 19 (noting that the venue restrictions as introduced were identical to those adopted during Committee consideration of S. 1145 in the 110th Congress and “were designed to prevent plaintiffs from manufacturing venue”).
\(^9^0\) See id.; In re TS Tech USA Corp., 551 F.3d 1315, 1319 (Fed. Cir. 2008); In re Volkswagen, Inc., 545 F.3d 304, 315 (5th Cir. 2008).
cases where appropriate. The proposed regulating model in S. 610 and H.R. 1260 (“restrictive model”) is to restrict the discretion of both plaintiffs and district court judges. The S. 515 model (“mandatory transfer model”) maintains the discretion afforded to plaintiffs while restricting the discretion of the district judges by mandating the transfer of venue where there is a clearly more convenient venue.

Commentators have provided insightful criticism of the proposed venue rules in the last Congress, which are very similar to parts of the bills of S. 610 and H.R. 1260, the restrictive model.\(^92\) The major problem of this model is the inherent complications that arise in any restriction of venue choices, i.e., time consuming disputes regarding whether the venue is proper. The inherency of the problem is apparent in view of the excessive litigation over the simpler language in 28 U.S.C. § 1400. The vague and subjective language used in the proposed bills can only lead to even more excessive litigations.

For example, H.R. 1260 prohibits a party from “manufactur[ing] venue by assignment, incorporation, or otherwise to invoke the venue of a specific district court.”\(^93\) This provision would require the district court judge to investigate the subjective intent of the parties, which would encourage discovery and venue challenges, placing a huge burden on the patent litigation system.\(^94\) Similarly, the use of such ambiguous terms as, e.g., “substantial” acts of infringement,\(^95\) “substantial” portion of the operation of the defendant,\(^96\) “primary” plaintiff,\(^97\) and “significant research and development of an invention”\(^98\) would have the same effects.\(^99\) Such language proposed in Congress would increase cost and complexity in patent infringement litigation.\(^100\) The elements in these provisions will often require discovery and make venue selection even less predictable.\(^101\)

\(^92\) See generally Rooklidge & Stasio, supra note 7, at 1; Rosenzweig, supra note 8, at 10-16.
\(^93\) H.R. 1260 § 10(b).
\(^94\) See Rooklidge & Stasio, supra note 7, at 3-4; Rosenzweig, supra note 8, at 12 (arguing that “it is reasonable to assume that the provision will cause a firestorm of disputes including early depositions of plaintiffs regarding motivations for forum selection”).
\(^95\) H.R. 1260 § 10(c)(2).
\(^96\) Id.
\(^97\) H.R. 1260 § 10(c)(3).
\(^98\) S. 610 § 8(b)(5).
\(^99\) See Rooklidge & Stasio, supra note 7, at 4-5; Rosenzweig, supra note 8, at 10.
\(^100\) See Rooklidge & Stasio, supra note 7, at 4.
\(^101\) See id. (addressing on the similar languages in H.R. 1908 and observing that “[t]his provision has so many evidentiary hurdles to overcome before resolution that the infringement action would be simply a sideshow to the venue dispute”).
A more fundamental issue is that the balance of the regulation, particularly in H.R. 1260, seriously shifts the venue advantage to the defendant in patent litigations. For most types of plaintiffs under H.R. 1260, the available venues would be only the residence of the defendant, in the narrow sense, or the location of the substantial acts of infringement where the defendant has a regular and established facility that constitutes a substantial portion of the operation of the defendant. Among all the conceivably proper venues, these are the locations that perhaps are most convenient to the defendant, but could be extremely inconvenient locations to plaintiffs.

It is true that venue statutes usually focus on the convenience of the defendants, and are generally designed to limit the choice of the plaintiffs. However, this is based on the premise that plaintiffs are granted tremendous discretion in venue choices. This is clear from the purpose of venue statutes, i.e., to protect defendants "from the inconvenience of having to defend an action in a trial court that is either remote from the defendant's residence or from the place where the acts underlying the controversy occurred." The venue provisions proposed in the House, however, ensure that a defendant in a patent infringement suit gets the most convenient location for them only, which should not be the purpose of the venue statutes.

For a restrictive venue such as the one proposed in H.R. 1260, it is imperative that the convenience of the plaintiff and witnesses be considered; otherwise it would be a manifestly unbalanced venue statute which fails to address the fundamental purposes of the venue statutes—to select a convenient forum for all of the parties and the witnesses. The House bill seriously handicaps the ability of the plaintiff (with court oversight) to select a forum which is convenient for the case as a whole and is not feasible.

S. 610 somewhat mediates this imbalance by providing more choices for the plaintiffs. However, the evidentiary requirements remain for these choices, and venue challenges would still result in delay of patent cases and would increase the total costs to litigants and burden on district courts. It is impossible for Congress to enact all possible venue choices that would correspond to all patent cases. The associated cost and delay of litigation does not warrant such imperfect solutions.

The problem of S. 515, the mandatory transfer model, is different. The bill as reported in the Senate avoids the pitfalls of the restrictive model, but it escalates the problems associated with the

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102 H.R. 1260, 111th Cong. § 10(a) (2009).
103 VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574, 1576 (Fed. Cir. 1990) (citing 1A JAMES WM. MOORE ET AL., MOORE'S FEDERAL PRACTICE ¶ 0.340 (2d ed. 1990)).
venue transfer provision. The diverting and delaying effects of the current § 1404(a) have been described above. The mandatory nature of transfer as provided in the bill nearly guarantees the appeal of transfer motions, which would bring even more uncertainty in patent litigation.

The problems associated with the current model have been discussed previously. This article has argued that forum shopping, if considered a problem at all, is not a disease in itself, but merely a symptom of the overall imperfections of the judicial system as it relates to patent cases. The discretionary transfer aspect of venue does pose burden on the judicial system as a whole. However, the current model maintains the proper balance between parties and imposes the least burden on the judicial system, with only moderate modification required. Below, this article will attempt to provide a better solution to the problem at issue.

IV. PROPOSAL FOR MODIFIED VENUE REFORM

The proper balance between plaintiffs and defendants is not the only consideration in the venue statutes. The associated procedural burden on the district court judges would inevitably affect other cases waiting to be tried. One should remember that patent cases are not the only ones on a busy district court judge’s docket. Prompt and efficient resolutions of patent litigations should not be sacrificed by the wish to ensure that all cases are tried in their most convenient locations. This article suggests that a better balance between the interested parties and the system as a whole could be achieved through a modification to the current venue rules by adding a layer of certainty in the process, which removes the unpredictability associated with the transfer clause.

To elaborate, proper venue rules should be a modification of the current model. The principle should be kept intact—that the plaintiff remains the master of its lawsuit and given discretion and deference regarding the most convenient forum. Any restrictions on the choices of forum can only make it more difficult to find a forum most convenient for all the parties and witnesses. The complexity and expertise demanded by patent cases only increase the need for discretion to be afforded to plaintiffs regarding venue choices comparing to general venue rules. Inconvenience concerns for a
corporate defendant in a modern world are not significant enough to justify the burdens a restrictive venue provision would impose on the litigation system as a whole. The real concern regarding disparate treatment in different district courts cannot and should not be dealt with by venue provisions, particularly not by the type of provision which overwhelmingly favors defendants. Indeed, restrictive venue regulations would only ensure increased venue related disputes.

If Congress persists in the view that it must prevent situations in which defendants are forced to litigate in a remote location, the transfer clause can be maintained but improved. The purpose of any such provision should be to adjust the situations in which a plaintiff chooses a distant forum which is manifestly inconvenient to both parties and potential witnesses simply to harass the defendant. As described above, the transfer provision has a negative impact on the time and energy of the district judges. In order to mitigate this disadvantage, this article proposes some preset locations determined by statute which prevent the application of the transfer rule. This would encourage the plaintiff to take the advantage of certainty and to choose among the specified venues convenient to all interested parties and greatly increase the predictability of the venue as a whole.

If for some reason the plaintiff chooses another forum, the clause should then allow the district judge, upon the motion of the party, to consider whether there is a more appropriate forum. The discretionary aspect of the consideration should be maintained in order to prevent time-consuming disputes and appeals. Since the Federal Circuit is willing to intervene when the district courts refuse to transfer the case to a clearly more convenient forum, the chances of the case being transferred, together with the advantage of filing in the specified exempted forums, would discourage the plaintiffs to choose a forum without substantial connection to both parties.

The predetermined locations may not be the most convenient locations for the defendants as stipulated in the House bill, but they should nonetheless be the ones which are considered acceptable under the current jurisprudence, and should not be too wide in scope in order to better safeguard the interests of defendants. The factors have to be as clear and free from dispute as possible. For multiple defendants, venue should be proper for all of them, and it seems that it should be equally applicable for safe haven clauses.

Accordingly, this article proposes the following as presumptively acceptable venues which would not be subject to a transfer motion:

1. The location where the defendant is incorporated or has its principal place of business. Since these are the factors utilized in
federal diversity cases in terms of corporate citizenship,\textsuperscript{107} it is not a difficult task.\textsuperscript{108} The defendant in this situation does not have any reason to complain.

(2) The location where the plaintiff is incorporated or has its principal place of business. The patent holder’s residence usually is where the bulk of documents relating to the claimed invention are located. Furthermore, since the current concern of Congress is the potential forum to which neither party has a connection, the location of the plaintiff does not belong in this category.

There could be some concern that a plaintiff may “manufacture” venue through this route.\textsuperscript{109} However, it has traditionally been an acceptable forum in patent infringement cases. It is unusual for a case brought in the plaintiff’s residence to be later transferred. It is doubtful that the prevention of any such rare abuses could justify the huge burden brought by the sweeping measures proposed in the House bill. It would also be manifestly unbalanced to sacrifice the right of the legitimate patents holders to have the trial conducted timely at their home district. An alternative way to restrict potential abuse is to adopt the proposals provided in S. 610 to include locations related to the invention, or related to research, development, and manufacturing. However, this would not further reformers’ goals regarding disputes reductions.

(3) The location where the defendant has agreed or consented to be sued.

This article thus proposes the below amendment:

\begin{quote}
Change of venue- Section 1400 of title 28, United States Code, is amended by adding at the end the following:
\begin{enumerate}
\item Change of venue- Notwithstanding Section 1404 of this title, for the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action arising under any Act of Congress relating to patents to any other district or division where it might have been brought, unless the case is brought in a judicial district—
\end{enumerate}
\end{quote}

\footnote{107}{See 28 U.S.C. § 1332(c)(1) (2006).}
\footnote{108}{See Rosenzweig, supra note 8, at 10, n.57.}
\footnote{109}{See Hearing on H.R. 1260, the “Patent Reform Act of 2009” Before the H. Comm. on the Judiciary, 111th Cong. 13 (2009) (testimony of David Simon, Chief Patent Council, Intel Corporation) (noting that some plaintiffs “already have taken steps to circumvent the TS Tech ruling by, for example, transferring patents to shell companies incorporated and ‘headquartered’ in the local forum just prior to filing suit”).}
(1) where the defendant has its principal place of business or in the location or place in which the defendant is incorporated or formed;
(2) where the plaintiff has its principal place of business or in the location or place in which the plaintiff is incorporated or formed; or
(3) where the defendant has agreed or consented to be sued.

V. CONCLUSION

The problem of forum shopping is inextricably intertwined with much broader and complex issues. Attempting to solve all such underlying problems with complex and restrictive venue statutes will only impose more burdens on the patent litigation system and spill over to the federal judicial system as a whole. What the patent litigation system needs is a predictable, prompt, and cost-efficient venue solution. The proposed provision addresses the core incentives in forum shopping, reduces the uncertainty of the current regulating model and the motivation of the plaintiffs to seek a less convenient forum while increasing the overall efficiency of the district court dealing with a patent case. This article contends that this would be a better alternative to the current patent reform bills before Congress.
 DOES BUDDA BEACHWEAR ACTUALLY FIT?  
AN ANALYSIS OF FEDERAL REGISTRATION FOR ALLEGEDLY DISPARAGING TRADEMARKS IN THE NON-CORPORATE CONTEXT

By: Joshua R. Ernst*  
Daniel C. Lumm®

ABSTRACT

The Trademark Trial and Appeals Board (“TTAB”) has experienced an uptick in challenges to the federal registration of trademarks as disparaging to discernable groups of individuals brought before it in recent years. Under § 2(a) of the Lanham Act, disparaging marks cannot be placed on the Principle Register. While the TTAB has developed its disparaging mark jurisprudence with respect to individuals as a distinct bar to registration over the last twenty years; the Federal Courts have only considered the TTAB’s treatment of these allegedly disparaging marks once during the same span of time. The TTAB’s decisions regarding allegedly disparaging trademarks subsequent to the Federal Courts’ approval of the basic two-prong test for finding a trademark disparaging have uncovered the flaws with the TTAB’s approach to these marks. These flaws create insurmountable hurdles for petitioners seeking to cancel a disparaging mark. Ideally a Federal Court will address these hurdles in the inevitable appeal of the TTAB’s decision in Blackhorse v. Pro-Football, Inc. This article seeks to identify these hurdles to resolving whether or not a trademark is in fact disparaging in degradation of the Lanham Act and proposes pragmatic means for minimizing these hurdles.

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I. INTRODUCTION

Throughout history, derogatory labeling and ethnic slurs have provided a means for the dominate majority to subordinate and disparage minorities.\(^1\) Although the law cannot generally prohibit the use of slurs or other pejorative terms,\(^2\) American trademark creates a significant disincentive against the use of pejorative terms as trademarks by prohibiting their federal registration.\(^3\) This prohibition on registering disparaging marks has received mainstream media attention in recent years as a result of the drawn-out legal struggle of seven American Indians seeking to compel the cancellation of the federal registration of the Washington Redskins’ trade and service marks.\(^4\) These cancellation proceedings, initiated in 1992 by Suzan Harjo\(^5\) and six other American Indians, spanned over seventeen years and reached the Court of Appeals for the District of Columbia Circuit on two occasions.\(^6\) The central contention of the American Indians’ claim is that the REDSKINS family of marks is disparaging, in derogation of the requirements for federal trademark registration. Despite the seemingly endless nature of the litigation, this central contention remains effectively unresolved, given that the American...

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\(^1\) Irving Lewis Allen, UNKIND WORDS: ETHNIC LABELING FROM REDSKIN TO WASP 8 (1990) (“A primitive belief lingers in all societies that if one can name or attach a label to an object, in this case an ethnic individual or group, then one can wield power over it simply by calling its name.”).

\(^2\) See, e.g., Sambo’s Restaurants, Inc. v. City of Ann Arbor, 663 F.2d 686, 695 (6th Cir. 1981) (holding use of the mark “Sambo’s,” a pejorative term for African-Americans, for pancake houses is protected commercial free speech).


\(^6\) The case involved two decisions by the TTAB (one precedential), two orders with associated opinions rendered by the District Court for the District of Columbia, an appeal to the Court of Appeals for the District of Columbia Circuit, a subsequent remand back to the District Court for the District of Columbia, another appeal to the Court of Appeals for the District of Columbia Circuit, and ultimately a denial of certiorari by the Supreme Court of the United States of America. These proceedings will be identified and discussed in further detail infra.
Indians’ challenge was ultimately dismissed on procedural grounds. This article seeks to address the substantive hurdles to resolving whether or not a mark is in fact disparaging in degradation of the Lanham Act.

Part II of this article briefly describes the foundation of American federal trademark law, dealing specifically with the requirements for registering a mark on the Principal Register pursuant to the Lanham Act and the procedures for subsequently removing a mark from Principal Register under certain circumstances. Part III tracks the evolution of the Trademark Trial and Appeal Board’s (“TTAB”) and the federal courts’ disparaging mark jurisprudence, with particular focus on the litigation surrounding the REDSKINS family of marks used in connection with professional football. Part IV then explores the necessity of addressing the deficiencies of the TTAB’s and the court’s current disparaging mark jurisprudence. Furthermore, this section discusses the impact leaving these deficiencies unresolved will have on other marks which are highly susceptible to being challenged as disparaging. Lastly, Part V of this article presents possible modifications to the TTAB’s current disparaging mark jurisprudence in an attempt to provide historically disadvantaged minority groups, particularly American Indians, with a realistic opportunity to successfully cancel a registered mark on the grounds the mark is disparaging to said minority group, as well as minimize disparate outcomes for the same mark regardless of if the mark is challenged ex parte or inter partes.

II. REGISTRATION & CANCELLATION OF MARKS UNDER THE LANHAM ACT

The law regarding the protection of trade and service marks at the federal level in the United States is governed by the Lanham Act. The Lanham Act was enacted pursuant to Congress’ commerce clause powers in 1946, in part, to protect consumers from confusion when

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10 Brian L. Landry, From Book Covers to Domain Names: Searching for the True Meaning of the Cliffs Notes Temporal Test for Parody, 7 J. HIGH TECH. L. 19, 21 n.10 (2007).
identifying the source of goods or services. Trademark law provides this consumer protection by affording the owners of a federally registered mark the “exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the registration subject to any conditions or limitations stated therein.”

In order for a mark to be registered on the Principle Register the owner of the mark must file an application for registration with the United States Patent and Trademark Office (“USPTO”), the mark must be used in interstate commerce, the mark must be distinguishable from another’s mark, and the mark must not abridge the content limitations set forth in § 2 of the Lanham Act. The most important of these limitations, with respect to this article, is the prohibition against registering a mark comprising a “matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute.”

Even if a mark is successfully registered on the Principle Register, it may subsequently be removed from the Principle Register by the TTAB or the courts through a cancellation proceeding. Numerous grounds for cancellation exist; however, this article only addresses the cancellation of a “registered mark . . . [when] its registration was obtained fraudulently or contrary to the provisions of . . . subsection (a) . . . of section 1052 of this title for a registration under this chapter . . . .” Generally, a cancellation proceeding must

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12 15 U.S.C. § 1115 (2006). Generally, a mark’s registration is “subject to . . . conditions or limitations” when the mark has concurrent users. See id. § 1052(d) (“In issuing concurrent registrations, the Director shall prescribe conditions and limitations as to the mode or place of use of the mark or the goods on or in connection with which such mark is registered to the respective persons.”).
13 In addition to the Principle Register, the United States Patent and Trademark Office maintains a second register for marks, the Supplemental Register. Id. §§ 1091-96. A mark may be registered on the Supplemental Register if it would otherwise satisfy the requirements for registration on the Primary Register except for lacking distinctiveness. Id. § 1091(a).
14 Id. § 1051(a)(1).
15 Id.
16 Id. § 1052.
17 Id. § 1052(a)-(e).
18 Id. § 1052(a).
19 Id. §§ 1064, 1119.
20 Id. § 1064.
21 Id. § 1064(3). The prohibition against registering a disparaging mark is contained in subsection (a) of title fifteen, § 1052. Id. § 1052(a).
be brought before the TTAB. The actual procedures for a cancellation proceeding before the TTAB parallel those of a civil suit in federal court. A party to a cancellation proceeding may appeal the TTAB’s decision directly to the United States Court of Appeals for the Federal Circuit or may seek redress of the TTAB’s decision via a civil cause of action in federal district court.

Cancellation of federally registered mark only prevents a mark owner from enjoying the benefits of registration on the Principal Register. Consequently, a mark’s status as disparaging does not necessarily invalidate any common law rights the mark owner may have with respect to the mark. Furthermore, protection of a mark under state law is generally not contingent upon federal registration of the mark. As such, if a mark’s federal registration is cancelled, the owner of the mark may still have enforceable rights under the common law or state law.

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22 Id. § 1064; 37 C.F.R. § 2.111(a)-(b) (2009). In addition to a cancellation proceeding brought before the TTAB pursuant to § 14 of the Lanham Act, a court may cancel a mark pursuant to § 37 of the Lanham Act. 15 U.S.C. § 1119. Although the district courts have concurrent jurisdiction with the TTAB to cancel a mark, there must be an underlying basis for the district court’s jurisdiction over the proceedings. E.g. Ditri v. Coldwell Banker Residential Affiliates, Inc., 954 F.2d 869, 873-74 (3d Cir. 1992). Thus, a party wishing to cancel a mark’s registration without an additional and independent means to be heard in federal court must bring their cancellation proceedings pursuant to § 14 of the Lanham Act.

23 A cancellation proceeding is commenced with the filing of a cancellation petition and the applicable fee with the TTAB. 37 C.F.R. § 2.111(a) (2009). The petition need only state “a short and plain statement” as to the grounds on which cancellation is based, that the petitioner is damaged by the registration and the name and address of the current owner of the registered mark. Id. § 2.112(a). The respondent must file an answer to avoid default judgment. Id. § 2.114(a)-(b)(1). The actual cancellation proceedings, including discovery, are governed by the Federal Rules of Civil Procedure, except for certain limitations on their applicability laid out in the Code of Federal Regulations. Id. §§ 2.116, 2.120(a)(1).


25 Id. §1071(b)(1).


27 Id. Some academics, including the reporters of the First Restatement of Torts, have argued that trademarks which are against public policy should not enjoy common law protection. RESTATEMENT (FIRST) OF TORTS §§ 715(d), 726 (1938); Loving, supra note 26, at 36. Furthermore, it has been argued marks unregistrable under § 2(a) of the Lanham Act are against public policy, and as such shouldn’t receive common law protection. Loving, supra note 26, at 36.


29 Landry, supra note 10, at 21 n.10 (citing PETA v. Doughney, 263 F.3d 359, 362 (4th Cir. 2001). In enacting the Lanham Act, Congress “clearly intended” to allow the continued and concurrent existence of at least some state trademark law.
property interest in a mark, the law does not prohibit the use of the mark in commerce, so long as it does not interfere with the rights of a third party.

III. THE EVOLUTION OF FEDERAL DISPARAGING MARK JURISPRUDENCE

Although the Lanham Act provides individuals and entities the ability to cancel a mark’s registration on the basis that the mark is disparaging, there is a dearth of individuals or entities which have sought cancellation on such grounds. Further complicating any analysis of the TTAB’s disparaging mark jurisprudence is the TTAB’s and the courts’ tendency to obfuscate whether their decision is based on the scandalous nature or the disparaging nature of the mark in question. Muddling this area of the law even further is the differential treatment of allegedly disparaging marks that reference


30 In re Boulevard Entm’t, Inc., 334 F.3d 1336, 1343 (Fed. Cir. 2003) (“[T]he refusal to register a mark does not . . . not affect the applicant’s right to use the mark in question”).


32 Ethan G. Zlotchew, “Scandalous” or “Disparaging”? It Should Make a Difference in Opposition and Cancellations Actions: Views on the Lanham Act’s Section 2(a) Prohibitions Using the Example of Native American Symbolism in Athletics, 22 COLUM.-VLA J.L. & ARTS 217, 230 (1998). Subsequent to Mr. Zlotchew’s article, the TTAB has considered if five families of marks were disparaging to specific groups of individuals. In re Lebanese Arak Corp., 94 USPQ2d (BNA) 1215 (T.T.A.B. 2010); In re Heeb Media LLC, 89 U.S.P.Q.2d (BNA) 1071 (T.T.A.B. 2008); In re Squaw Valley Development Co., 80 U.S.P.Q.2d 1264 (T.T.A.B. 2006); Order Sons of Italy in Am. v. Memphis Mafia Inc., 52 U.S.P.Q.2d (BNA) 1364 (T.T.A.B. 1999); Harjo v. Pro-Football, Inc. (Harjo II), 50 U.S.P.Q.2d (BNA) 1705 (T.T.A.B. 1999). This number does not include challenges in which the TTAB considered if the mark was disparaging to a corporate entity or the status of an allegedly mark was ultimately resolved on other grounds without consideration of the mark’s disparaging nature. E.g., Boston Red Sox Baseball Club Limited Partnership v. Sherman, 88 U.S.P.Q.2d (BNA) 1581, 1582-83, 1593 (T.T.A.B. 2008) (holding the applied for mark, “Sex Rod,” disparaging to Major League Baseball’s Boston Red Sox); McDermott v. S.F. Women’s Motorcycle Contingent, 81 U.S.P.Q.2d (BNA) 1212, 1212, 1216 (T.T.A.B. 2006) (dismissing the petitioner’s opposition to the mark “Dykes on Bikes” on the grounds the petitioner did not establish that he would be damaged by the mark).

33 See Harjo v. Pro-Football, Inc. (Harjo II), 50 U.S.P.Q.2d (BNA) 1705, 1737 n.97 (T.T.A.B. 1999) (“This is notwithstanding the fact that a number of older decisions appear to consider scandalousness and disparagement under Section 2(a) as a single issue wherein the questionable matter is determined to be scandalous, or not, because it is, or is not, disparaging”); See also, Zlotchew, supra note 32, at 230 (noting that courts have sometimes treated disparaging and scandalous as synonymous).
corporate entities and allegedly disparaging marks that reference groups of individuals.\textsuperscript{34} Notwithstanding the foregoing, over the last twenty years the TTAB has resolved the registration status of at least six families of marks solely on the grounds of whether or not the marks were disparaging to an identifiable group of people.

\textbf{A. In re Hines}\textsuperscript{35}

The TTAB established its current disparaging mark jurisprudence with respect to identifiable groups of individuals in the 1994 case In re Hines. The applicant in Hines sought to register the mark BUDDA BEACHWEAR for certain apparel.\textsuperscript{36} The examining attorney denied the mark registration on the grounds that the mark “disparage[d] . . . the religion of Buddhism.”\textsuperscript{37} In determining if the mark in question did in fact disparage the religion of Buddhism, the TTAB considered the perception of the mark by “those referred to, identified or implicated in some recognizable manner by the involved mark” because “the portion of Section 2(a) proscribing disparaging marks targets certain persons, institutions or beliefs.”\textsuperscript{38} Of particular importance when considering future disparaging mark cancellation proceedings, the TTAB recognized that the opinions of the general public were “irrelevant” to the determination of if a mark disparages an identifiable group.\textsuperscript{39}

After considering the practices of Buddhists and Buddhists’ perception of Guatama Buddha in general, the TTAB, based on encyclopedia passages and its own opinions,\textsuperscript{40} determined that “[t]o depict Buddha in the manner shown in applicant's mark slight[s] and


\textsuperscript{36} In re Hines (Hines I), 31 U.S.P.Q.2d (BNA) 1685, 1685-86 (T.T.A.B. 1994).

\textsuperscript{37} Id. at 1686.

\textsuperscript{38} Id. at 1688. A number of the cases cited by the TTAB for this proposition pertained to if the mark in question was scandalous. Id. The TTAB relied on these cases notwithstanding its earlier recognition that a number of these cases dealt with scandalous marks, which is a distinct grounds for cancellation or denial of registration. Id. at 1687. It should be noted though, that at least one of the relied upon cases was the unsuccessful 1976 challenge to the mark JAP as scandalous. Id. at 1688 (citing In re Condas S.A., 188 U.S.P.Q. (BNA) 544 (T.T.A.B. 1975)).

\textsuperscript{39} Id.

\textsuperscript{40} Id. at 1688-89.
cheapens the image to which Buddhists pay devotion.\textsuperscript{41} The TTAB held this was sufficient evidence to show the mark BUDDA BEACHWEAR disparaged Buddhists, and therefore denying the mark registration was proper.\textsuperscript{32}

Approximately three months after the TTAB’s initial decision to deny the registration of the BUDDA BEACHWEAR mark, the TTAB, “upon further reflection” and a petition to reconsider, elected to allow the mark to pass to publication.\textsuperscript{43} This decision was precipitated by the Court of Appeals for the Federal Circuit’s decision in \textit{In re Mavety Media Group, Ltd.}\textsuperscript{44} Although the mark in \textit{Mavety Media Group} was challenged as being “scandalous,” the TTAB interpreted the Federal Circuit’s opinion to mandate the TTAB to consider more than just its own opinions and dictionaries in determining the opinion of “a substantial composite of the general public.”\textsuperscript{45} Given that the TTAB had relied almost exclusively on “personal opinions and encyclopedic sources,” to determine the views of Buddhists, the TTAB vacated its previous decision.\textsuperscript{46} In sum, the TTAB’s reconsideration of \textit{Hines} left the legal analysis and standards applicable to determining if a mark is disparaging untouched, but clarified the type of evidence required to show a mark is disparaging.

\textbf{B. \textit{Harjo v. Pro-Football, Inc.}}\textsuperscript{47}

To date, the highest-profile case involving allegedly disparaging marks has been a litigation which began in 1992 when a group of American Indians filed a cancellation petition with the TTAB seeking the cancellation of six marks involving in some way the term “redskins.”\textsuperscript{48} The petitioners specifically alleged that the term

\begin{itemize}
\item \textsuperscript{41} Id. at 1689.
\item \textsuperscript{42} Id. at 1691.
\item \textsuperscript{43} \textit{In re Hines (Hines II)}, 32 U.S.P.Q.2d (BNA) 1376, 1376 (T.T.A.B. 1994).
\item \textsuperscript{44} Id.
\item \textsuperscript{45} Id. at 1376-77 (citing \textit{In re Mavety Media Group Ltd.}, 33 F.3d 1367, 1371 (Fed. Cir. 1994)).
\item \textsuperscript{46} Id. at 1377. As a historical note, BUDDA BEACHWEAR was never registered on the Principle Register even though the applicant, Richard Hines, spent almost five years (from filing to publication for opposition) trying to register the mark. USPTO TARR Server, \textit{Latest Status Info}, http://tarr.uspto.gov/servlet/tarr?regser=serial&entry=74037972. The mark was ultimately deemed abandoned because Hines failed to file a statement of use after the notice of allowance was issued. Id.
\end{itemize}
“redskin” was a “pejorative, derogatory, degrading, offensive, scandalous, contemptuous, disreputable, disparaging, and racist designation for a Native American person.”\footnote{Harjo v. Pro-Football, Inc. \textit{(Harjo I)}, 30 U.S.P.Q.2d (BNA) 1828, 1829 (T.T.A.B. 1994).}\footnote{Id. at 1829-30. Specifically, Pro-Football alleged the affirmative defenses of failure to state a claim, lack of standing, equitable estoppel, laches, and secondary meaning. \textit{Id.} Pro-Football raised the constitutional defenses that § 2 of the Lanham Act was vague and overbroad, and that cancellation of these marks would contravene Pro-Football’s free speech rights. \textit{Id.} at 1830.} In response, Pro-Football, Inc. asserted a number of affirmative and constitutional defenses,\footnote{Id. at 1833.} and in 1994, the TTAB struck Pro-Football’s affirmative defenses.\footnote{Id. at 1832.} More importantly, the TTAB specified that the “critical dates” for determining whether the marks were disparaging would be the dates that the marks were issued; thus any evidence must show that the marks were disparaging at the date of issuance rather than the date of the cancellation petition.\footnote{Id. at 1832. With respect to the REDSKINS marks in question, the relevant dates were 1967, 1974, 1978 and 1990. \textit{Id.} at 1829.} In reaching this decision, the TTAB relied on three previous decisions where the TTAB required the petitioners to show the marks in question were geographically descriptive, suggested a false connection to the petitioner, or were merely descriptive at the time of registration and not at the time of the cancellation petition.\footnote{Id. at 1832.}

Five years after striking Pro-Football’s affirmative defenses and settling the relevant time period, the TTAB delivered its decision on the question of whether the REDSKINS family of marks were in fact disparaging.\footnote{Id. at 1833. Notably, the TTAB was careful to observe that laches and estoppel were allowable defenses in cancellation proceedings, but not on these facts. \textit{Id.} at 1831 (“Our decision here should not be taken as a general rule concerning the availability of the equitable defenses of laches and estoppel against a claim, under Section 2(a), that a mark disparages or is scandalous. Our decision here is only that the allegations of the present petition for cancellation are such that, in this case, the asserted equitable defenses are not available.”). The TTAB also declared it lacked the authority to deal with any defenses relating to the constitutionality of the Lanham Act. \textit{Id.} at 1833.} In a lengthy opinion written by Administrative Trademark Judge Waters, the TTAB cancelled all six of the challenged marks.\footnote{Harjo v. Pro-Football, Inc. \textit{(Harjo II)}, 50 U.S.P.Q.2d (BNA) 1705, 1749 (T.T.A.B. 1999) \textit{, rev’d}, 284 F. Supp. 2d 96 (D.D.C. 2003), \textit{aff’d in part and rev’d in part}, 415 F.3d 44 (D.C. Cir. 2005), \textit{remanded} to 567 F. Supp. 2d 46 (D.D.C. 2008), \textit{aff’d}, 565 F.3d 880 (D.C. Cir. 2009), \textit{cert. denied}, 130 S. Ct. 631 (2009).} While making overtures to its existing scandalousness jurisprudence, but in keeping with its then-current disparagement jurisprudence, the TTAB utilized a two-step analysis to
determine if the REDSKINS family of marks were disparaging: first, considering “the likely meaning of the [mark] in question and, second, whether that meaning may be disparaging” to the referenced group.\textsuperscript{56}

The TTAB concluded the first step of its analysis as expected, finding that the REDSKINS family of marks “clearly” refers to the professional football team and “carries the allusion to Native Americans inherent in the original definition of [redskin].”\textsuperscript{57} This conclusion explicitly rejected Pro-Football’s argument that their use of the term was a “purely denotative term of reference for the … team [with] no connotative meaning whatsoever.”\textsuperscript{58} Unfortunately for Pro-Football, it had inadvertantly undermined its contention that the term “redskins” was devoid of references to American Indians by explicitly arguing that the team’s name “reflect[s] positive attributes of the American Indian such as dedication, courage and pride.”\textsuperscript{59} Furthermore, the Board recognized that it would be “disingenuous” not to recognize Pro-Football’s use of American Indian imagery in promoting its team, or to acknowledge that at the time the name was first adopted by the team, the term “redskins” did not refer to anything or anyone other than American Indians.\textsuperscript{60}

In resolving the second step of the analysis, the TTAB framed the issue as a question of whether the term “redskins,” during the relevant times, would be considered disparaging by “a substantial composite” of Native Americans.\textsuperscript{61} As an initial matter, the TTAB quickly discarded the petitioners’ argument that any use of Native American imagery, or any use of this imagery in connection with football by a non-native was \textit{per se} disparaging.\textsuperscript{62} The TTAB also concluded that the use of graphical images, such as a spear and a profile portrait of a Native American were not disparaging.\textsuperscript{63} These preliminary decisions left only the issue of whether the actual term “redskin(s)” was disparaging as used by Pro-Football.\textsuperscript{64}

The TTAB’s analysis of the evidence in the record led to a conclusion that, at the relevant times, a substantial composite of the Native American population would have found the REDSKINS mark to be disparaging.\textsuperscript{65} In coming to that conclusion, the TTAB identified a number of relevant items in the record. First, the TTAB observed

\textsuperscript{56} Id. at 1737, 1739.
\textsuperscript{57} Id. at 1742.
\textsuperscript{58} Id.
\textsuperscript{59} Id.
\textsuperscript{60} Id.
\textsuperscript{61} Id. at 1742-43.
\textsuperscript{62} Id. at 1743 (“We find no support in the record for either of these views.”).
\textsuperscript{63} Id.
\textsuperscript{64} Id.
\textsuperscript{65} Id. at 1749.
that numerous dictionaries from 1966 onward included a “usage label” with the term “redskin” indicating that the term could have an offensive connotation.\textsuperscript{66} Next, the TTAB considered the testimony of the American Indians’ linguistics expert, and concluded that from the 1960s onward the term “redskins” had decreased in literary usage because the term was perceived by Native Americans and the general population as a pejorative term.\textsuperscript{67} Finally, the TTAB considered the American Indians’ survey evidence.\textsuperscript{68} After recognizing that the survey had “several … flaws … that [limited] its probative value” such that the survey was “of limited applicability,” the TTAB nonetheless found that the sample of Native Americans represented in the survey was “significant” enough to be “supportive of other evidence in the record.”\textsuperscript{69}

To conclude its evidentiary analysis, the TTAB permitted the survey, dictionary, historical, and literary usage evidence regarding the views of the general population to suffice \textit{by inference} for the views of the targeted Native American population.\textsuperscript{70} Therefore, although claiming to apply the \textit{Hines} standard the TTAB effectively circumvented \textit{Hines}’ subjective approach by returning the focus to the perceptions of the general public and allowing those perceptions to be imputed by inference to the referenced group.\textsuperscript{71} Based on its findings that the marks specifically referred to Native Americans as the referenced population and that a substantial composite of Native Americans would find the marks to be disparaging as of the critical dates, the TTAB cancelled the registration of all six of the marks in question.\textsuperscript{72}

Following the TTAB’s cancellation of Pro-Football’s marks, Pro-Football sought redress of the TTAB’s decision in the District Court for the District of Columbia.\textsuperscript{73} Pro-Football alleged, in part, that the REDSKINS family of marks did not disparage Native Americans

\textsuperscript{66} Id. at 1744.
\textsuperscript{67} Id. at 1745.
\textsuperscript{68} Id. at 1745-46. The survey indicated that 46.2\% of the general population considered the term “redskin” to be offensive, whereas only 36.6\% of the Native American population surveyed considered the term offensive. Id. at 1745.
\textsuperscript{69} Id. at 1745-46.
\textsuperscript{70} Id. at 1746.
\textsuperscript{71} Recall that under the \textit{Hines} standard the “perceptions of the general public are irrelevant…only the perceptions of those referred to…or implicated…are relevant.” \textit{In re} Hines, 31 U.S.P.Q.2d (BNA) 1685, 1688 (T.T.A.B. 1994), \textit{vacated on other grounds}, 32 U.S.P.Q.2d (BNA) 1376 (T.T.A.B. 1994).
\textsuperscript{72} Harjo II, 50 U.S.P.Q.2d at 1749.
and that the doctrine of laches barred the American Indians’ cancellation petition altogether.\(^{74}\) Approximately three years after denying the American Indians’ motion for judgment on the pleadings in an unpublished memorandum opinion,\(^{75}\) the court nullified the American Indians’ previous TTAB victory by overturning the cancellation of Pro-Football’s marks.\(^{76}\) The district court overturned TTAB’s decision on two alternative grounds: 1) that the TTAB’s decision was unsupported by substantial evidence; and 2) that the American Indians’ cancellation petition was barred by laches.\(^{77}\)

\(^{74}\) *Harjo III*, 2000 WL 1923326, at *2. Pro-Football actually alleged five grounds under which the TTAB had erred in cancelling the marks in question: 1) the trademarks did not disparage Native Americans; 2) the trademarks did not bring Native Americans into disrepute or contempt; 3) Lanham Act § 2(a) is a “vague, overbroad, and content based restriction on speech” in violation of the First Amendment; 4) Lanham Act § “2(a) is unduly vague in violation of the Fifth Amendment;” and 5) the doctrine of laches barred the American Indians’ cancellation petition. *Id.* The American Indians’ challenge to Pro-Football’s constitutional claims was dismissed without prejudice under the avoidance doctrine. *Id.* at *4.

\(^{75}\) *Id.* at *8.


\(^{77}\) *Harjo IV*, 284 F. Supp. 2d at 145. The court did not reach Pro-Football’s constitutional claims because the controversy was settled via Pro-Football’s non-constitutional claims. *Id.* (“The Court [sic] has no need to reach the constitutional claims raised by Pro-Football, these claims are rendered moot.”). Without going into an in-depth constitutional analysis which would be beyond the scope of this article, it appears a court would likely reject both of Pro-Football’s constitutional claims. Pro-Football’s first constitutional claim was that its First Amendment free speech rights would be violated if its trademarks were cancelled. *Id.* at 100. However, under Federal Circuit precedent, the cancellation of a mark does not contravene a party’s First Amendment free speech rights. *In re McGinley*, 660 F.2d 481, 484 (C.C.P.A. 1981) (holding that the refusal to allow the registration of a mark does not prevent an individual from using said mark and thus does not suppress the individual’s First Amendment free speech rights); see also, *In re Boulevard Entertainment, Inc.*, 334 F.3d 1336, 1343 (Fed. Cir. 2003) (reaffirming *In re McGinley*). Pro-Football’s second constitutional claim was that its Fifth Amendment due process rights would be violated by enforcing § 2(a) of the Lanham Act because it was unduly vague. *Harjo IV*, 284 F. Supp. 2d at 100. However, courts have previously rejected Fifth Amendment due process challenges to other grounds for cancellation in this section of the Lanham Act. *In re McGinley*, 660 F.2d at 484-85 (holding that the term “scandalous” in 15 U.S.C. § 1052(a) is sufficiently precise as to comply with the Fifth Amendment). Given that the terms in section 2(a) of the Lanham Act are not defined by the Act itself, it is doubtful that the court would find the phrase “may disparage” unduly vague when other similar terms in the same subsection of the statute have been found not to be unduly vague. Therefore, it does not appear that Pro-Football would succeed on its constitutional claims, if they were to be considered by the courts.
Although the court provided alternative grounds for reversing the TTAB’s decision, this article is only concerned with the former basis of reversal. 78

As a preliminary matter, the court found no error with the TTAB’s use of the analysis set forth in Hines79 or the TTAB’s determination that Pro-Football’s marks referred to Native Americans. 80 In finding no error with the TTAB’s selection to follow the analysis set forth in Hines, the court recognized neither party specifically disputed the TTAB’s selection of this analysis. 81 In considering the actual application of this standard, however, the court found numerous errors and deficiencies with respect to the TTAB’s analysis of the evidence used to support its decision to cancel Pro-Football’s marks.

The district court found the TTAB erred by relying on the views of the general population in its analysis instead of the views of Native Americans themselves. As previously noted, the TTAB adopted the views of the general population as those of Native Americans, because there was an absence of evidence preventing such an inference even though there was a disjoint between the two. 82 This effectively placed on Pro-Football the evidentiary burden of disproving that the general population’s views were sufficiently equivalent to Native Americans’ views as to allow such an inference. 83 Such a placement would be improper, since the burden of establishing such a relationship rests on the party seeking cancellation and not the party opposing cancellation. 84 Unfortunately for the American Indians, they failed to put forth enough evidence to support the application by inference of the general public’s views to serve by proxy as the prevailing view of the targeted Native American population. 85

Furthermore, the district court found that even if the TTAB had correctly focused its overall analysis on the general public’s opinions, the TTAB’s cancellation of Pro-Football’s trademarks was not

78 For a discussion of the application of laches in the context of disparaging marks and specifically Harjo, see generally Dennie, supra note 28.
79 Harjo IV, 284 F. Supp. 2d at 125.
80 Id. at 126-27. The court did not consider whether the TTAB’s treatment of Pro-Football’s “contempt or disrepute” claims were the same as their disparagement claims, as neither party appealed the TTAB’s determination as to this matter. Id. at 114.
81 Id. at 125.
82 Id. at 128-29 (noting that 46.2% of the general population found the term “redskin” offensive whereas 36.6% of Native Americans found the term offensive).
83 Id. at 129.
84 Id.
85 Id.
supported by substantial evidence. In coming to this decision, the district court considered the TTAB’s findings regarding the dictionary evidence, the historical evidence, and the survey evidence independently.

First, the district court considered the TTAB’s findings regarding the America Indians’ dictionary evidence. Although some dictionaries made references to the sometimes offensive nature of the term “redskin,” the district court took issue with the lack of evidence as to how these dictionaries determined if a term was offensive. Without evidence of the dictionaries’ methodology, the court concluded it would be pure speculation as to who found the term offensive, and what constituted an offensive term. Therefore, the district court held that the TTAB’s findings with respect to the dictionary evidence were unsupported by substantial evidence.

Second, the district court considered the TTAB’s findings regarding the American Indians’ historical evidence. The court noted that the TTAB found reduced usage of the term “redskin(s)” subsequent to the 1960s and that the term was pejorative; however the court also noted that the TTAB made no findings as to the causal relationship between the nature of the term and the reduction in its use. Because the TTAB did not provide support for this causal relationship, the court found the finding unsupported by substantial evidence.

Third, the district court considered the TTAB’s findings regarding the American Indians’ survey evidence. The court found the survey measured current attitudes and not attitudes at the relevant times. Without evidence of how current attitudes could be substituted for historical attitudes, the court held the survey evidence was “entirely irrelevant” and therefore failed to support the cancellation of Pro-Football’s marks. Furthermore, the district court made note of the lack of evidence as to whether or not the survey’s

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86 Id. at 130-31.
87 Id. at 130.
88 Id.
89 Id. at 131.
90 Id. at 131-32.
91 Id. at 131.
92 Id. at 132.
93 Id. at 132-33.
94 Id. at 132.
95 Id. at 132-33.
sample was a representative sample and therefore could be extrapolated to the Native American population at large.\textsuperscript{96}

Lastly, the court found the American Indians failed to show that the derogatory connotation of the word “redskin(s)” extended to Pro-Football’s use of REDSKINS at the time the marks were filed.\textsuperscript{97} The court held that the TTAB’s only finding of fact supporting such a conclusion was the testimony of the original petitioners’ testimony that Pro-Football’s use of the REDSKINS mark “seriously offended” them.\textsuperscript{98} However, the court found there was no evidence that the views of these seven American Indians could serve as a proxy for the views of the 2.41 million Native Americans living in the United States.\textsuperscript{99} The court also rejected the resolutions put forth by assorted Native American interest groups objecting to Pro-Football’s use of the REDSKINS mark on the grounds that these resolutions were not indicative of Native Americans’ opinions at the time the marks were filed.\textsuperscript{100} Furthermore, the court found that third party acts associated with the Washington Redskins, for example media reports or the actions of fans, which may disparage Native Americans could not be considered part of Pro-Football’s use of the marks.\textsuperscript{101} In consideration of the foregoing, the court held that the American Indians failed to establish that the disparaging nature of the term “redskin(s)” extended to Pro-Football’s use of REDSKINS.\textsuperscript{102}

Unsuprisingly, the battle over the REDSKINS family of marks did not end with the District Court for the District of Columbia’s 2003 order overturning the marks’ cancellation. The American Indians appealed this order to the Court of Appeals for the District of Columbia Circuit.\textsuperscript{103} Without taking a position on the district court’s decision regarding the disparaging nature of the marks, the appeals court determined that laches barred six of the American Indians’ from instigating the cancellation proceedings.\textsuperscript{104} However, the court of appeals remanded the record back to the district court to evaluate whether laches barred the youngest petitioner’s claims.\textsuperscript{105} On remand,

\textsuperscript{96} Id. at 120. Of particular concern for the court was the lack of Native Americans surveyed from Alaska and Hawaii given the large Native American populations in those two states. Id.

\textsuperscript{97} Id. at 133-36.

\textsuperscript{98} Id. at 135.

\textsuperscript{99} Id.

\textsuperscript{100} Id. (noting that the adoption of these resolutions occurred after the petition for cancellation was filed in 1992).

\textsuperscript{101} Id.

\textsuperscript{102} Id. at 135-36.

\textsuperscript{103} Pro-Football, Inc. v. Harjo (Harjo Appeal I), 415 F.3d 44, 46 (D.C. Cir. 2005).

\textsuperscript{104} Id. at 49-50.

\textsuperscript{105} Id. at 49-50.
the district court held that the youngest petitioner’s claims were also barred by laches, a finding which was affirmed by Court of Appeals for the District of Columbia Circuit. The Supreme Court of the United States declined to hear the youngest petitioner’s appeal, thus preventing the Court of Appeals for the District of Columbia Circuit the opportunity to disturb the District Court for the District of Columbia’s disparaging mark jurisprudence, for the time being.

C. **Order Sons of Italy in America v. Memphis Mafia Inc.**

American Indians were not the only ethnic group challenging allegedly disparaging marks in the 1990s. The Order Sons of Italy in America, an Italo-American fraternal organization, sought the cancellation of the mark THE MEMPHIS MAFIA on the grounds that the mark disparaged their organization and implicitly Italo-Americans as a whole. The mark in question was used by a group of individuals who “perpetuate[d] the memory of Elvis Presley.” The petitioners relied on uncontested evidence regarding the Department of Justice’s refusal to use the term “mafia” because of its disparaging connotation, previous marks which had been denied registration on the grounds that the marks were disparaging to Italian-Americans, a study regarding the public’s perception of Italian-Americans in general with respect to organized crime, and the testimony of three expert witnesses who testified, in effect, that the use of the mark in question disparaged the petitioners as well as perpetuated a disparaging stereotype of Italian-Americans in general.

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107 Pro Football, Inc. v. Harjo (Harjo Appeal II), 565 F.3d 880, 886 (D.C. Cir. 2009).
110 Id. at 1365, 1367.
111 Id. at 1367.
112 Id. at 1366.
113 Id. at 1367. It should be noted though that the oppositions to this mark’s registration were all filed by a sister organization of the petitioner and default judgment was entered with respect to each of these oppositions. Id.
114 Id. The petitioners attempted to use this study and an associated position paper to show that “since organized crime encompasses persons of all races and national origins, it should not be equated with Italian-Americans, as is the effect of using the word ‘mafia.’” Id.
115 Id.
The TTAB, applying the first step of the two-step analysis outlined in its opinion in *Harjo*,

took judicial notice of definitions of the term “mafia” not put forth by either party. The TTAB recognized that the term “mafia” was not *per se* disparaging to any ethnic group, and that there was no connection between the services associated with the marks in question and the definition of the term “mafia” defining the term as “as an organization dedicated to criminal activities composed of persons of Italian origin.”

Given that the mark in question was used by a “group [consisting] of persons close to Elvis Presley,” the TTAB concluded the only relevant definition of the term “mafia” was the one that defined the term as an “exclusive, or small and powerful, group or clique.”

In coming to its decision, the TTAB explicitly rejected the petitioner’s survey and expert witness evidence on the grounds that the evidence failed to show that the term “mafia” is always an epitaph with Italian-Americans. The TTAB also rejected the petitioner’s expert witness testimony on the grounds that their testimony was unpersuasive as said witnesses were members of the petitioning organization, and as such their testimony could not “be viewed as [anything] other than reflecting the objectives of the petitioner.”

The survey evidence was rejected on the grounds that the survey only illustrated the public’s general association of Italian-Americans and organized crime, without reference to the term “mafia,” and as such was insufficient to show the general public’s associated the term “mafia” with Italian-Americans and organized crime. Given that the TTAB found the mark in question did not reference the petitioners, the TTAB determined the petitioners failed to prove that the mark THE MEMPHIS MAFIA may disparage either the Order Sons of Italy in America or Italian-Americans in general when used in connection with the respondent’s entertainment services.

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117 *Id.* at 1368-69.

118 *Id.* at 1369.

119 *Id.*

120 *Id.*

121 *Id.*

122 *Id.* This does not contravene the analysis set forth in *Hines* and *Harjo* requiring the fact finder determine if a substantial composite of the referenced group finds the mark disparaging because the question before the TTAB here was if there was an association between the mark and the supposedly referenced group.

123 *Id.*
D. **In re Squaw Valley Development Co.** 124

Although the *Harjo* litigation has garnered a lot of public attention, American Indians also challenged another mark as disparaging in recent years. In 2006, the TTAB considered the denial of the registration for the marks SQUAW and SQUAW ONE in connection with clothing, ski equipment, and retail sports store services.125 The applicant, Squaw Valley Ski Resort, previously registered the marks SQUAW VALLEY and SQUAW VALLEY USA for apparel and, effectively, ski resort accommodations.126 In reconsidering its prior decision overturning the examining attorney’s refusal to register the marks in question, the TTAB clarified its prior application of the two-step analysis set forth in *Hines* and *Harjo*.127 The TTAB reconsidered whether each mark was disparaging in the context of each class for which registration was sought.128

In reconsidering and reapplying the first step of its analysis, the TTAB determined that with respect to the class encompassing ski equipment, the likely meaning of the mark would be associated with applicant’s skiing operations and not a female American Indian.129 This decision was based upon the use of numerous newspaper articles and encyclopedia references evidencing that the term “squaw,” when used in connection with skiing equipment, referenced the ski resort.130 With respect to the class encompassing clothing and accessories and the class encompassing retail stores, the TTAB did not reconsider its prior decision that the marks referenced Native American women given that the examining attorney had previously satisfied a higher burden than necessary.131 In its earlier opinion, the TTAB determined there was nothing about the applicant’s use of the marks containing the term “squaw” in these contexts which would indicate the mark was

126 *Squaw Valley*, 80 U.S.P.Q.2d at 1266-67. As a note of interest, Squaw Valley Ski Resort was the host of the 1960 Winter Olympics. *Id.* at 1266.
127 See *Id.* at 1268 (explaining that the TTAB’s supposed errors were errors of law in applying *Harjo* and that only the supposed errors would be addressed by the TTAB).
128 *Id.* at 1283.
129 *Id.* at 1282.
130 *Id.* at 1280-81. The TTAB found this evidence rebutted the examining attorney’s dictionary evidence. *Id.* at 1282.
131 *Id.* at 1272.
being used in connection with skiing facilities and services and not the term’s dictionary definition of an American Indian woman.\textsuperscript{132} As such, the TTAB only reconsidered the second prong of its disparaging mark analysis with respect to these two classes of goods and services.\textsuperscript{133}

In reconsidering the second prong of its analysis, the TTAB considered whether or not the term “squaw” was disparaging to a substantial composite of Native Americans when used in the context of the applicant’s identified goods and services.\textsuperscript{134} The examining attorney put forth numerous newspaper articles and statements by American Indians regarding the offensive and disparaging nature of the term “squaw.”\textsuperscript{135} Some, but not all, of these statements dealt specifically with the applicant’s use of the term “squaw” in connection with its skiing operations and the surrounding town, Squaw Valley, California.\textsuperscript{136} The examining attorney also put forth legislation from various states prohibiting the names of geographic areas from containing the term “squaw.”\textsuperscript{137} This evidence was sufficient to establish a \textit{prima facie} case that the mark was disparaging under the circumstances, which the applicant failed to rebut.\textsuperscript{138} Thus, with respect to the classes encompassing clothing, accessories, and retail stores, the marks were found to be disparaging, and the TTAB affirmed the examining attorney’s refusal to register the marks for these classes.\textsuperscript{139}

\textbf{E. In re Heeb Media LLC\textsuperscript{140}}

\textit{In re Heeb Media LLC}, dealt with the USPTO’s refusal to register the mark HEEP for apparel and, essentially, event planning.\textsuperscript{141} The examining attorney refused to register the mark on the grounds that it was disparaging to a substantial composite of Jewish people.
even though the applicant already owned the registered mark HEEB for the “publication of magazines.”\footnote{Id. at 1072.} The examining attorney relied on dictionary evidence\footnote{Id. at 1072 (defining the term “heeb” as “a [derogatory] term for a Jew”).} and news articles containing quotes regarding the disparaging and offensive nature of the term “heeb.”\footnote{Id. at 1072-73.} After citing the two-step analysis outlined in Harjo for determining if a mark is disparaging, the TTAB clarified that a “substantial composite of the referenced group” was not necessarily a majority of said group.\footnote{Id. at 1074-75.} With respect to the first step of the analysis, neither party contested meaning of the term “heeb” or that the term referenced Jewish people.\footnote{Id. at 1075.}

With respect to the second step of its disparaging mark analysis, the TTAB claimed to consider how all individuals within the referenced group, that is to say all Jewish individuals, perceive the HEEB mark when used in the context of clothing and event planning services.\footnote{Id.} Relying on the Cassel Dictionary of Slang, the TTAB concluded the term does not have “a separate non-derogatory character.”\footnote{Id. at 1076.} Furthermore, relying on the applicant’s own evidence, the TTAB concluded there were disparate views within the Jewish community, generally along generational lines, as to whether the term “heeb” was disparaging.\footnote{Id. (“[A]pplicant’s own evidence shows that not all [Jewish individuals] find the term HEEB to be unobjectionable. On the contrary, the letters submitted by applicant recognize that some [Jewish individuals] find the term derogatory, and suggest that there is a generational divide in the perception of this term.”)} Although no specific percentage or segment of the Jewish population was determined to find the mark disparaging, the TTAB imputed the disparate views of those entered into evidence by both the examining attorney and the applicant to the entire “post-college age Jewish population” without additional evidence.\footnote{Id. at 1077. Although no evidence was put forth that this segment of the Jewish population was in fact a substantial composite of the Jewish population, the conclusion is logical that there would be more members of any ethnic or established religion which are of “post-college age” than those “college age” or younger.} Essentially, by finding that some Jewish people found the term “heeb” itself objectionable, the TTAB found the evidence sufficient to establish a \textit{prima facia} case that the mark was disparaging and that the applicant’s evidence failed to rebut said \textit{prima facia} case.\footnote{Id. (recognizing that the USPTO has limited ability to amass evidence during \textit{ex parte} proceedings, and as such needs only to establish a \textit{prima facia} case).} As such, the TTAB affirmed the examining attorney’s refusal
to register the applicant’s mark on the grounds that the mark was disparaging in degradation of § 2(a) of the Lanham Act.\textsuperscript{152}

F. \textit{In Re Lebanese Arak Corp.}\textsuperscript{153}

The most recent precedential TTAB decision concerning an allegedly disparaging mark dealt with the refusal to register the mark KHORAN for alcoholic beverages, specifically wine.\textsuperscript{154} The examining attorney refused to register the mark on the grounds that the mark was disparaging to the beliefs of Muslims because Islam prohibits the consumption of alcohol.\textsuperscript{155} Both the majority and dissent applied the two step analysis set forth in \textit{Hines}.\textsuperscript{156} The difference in opinion between the majority and dissent, as well as the examining attorney and the registrant, involved the first prong of the \textit{Hines} test, what was the likely meaning of the mark KHORAN.\textsuperscript{157}

Although the majority conceded that the general public would perceive KHORAN to mean Koran, the Islamic holy text,\textsuperscript{158} it repeatedly emphasized that Muslim Americans would also regard the mark as referencing the Koran.\textsuperscript{159} The majority rationalized the acceptability of considering whether Muslims would perceive KHORAN to mean Koran on the grounds that \textit{in the future} a mark may come before the TTAB which “would be clearly understood by members of a religious group as being significant in their worship, but would not be known or understood by the public at large” and that the Lanham Act’s “prohibition against registration of disparaging marks would [not] ignore such situations.”\textsuperscript{160} In coming to this rationalization, the TTAB relied on its decision to cancel the mark SENUSSI\textsuperscript{161} in 1959 on the grounds the mark was scandalous.\textsuperscript{162}

\textsuperscript{152} \textit{Id.} at 1078.
\textsuperscript{153} 94 U.S.P.Q.2d (BNA) 1215 (T.T.A.B. 2009).
\textsuperscript{154} \textit{Id.} at 1215. “Khoran” is the Armenia word for “alter.” \textit{Id.} at 1219.
\textsuperscript{155} \textit{Id.} at 1216.
\textsuperscript{156} \textit{Id.} at 1217, 1221.
\textsuperscript{157} \textit{Id.} at 1219.
\textsuperscript{158} \textit{Id.} at 1219. TTAB precedent has established that the mere misspelling of a word does not conclusively avoid a finding that a mark is disparaging or merely descriptive. See \textit{In re Carlson}, 91 U.S.P.Q.2d (BNA) 1198, 1200 (T.T.A.B. 2009) (“In general, a mere misspelling of a word is not sufficient to change a merely descriptive term into an inherently distinctive trademark.”), \textit{In re Hines}, 31 U.S.P.Q.2d (BNA) 1685 (T.T.A.B. 1994), vacated on other grounds, 32 U.S.P.Q.2d (BNA) 1376 (T.T.A.B. 1994) (making no reference to the fact that the mark in question BUDDA BEACHWEAR, contained a misspelling of Buddha).
\textsuperscript{159} \textit{Lebanese Arak}, 94 U.S.P.Q.2d at 1219-20.
\textsuperscript{160} \textit{Id.} at 1219.
\textsuperscript{161} \textit{Id.}
\textsuperscript{162} Zlotchew, \textit{supra} note 32, at 242.
With respect to the second step of the analysis, the majority relied on a record “replete with evidence” regarding Islam’s prohibition on alcohol and held that Muslims would find the use of a mark phonetically equivalent to their holy text to be disparaging.\textsuperscript{163} As such the majority refused registration of the mark.\textsuperscript{164}

Effectively the dissent disagreed with the majority in two respects. First, the dissent argued the meaning of KHORAN should be determined based on the views of the general public and not Muslims.\textsuperscript{165} While this statement of the law is defensible, if not correct, in light of the practice of the Federal Courts,\textsuperscript{166} the dissent’s disagreement with the majority is somewhat unfounded given that the majority found the general public would find KHORAN to mean the Islamic holy text, the Koran. The majority just emphasized that Muslims would also find the mark referenced the Koran. The dissent’s second contention was that the general public would not attach any particular meaning to the mark KHORAN in connection with wine, and as such the first prong of Hines was not satisfied.\textsuperscript{167} This position seems less defensible, particularly given that there are numerous ways to transliterate Koran from Arabic to English and readers (i.e. the general public) could very easily interpret KHORAN to be a misspelling or alternative transliteration of Koran.\textsuperscript{168} Although the dissent raises a valid point with respect to the appropriate group for determining the meaning of the mark in question, it will likely be of little consequence in future disparaging mark challenges given that ultimately the dissent found insufficient evidence to support the finding as to if the meaning of the mark references the Koran and Islam in general.

\section*{IV. IMPLICATIONS OF THE CURRENT STATUS OF DISPARAGING MARK JURISPRUDENCE}

The current status of disparaging market jurisprudence, as it relates to identifiable groups, is relatively clear. To determine if a

\textsuperscript{163} \textit{Lebanese Arak}, 94 U.S.P.Q.2d at 1218, 1221.
\textsuperscript{164} Id. at 1221.
\textsuperscript{165} Id. at 1222.
\textsuperscript{167} \textit{Lebanese Arak}, 94 U.S.P.Q.2d at 1223.
\textsuperscript{168} Id. at 1218-19.
mark is disparaging to an identifiable group of individuals, the TTAB or a court must determine:

1) what is the likely meaning of the matter in question, taking into account not only dictionary definitions, but also the relationship of the matter to the other elements in the mark, the nature of the goods or services, and the manner in which the mark is used in the market place in connection with the goods or services; and 2) if that meaning is found to refer to identifiable persons, institutions, beliefs or national symbols, whether that meaning may be disparaging to substantial composite of the referenced group.\textsuperscript{169}

While the TTAB’s recent decision in \textit{Lebanese Arak} may have raised the question of if the allegedly referenced group can determine the meaning of the mark in question, the more controversial question which remains relatively unresolved is what constitutes a “substantial composite” of the referenced group necessary to establish a mark is disparaging to said group. Further complicating the determination as to what constitutes a “substantial composite” of the referenced group is the different evidentiary burdens required to establish a mark as disparaging depending on if the proceedings are \textit{ex parte} or \textit{inter partes}. In \textit{ex parte} proceedings, the examining attorney needs only to establish a \textit{prima facia} case that the mark is disparaging, which can be accomplished by extrapolating the views of individuals and dictionaries regarding the term’s disparaging character to the referenced group.\textsuperscript{170} However, in \textit{inter partes} proceedings, the petitioner needs to actually establish by direct evidence that a substantial composite of the relevant group finds the mark’s use disparaging.\textsuperscript{171} Given the higher evidentiary burden for cancelling a registered mark as opposed to refusing to register a mark, a mark which was registered numerous years ago could survive a cancellation.


\textsuperscript{170} \textit{E.g.}, Squaw Valley, 80 U.S.P.Q.2d at 1271-75.

\textsuperscript{171} \textit{Harjo IV}, 284 F. Supp. 2d at 144.
proceeding, but if the same mark or a derivative of that mark were to be applied for today, it could easily be refused registration.

These differing evidentiary burdens have far-reaching implications, especially in the arena of athletic team nicknames. Using the ongoing challenge to the REDSKINS family of marks as a guide, the following discussion explores the interests actually at stake when an athletic team’s mark is challenged as disparaging to an ethnic group and why the current Blackhorse challenge to the REDSKINS marks will likely make its way to the D.C. Circuit. The second portion of this discussion explores the future implications of the TTAB’s disparaging mark jurisprudence for professional sports teams in general, particularly those teams employing nicknames which may be found disparaging in degradation of the Lanham Act, if the REDSKINS family of marks are cancelled as being disparaging or if the standards remain the same.

A. INTERESTS UNDERLYING THE BATTLE OVER THE REDSKINS FAMILY OF MARKS

As previously mentioned, the most prominent challenge to a mark’s registration on the grounds that the mark is disparaging is the ongoing proceedings regarding the registration of the REDSKINS family of marks. Although the initial challenge to the REDSKINS family of marks finally ended in late 2009, another cancellation petition for the REDSKINS family of marks is pending before the TTAB. In order to understand why the registration of these marks has been so vigorously contested since 1992, one needs only to consider the competing social and economic interests at stake. Cast solely in the narrow question of these marks, the American Indians sought only to cancel the registrations of marks containing a term which, they argue, has always been an inflammatory racial slur. In a broader sense, however, the American Indians’ case illustrates the assertion that the use of racially-inspired marks, especially for commercial gain, perpetuates continued social subordination of

\footnote{172 See Pro-Football, Inc. v. Harjo (Harjo Appeal II), 565 F.3d 880 (D.C. Cir. 2009), cert. denied, 130 S. Ct. 631 (2009).}

\footnote{173 Complaint for Petitioner at 1, Blackhorse v. Pro-Football, Inc., Cancellation No. 92046185 (T.T.A.B. Aug. 11, 2006). This cancellation proceeding had been stayed pending the resolution of the then ongoing challenge to the REDSKINS family of marks. Blackhorse v. Pro-Football, Inc., Cancellation No. 92046185 (T.T.A.B. March 31, 2008) (order suspending proceedings until final resolution of the Harjo civil action).}

minority groups through cultural norms.\textsuperscript{175} Essentially, the cause championed by the American Indians in \textit{Harjo} is the embodiment of one of the hot-button social-policy goals of our time: eliminating the use of negative race-based imagery by taking away the commercial gain secured through federal registration of racist marks.\textsuperscript{176}

Conversely, Pro-Football, Inc. embodies the immense economic interests at stake. Pro-Football, Inc. is, quite simply, a massive financial force.\textsuperscript{177} Cancellation of the REDSKINS marks and the subsequent inability to exercise sole nationwide control over the use of these marks could pose a substantial financial impact on the organization.\textsuperscript{178} Recent scholarly analysis indicates that the merchandising value of the Washington Redskins name is especially strong amongst NFL teams, and that the negative public relations of the American Indian protests and litigation has had no detrimental effects on the team’s sales.\textsuperscript{179}

Some scholars have argued that cancellation of the REDSKINS marks would have only a minor impact given the profit-sharing

\begin{footnotes}
\item[175] See K.J. Greene, \textit{Trademark Law and Racial Subordination: From Marketing of Stereotypes to Norms of Authorship}, 58 SYRACUSE L. REV. 431, 436-37 (2008) ("Proceedings under Section 2(a) reinforce my contention that a 'race-neutral' or colorblind approach to IP issues fosters subordination. It should seem self-evident that a mark such as 'Redskins' fosters long-held stereotypes about Native Americans, and even an institution as conservative as the U.S. Supreme Court 'has consistently taken notice of the consequences of negative racial stereotypes . . . [and] invalidated legislation based on impermissible racial stereotypes.").
\item[176] \textit{Id.}
\item[179] Mark S. Nagel & Daniel A. Raschler, \textit{Washington “Redskins”—Disparaging Term or Valuable Tradition?: Legal and Economic Issues Concerning Harjo v. Pro-Football, Inc.}, 17 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 789, (2007). This is likely due, in part, to the marginalization of American Indians in American society. See Kimberly A. Pace, \textit{The Washington Redskins Case and the Doctrine of Disparagement: How Politically Correct Must a Trademark Be?}, 22 PEPP. L. REV. 7, 16 (1994) ("In addition, because Native Americans represent a relatively small segment of the American population, they don't wield the same consumer buying power that has enabled other minorities to force companies to change trademarks which they find offensive. Trademark owners can afford to offend and alienate Native Americans because they are not dependent on them for their economic survival.").
\end{footnotes}
structure of the NFL. Currently licensing revenues are distributed among all thirty-two NFL teams, which, it is argued, diminishes the incentive for the team to change its nickname because its lost profits would be absorbed by all thirty-two teams in the league. However, the Supreme Court’s recent decision in American Needle, Inc. v. National Football League has called into question the legality of the NFL’s licensing structure. If the NFL’s licensing structure is ultimately found to violate federal antitrust law, the losses resulting from cancellation of the REDSKINS family of marks would not be absorbed by all thirty-two teams in the league. Therefore, if trademark protection is about simple economic efficiency and protection from unfair competition, Pro-Football has little to no incentive to forfeit the protection of their rights in the REDSKINS family of marks and risk incurring the resulting costs.

However, it is clear from the provisions of § 2(a) of the Lanham Act that there is more to trademark law than simple economic efficiency and protection from unfair competition. The question posed by the REDSKINS mark cancellation proceedings then becomes exactly how far courts should go in enforcing the social protections of the Lanham Act with respect to racial stereotyping in sports marketing. To this point, private market and social forces have reduced the prevalence of derogatory marks in the marketplace more so than the concerted action by the courts or the TTAB.

Further complicating the social policy issues underlying the question of racial-group disparagement is the argument that the use of American Indian imagery is not intended to be denigrating, but rather to be a representation of honor and tradition, both of the team and the tribe. In this view, trademark law is not circumventing social

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181 Id. at 332-33, 362-63.
183 See Greene, supra note 175, at 437. (“The marketplace of social norms, not Section 2, has had the most influence on the recession of racially derogatory trademarks.”). Even those who have seen progress in the area admit that the progress has been “halting at best,” carried on in “fits and starts.” Cummings, supra note 178, at 316.
184 See, e.g., Id. at 312-313 (“Still, some university administrations and many professional sports franchises strenuously eschew calls to remove these racially insensitive mascots, believing that their moniker represents tradition and honor and as such remains a vital part of school or team tradition. These proponents argue that the elimination of their Native American mascot at their sporting events would
progress but rather protecting an organization’s right to maintain the valuable goodwill, sentiment, and tradition associated with their long-utilized marks.\footnote{Id.}

In light of these underlying competing interests, it is likely the \textit{Blackhorse} cancellation proceedings will drag on for some years as did the \textit{Harjo} cancellation proceeding. Furthermore, even after the ultimate resolution of \textit{Blackhorse} on the merits, any resulting economic or social affects, especially as they relate to the use of the REDSKINS marks themselves, will not be instantaneous. However, the ultimate resolution of \textit{Blackhorse} under the \textit{Harjo} standard may serve as the catalyst to other marks being challenged as disparaging or even the voluntary discontinued use of marks particularly susceptible to being challenged.

B. \textbf{IMPLICATIONS FOR OTHER ATHLETIC TEAMS IF THE AMERICAN INDIANS WIN IN BLACKHORSE}

Given the varying opinions as to the offensive or disparaging nature of these marks in general and as used by athletic teams, it is unlikely a court will render a \textit{per se} opinion as to the eligibility for registration of these marks during the course of \textit{Blackhorse}.\footnote{See, e.g. \textit{Harjo} v. Pro-Football, Inc. (\textit{Harjo II}), 50 U.S.P.Q.2d (BNA) 1705, 1733 (T.T.A.B. 1999), \textit{rev’d} 284 F. Supp. 2d 96, (D.D.C. 2003), \textit{remanded}, 415 F.3d 44 (D.C. Cir. 2005), \textit{on remand}, 567 F. Supp. 2d 46 (D.D.C. 2008), \textit{cert. denied}, 130 S. Ct. 631 (2009) (quoting the results of the American Indians’ survey evidence in which the percentage of respondents finding a given term offensive as a term for Native Americans ranged from 50.6\% for the word “Injun” to 2.8\% for the phrase “Native American”); Jason Finkelstein, \textit{What the Sioux Should Do: Lanham Act Challenges in the Post-Harjo Era}, 26 Cardozo Arts & Ent. L.J. 301, 312 (2008). In fact, during the course of the \textit{Harjo} cancellation proceedings, the District Court for the District of Columbia twice clarified that its “opinion[s] should not be read as [] making any statement on the appropriateness of Native American imagery for team names.” Pro-Football, Inc. v. Harjo (\textit{Harjo Remand}), 567 F. Supp. 2d 46, 48 (D.D.C. 2008), \textit{cert. denied}, 130 S. Ct. 631 (2009) (quoting Pro-Football, Inc. v. Harjo (\textit{Harjo IV}), 284 F. Supp. 2d 96, 144-45 (D.D.C. 2003), \textit{aff’d in part and rev’d in part}, 415 F.3d 44 (D.C. Cir. 2005), \textit{remanded to} 567 F. Supp. 2d 46 (D.D.C. 2008), \textit{aff’d}, 565 F.3d 880 (D.C. Cir. 2009), \textit{cert. denied}, 130 S. Ct. 631 (2009)).} However, a successful cancellation of the REDSKINS family of marks as a result of the \textit{Blackhorse} cancellation proceedings will call into the question the eligibility for registration of other sports teams’ registered marks. Currently there are four sports teams in the “major” American
professional sports leagues other than the Washington Redskins whose nicknames imply Native American imagery: Major League Baseball’s Cleveland Indians and Atlanta Braves, the National Hockey League’s Chicago Blackhawks, and the National Football League’s Kansas City Chiefs.

The success of a challenge to these other marks rests largely on the threshold for finding “a substantial composite” of the referenced group finds the mark disparaging and the results of the petitioners’ direct survey evidence. According to the American Indians’ survey evidence put forth in Harjo, none of these other four teams’ nicknames were offensive to more than 7.8% of the surveyed Native Americans, independent of their use in athletics. Furthermore, a Sports Illustrated survey recently found 83% of the Native Americans sampled did not find the use of Native American nicknames for professional sports teams offensive or a practice which should be

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187 For the purposes of this discussion, the four “major” professional American sports leagues are Major League Baseball, the National Football League, the National Hockey League and the National Basketball Association.

188 See, e.g., Kelly P. O’Neil, Note & Comment, Sioux Unhappy: Challenging the NCAA’s Ban on Native American Imagery, 42 TULSA L. REV. 171, 184 (2006). Aside from these five teams, there are other lesser-known professional sports teams, such as the Canadian Football League’s Edmonton Eskimos, which have federally registered trademarks referencing Native Americans. U.S. Trademark No. 1,010,202 (filed Dec. 21, 1972). The use of American Indian imagery by members of the NCAA is a rather complex situation outside the scope of this article given NCAA regulations generally prohibit the use of American Indian imagery by its members. See generally, Glenn George, Playing Cowboys and Indians, 6 VA. SPORTS & ENT. L.J. 90 (2006). Furthermore, unlike professional sports teams, not all universities using American Indian imagery have registered their marks. For example, Searches in the United States Patent and Trademark Office’s Trademark Electronic Search System (TESS), http://tess2.uspto.gov, for marks registered to the University of North Dakota or the state of North Dakota, as well the mark “Fighting Sioux” failed to produce any currently registered marks pertaining to University of North Dakota athletics. There are also approximately 1,900 high schools across the United States using Native American mascots. Gavin Clarkson, Racial Imagery and Native Americans: A First Look at the Empirical Evidence Behind the Indian Mascot Controversy, 11 CARDOZO J. INT’L & COMP. L. 393, 395 (2002). It is doubtful that many, if any, high schools have a federally registered trademark for their nick-name, let alone a high school using a Native American mascot, given the requirement that the mark be used in interstate commerce. 15 U.S.C. § 1051(3)(C) (2006). Native Americans are not the only ethnic or otherwise identifiable group of individuals implicated by the registered marks of a professional sports team that may be considered disparaging. For example, the term “canuck” is a derogatory term for a French-Canadian, but it is also the nickname of Vancouver’s National Hockey League team. IRVING LEWIS ALLEN, THE LANGUAGE OF ETHNIC CONFLICT 128 (1983); U.S. Trademark No. 956,683 (filed Jan. 17, 1972) (registration for the wordmark CANUCKS for professional ice hockey exhibitions).

189 Harjo II, 50 U.S.P.Q.2d at 1733 (noting that that 7.8% of the sample found the term “Indian” offensive and 7.0% of the sample found the term “brave” offensive).
altered. Therefore, even if the REDSKINS marks are successfully cancelled, there might not be enough support within the American Indian community to support the cancellation of the marks for these other four professional sports teams'; unless a “substantial composite” is approximately 20%.

There is, however, some indication that Native Americans find the stereotypical portrayal of Native Americans more offensive than terminology which refers to Native Americans, and therefore this imagery, usually in the form of a mascot or logo, may be susceptible to cancellation proceedings even when the underlying team nickname is not necessarily legally disparaging. The most notorious mascot still in use, with registered live trademarks, is the Cleveland Indians’ Chief Wahoo. Activists have referred to Chief Wahoo as “the most offensive racial icon in the country.” The Cleveland Indians’ use of Chief Wahoo, “a grinning Indian face caricature with a feather and bright red face,” was challenged in court in 1972 under a theory of group libel, but was settled out of court. Given that Chief Wahoo has already been challenged once before in the courts, and is viewed as one of the “most offensive” uses of Native American imagery in the United States, it is highly likely that the Chief Wahoo marks will be challenged in the courts if there is successful cancellation of the REDSKINS’ family of marks or the Indians seek registration of a new mark depicting Chief Wahoo.

Chief Wahoo marks may be the most obvious team mascot or insignia to be challenged as disparaging; however, other teams have

191 Clarkson, supra note 188, at 399. (citing Peter Harris Research Group, Final Results, at questions 5c, 6b, Jan. 31, 2002 (on file with article’s author)) (noting 36% of Native Americans living on a reservation were offended by the term “Redskin” whereas 58% of Native Americans living on a reservation found mascots portraying Native Americans in a stereotypical fashion objectionable).
192 The Cleveland Indians have at least six registered trademarks containing the likeness of Chief Wahoo. U.S. Trademark No. 2,569,766 (filed Feb. 15, 2001); U.S. Trademark No. 1,031,410 (filed Jan. 23, 1974); U.S. Trademark No. 1,711,810 (filed Dec. 13, 1990); U.S. Trademark No. 1,590,703 (filed Sept. 6, 1989); U.S. Trademark No. 1,593,109 (filed Nov 18, 1988); U.S. Trademark No. 1,259,795 (filed June 1, 1981).
194 Glenn George, Playing Cowboys and Indians, 6 VA. SPORTS & ENT. L. J. 90, 93 (2006). The out of court settlement ended the use of a “live” Chief Wahoo mascot, but allowed the Cleveland Indians to continue to use the Chief Wahoo imagery. Id.
registered marks for their mascots or insignia that may very well be disparaging to American Indians. In 1991, the National Basketball Association’s Golden State Warriors registered, and still maintain, a mark for the cartoon image of an American Indian dribbling a basketball\(^\text{195}\) even though the team stopped using Native American imagery twenty years earlier, in 1971.\(^\text{196}\) The Atlanta Braves maintain a registered trademark for the image of an American Indian warrior’s head letting out a battle cry.\(^\text{197}\) Although the Atlanta Braves no longer use the “screaming brave” on a regular basis, the team still markets baseball caps containing the image as part of its “Cooperstown Collection.”\(^\text{198}\) Although the current financial interests found in the above mentioned teams’ currently used marks dwarf the financial interests in these older marks, challenging these older marks as disparaging would promote the social policy goal of removing racist marks from the stream of commerce.\(^\text{199}\)

V. REVISING THE TTAB’S CURRENT DISPARAGING MARK JURISPRUDENCE

The TTAB’s steadfast application of the two-step analysis set forth in *Hines* and *Harjo*, notwithstanding the variation of *Lebanese Arak*, poses substantial, if not insurmountable, hurdles for groups seeking to cancel the registration of an allegedly disparaging mark. These hurdles may be particularly challenging with respect to groups which have traditionally been isolated or which are seeking the cancellation of marks registered farther back in time.\(^\text{200}\) Collecting accurate survey evidence under these circumstances is complicated by the passage of time. Furthermore, the diverse cultural, social, and geographical backgrounds of individuals within certain populations


\(^{199}\) By challenging said marks, a petitioner can reduce the financial incentive to produce merchandise with these old marks and thus the presence of said trademarks in the public sector. Such a reduction in the presence of material that disparages American Indians may further American Indians’ and their supporters’ goal in reducing social inequality with respect to American Indians.

\(^{200}\) See Pro-Football, Inc. v. Harjo (*Harjo IV*), 284 F. Supp. 2d 96, 145 (D.D.C. 2003) (“[I]t [is] it difficult for any fact-finder to affirmatively state that in 1967 the trademarks were disparaging.”).
necessitates expansive, and thus expensive, surveying techniques in order to satisfy the Harjo standard. These challenges, although serious, may be rectified through small changes in the TTAB’s current disparaging mark jurisprudence, as illustrated below.

A. UNDER LIMITED CIRCUMSTANCES ALLOW A SHOWING THAT THE GENERAL PUBLIC VIEWS THE MARK AS DISPARAGING TO ESTABLISH THE REBUTTABLE PRESUMPTION THAT THE MARK IS VIEWED AS DISPARAGING WITHIN THE REFERENCED GROUP

It is disingenuous to state that a mark, considered disparaging and offensive by the general public, is not disparaging for the purposes of the Lanham Act simply because it may not be economically or physically feasible to accurately survey the referenced group. Courts should cease the strict adherence to the Hines & Harjo standard and instead adopt a more workable standard. Petitioners should be able to show the mark disparages the referenced group by showing either a substantial composite of the referenced group or a substantial composite of the general population would find the mark disparages the referenced group. If the petitioner avails itself of the objective means of establishing the mark disparages the referenced group, the mark owner or applicant should be able to rebut this showing by establishing that no substantial composite of the referenced group finds the use of the mark disparaging to the referenced group.

Additionally, if a petitioner proves a term or image is inherently disparaging, then the court should find the petitioner has sufficiently established the mark itself is also disparaging. This finding would shift the burden onto the mark holder or registrant to prove the overall use of the mark does not disparage the group in question even though the term or image alone may disparage the group. Essentially, the mark holder or registrant would need to show the mark had a distinct meaning independent of the inherently disparaging meaning. Such a rule would eliminate a hurdle to cancellation of marks of which the members of the group are unaware of the mark’s overall use.

Effectively, this standard would hold petitioners to a standard more akin to that of the examining attorney in an ex parte proceeding before the TTAB. Furthermore, allowing petitioners the option of establishing that a mark disparages a referenced group using an objective standard would make the law consistent with similar areas of law. The prevailing standard for determining if a mark disparages a
corporation is a “reasonable man” general-population approach.\textsuperscript{201} Likewise, the Utah Supreme Court has applied a “reasonable person” standard in holding that license plates bearing the terms “REDSKIN”, “REDSKNS”, and “RDSKIN” were violations of a state statute prohibiting custom license plates bearing “vulgar, derogatory, profane, or obscene” terms.\textsuperscript{202} A similar approach by the TTAB with respect to marks which allegedly disparage discrete groups of individuals in \textit{inter partes} proceedings would better serve the policy goals of eliminating the use of racial stereotypes as a mechanism of marketing and commerce, while still requiring a convincing display of evidence that the challenged marks were significantly disparaging.

Commentators have suggested that all disparaging cancellation proceedings should be governed solely by an objective standard.\textsuperscript{203} While such an alternative may reduce the effects of divergent views within the implicated group, may be simpler to apply than a subjective standard, and may bring disparagement jurisprudence in line with scandalous mark jurisprudence and tort law,\textsuperscript{204} an objective standard would undermine the promotion of the underlying policy justifications for prohibiting the registration of disparaging marks as well as common sense. Ethnic labeling is a rather effective means to subordinate a minority group by a majority.\textsuperscript{205} It seems illogical to establish a system whereby the majority which may perpetuate the use of a pejorative term may also determine the standard used when judging whether the term is disparaging. Furthermore, a purely objective standard would not allow for reappropriation of slurs or other pejorative terms.\textsuperscript{206}

\textsuperscript{204} \textit{Id.} at 310-13.
\textsuperscript{205} IRVING LEWIS ALLEN, UNKIND WORDS: ETHNIC LABELING FROM REDSKIN TO WASP 8 (1990).
\textsuperscript{206} See Todd Anten, Note, \textit{Self-Disparaging Trademarks and Social Change: Factoring the Reappropriation of Slurs into Section 2(A) of the Lanham Act}, 106 COLUM. L. REV. 388 (2006) (arguing that the registration of self-disparaging marks should be treated differently than other disparaging marks).
B. INCREASE THE LEVEL OF SPECIFICITY IN IDENTIFYING THE REFERENCED GROUP

Without additional judicial clarification, or a change in the applicable standard, semantics and political correctness will determine the scope of membership in the references group, and thus whose opinions must be considered in determining if a mark is disparaging. Determining who is a member of the group implicated by a mark is a relatively easy task when “membership” in, or association with, the group is voluntarily.

Determining the scope of membership in the referenced group is more challenging and less predictable when the mark implicates a group containing a large and diverse population, such as an ethnic group or some other broad category like “protestants.” The District Court for the District of Columbia’s 2003 opinion in Harjo illustrates this challenge. The court found the petitioning American Indians’ survey evidence insufficient to serve as a proxy for the views of Native Americans as a whole because the survey excluded the views of Native Americans in Alaska and Hawaii without explanation.\footnote{Pro-Football, Inc. v. Harjo (Harjo IV), 284 F. Supp. 2d 96, 111 (D.D.C. 2003) \textit{aff’d in part and rev’d in part}, 415 F.3d 44 (D.C. Cir. 2005), \textit{remanded to} 567 F. Supp. 2d 46 (D.D.C. 2008), \textit{aff’d}, 565 F.3d 880 (D.C. Cir. 2009), \textit{cert. denied}, 130 S. Ct. 631 (2009).}

Generally, the federal statutory definition of Native Americans includes “American Indians, Native Hawaiians, other Native American Pacific Islanders (including American Samoan Natives), and Alaska Natives.”\footnote{See, e.g., 42 U.S.C. § 2991(a) (2006).} Because the district court classified the referenced group as “Native Americans,” the court’s consideration of Native Alaskans’ and Native Hawaiians’ opinions in the survey data was not necessarily incorrect given its consistency with the federal definition of “Native Americans.” Granted, all Native American tribes are anthropologically distinct, however, Native Alaskan tribes and Native Hawaiian tribes are significantly distinct from other Native Americans tribes in the lower forty-eight states.\footnote{Michael Yellow Bird, \textit{What Do We Want to Be Called: Indigenous Peoples’ Perspectives on Racial and Ethnic Identity Labels}, 23 No. 2 American Indian Quarterly 1, 3 (1999). Native Alaskans’ distinctiveness is due, in part, to being relatively ignored by both the general American public and the government until Alaska received statehood and their relative isolation from other Native American tribes. ROGER L. NICHOLS, \textit{AMERICAN INDIANS IN U.S. HISTORY} 209 (2003). Native Hawaiians’ distinctiveness is due, in part, to being descendants of Polynesians and Hawai’i’s status as a sovereign kingdom before annexation. Kathryn Nalani Satsuko Hong, \textit{Understanding Native Hawaiian Rights: Mistakes and Consequences of Rice v. Cayetano}, 15 \textit{ASIAN AM. L.J.} 9, 11-12 (2008). With respect to Native Hawaiians, these distinctions have, in part, lead to Indigenous Peoples from the other forty-nine}
Therefore, it is questionable, and inconsistent with the rationale underlying the subjective standard, to require the opinions of all Native Americans as to if a mark is disparaging, when realistically the mark may only refer to a limited subset of Native Americans or Native American tribes. Furthermore, with respect to the REDSKINS family of marks, it is anomalous to require the opinions of Native Hawaiians in the cancellation of these marks when said marks were registered before Native Hawaiians were classified as Native Americans by the federal government.\textsuperscript{210} Thus, it is advisable that the courts require petitioners seeking cancellation of a registered mark prove with some specificity the scope of the group implicated by the mark in question.

C. \textsc{Shift the Relevant Time Period to the Time of the Challenge in Inter Partes Proceedings}

When the registration of a mark is denied by an examining attorney or opposed by an aggrieved party on the grounds that the mark is disparaging, logically the determination is made as to if the mark is disparaging at that time.\textsuperscript{211} However, under the current law, when a petitioner seeks to cancel an already registered mark, the relevant time period for determining if the mark is disparaging is the time at which the mark was originally registered.\textsuperscript{212} Even before the TTAB cancelled the REDSKINS marks in 1999,\textsuperscript{213} commentators have argued that under certain circumstances the relevant time period for determining if a mark is disparaging should be the time of the challenge.\textsuperscript{214} These commentators tend to rely on the evolution of society and language as the basis for their argument.\textsuperscript{215} Words, states to object to the classification of Native Hawaiians as Native Americans by the federal government. Yellow Bird, \textit{supra} note 209, 3-4.


\textsuperscript{211} \textit{See}, e.g. \textit{In re Squaw Valley Development Co.}, 80 U.S.P.Q.2d (BNA) 1264, 1270 n. 5 (T.T.A.B. 2006).

\textsuperscript{212} \textit{Harjo IV}, 284 F. Supp. 2d at 125.


\textsuperscript{214} Zlotchew, \textit{supra} note 32, at 244 (arguing that once a mark was found to be disparaging, it could never be registered regardless of changing notions of disparagement; however a mark which was initially not disparaging but became disparaging could be cancelled).

\textsuperscript{215} \textit{Id.} at 236-37, 244.
phrases, images, and the like which may have been acceptable for public use at one point in time might not be acceptable at a future point in time.\textsuperscript{216} Moreover, the Lanham Act already anticipates that the meaning of words, phrases, and the like can change over time.\textsuperscript{217}

Aside from the evolution of language, a more pragmatic reason exists for considering the time of the mark’s challenge as the relevant time period. Petitioners seeking to cancel a mark may very well have trouble gathering evidence proving the marks were disparaging at the time of registration. With respect to sports team marks implicating American Indians this is particularly challenging given the fact that many of these marks were registered in the 1960s.\textsuperscript{218} As the proceedings in \textit{Harjo} demonstrate, the farther removed in time from registration the cancellation proceedings are brought, the harder it is to collect reliable evidence as to the views of individuals at the relevant time.\textsuperscript{219} The technological and physical isolation of some American Indian tribes during the relevant time periods,\textsuperscript{220} further compounds the difficulty in determining the views of members of these tribes during the relevant time period. Although some tribes were aware of the marks,\textsuperscript{221} other, more isolated, tribes may have been wholly unfamiliar with Pro-Football’s use of the REDSKINS marks during the relevant time period or even the nature of the term “redskins.”

In light of the above, the courts should determine if a mark is disparaging at the time the petition was filed. Realistically, this would be complicated under the current language of § 14(3) of the Lanham Act, which implies the relevant time period is the time of registration.\textsuperscript{222} In theory the TTAB could elect to disregard this language, but such disregard for established law would likely be overturned on appeal. However, the TTAB could begrudgingly determine if the mark was disparaging at the time of registration, but also call for Congress to amend the Lanham Act to permit courts to

\textsuperscript{216} See Pace, supra note 179, at 9-10 (discussing the evolution of how Quaker Oats portrayed Aunt Jemima in order to reflect changing societal views).
\textsuperscript{217} See 15 U.S.C. § 1064(3) (allowing for the cancellation of a mark that becomes the generic name for goods or services but was not generic at the time of registration).
\textsuperscript{218} See, e.g., U.S. Trademark No. 893,052 (filed May 26, 1969) (registration of the mark “Blackhawks” for professional hockey); U.S. Trademark No. 829,308 (filed Mar. 14, 1966) (registration of the mark “Braves” for professional baseball).
\textsuperscript{219} See, \textit{Harjo IV}, 284 F. Supp. 2d at 127-36 (rejecting the American Indian’s evidence as insufficient to support a finding that the REDSKINS family of marks were disparaging to Native Americans).
\textsuperscript{221} \textit{Harjo IV}, 284 F. Supp. 2d at 112.
consider the evolution of language under these circumstances. Such an amendment would require only a simple change in language; Congress could amend the Lanham Act to allow for the cancellation of a mark if it becomes contrary to § 2(a) of the Lanham Act, and not when the mark was registered contrary to § 2(a). Such lobbying by the TTAB is more likely to garner Congressional attention with respect to this problem than an article published in a legal academic publication.

Courts can avoid constant challenges to marks by applying established legal doctrines and civil procedure. Furthermore, if such a change were to be enacted legislatively, Congress could include limits on how often cancellations could be attempted. For example, if a mark is determined to not be disparaging to a specific group, its disparaging nature may not be challenged for a proscribed period of time. This would not be inconsistent with the Lanham Act given that § 14 already limits the circumstances under which a mark’s registration may be cancelled.

VI. CONCLUSION

As this article discusses, the TTAB has had few opportunities to develop its disparaging mark jurisprudence with respect to identifiable groups. Given the dearth of disparaging mark challenges brought before the TTAB, the Article III courts have had almost no opportunity to consider the flaws in the TTAB’s disparaging mark jurisprudence. Even when the opportunity to consider the TTAB’s disparaging mark jurisprudence arose in the Harjo proceedings, neither party objected to the analytical process applied by the TTAB. Considering the drawn-out nature of the Harjo challenge to the REDSKINS family of marks, it is highly probable that the Blackhorse challenge to the same marks will likely end up before a federal district court, regardless of which party prevails before the TTAB. Thus, a federal court will likely have an opportunity to revisit and revise the TTAB’s disparaging mark jurisprudence with respect to marks implicating an identifiable group of individuals. The question thus becomes whether the courts will give § 14 of the Lanham Act teeth.

224 It is unlikely the Washington Redskins will be changing their name during the course of the Blackhorse proceedings, thus rendering the proceedings effectively moot. The team’s current owner, Daniel Snyder, has steadfastly refused to change the team’s nickname voluntarily. See, e.g. The Novak Zone: Interview With Daniel Snyder (CNN television broadcast Jan. 11, 2003), http://transcripts.cnn.com/TRANSCRIPTS/0301/11/srn.20.html (“I’ll never change the name of the Redskins. You have my word on that.”).
with respect to allegedly disparaging marks, or whether § 14 will remain a paper tiger.

Furthermore, the resolution of *Blackhorse* on the merits will forecast the utility of trademark law as a vehicle for attempting to affect social change through challenges to the use of ethnic stereotyping in the packaging of other athletic teams. The limited number of athletic teams with federally registered trademarks tempers such utility, but if trademark law protection is removed for pejorative marks in the sports arena, this could still provide another tool in the activists’ arsenal for affecting social change through arguing by analogy to other markets. Regardless of the ultimate utility of the Lanham Act in this context, these challenges will likely be just another footnote in this country’s long history of tenuous race relations being played out in the legal system.
EXPANDING GLOBAL TRADEMARK REGULATION

By Katherine Beckman®
Christa Pletcher♣

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I. INTRODUCTION

The concept of trademark regulation is fairly new when one considers the length of time trademark protection has been available. Primarily, trademark law was a common law creature, and the rights given were territorial.\(^1\) When a federal system was implemented in 1870 that gave trademark rights to individuals who registered with the United States Patent Office, the Supreme Court ruled it unconstitutional.\(^2\) The Court held that the regulation was applicable to all trade, to commerce at all points (and not just interstate), and as such was an excess of Congress’ power.\(^3\) Yet when the Trademark Act of 1946 (Lanham Act) was enacted, a federal trademark regulation system took form.\(^4\) It took some time and multiple efforts, but eventually, in passing the Lanham Act, the United States recognized the need for a unified, federal system of trademark regulation.

In 1994, there was a noted expansion in trademark regulation with the formation of the World Trade Organization and the Agreement on Trade Related Aspects of Intellectual Property Rights (“TRIPS”).\(^5\) TRIPS serves, among other things, as a guideline for trademark use and recognition by the members of the WTO,\(^6\) which currently consists of 153 members\(^7\) representing more than 97% of total world trade.\(^8\) To date, this is the most comprehensive and sweeping regulation of trademarks, reaching all corners of the globe. However, there remains a need for expanding this existing regulation.

To understand the argument for extending global trademark regulation, one must initially understand the purpose of trademarks. According to the Lanham Act, the purpose of a trademark is “to identify and distinguish… goods…from those manufactured or sold by others and to indicate the source of the goods.”\(^9\) TRIPS identifies a

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2. Trade-Mark Cases, 100 U.S. 82, 92, 99 (1879).
3. Id. at 95-97.
6. Id.
trademark as “capable of distinguishing the goods or services of one undertaking from those of other undertakings.”

The common factor between these definitions is that trademarks are meant to distinguish one’s goods from another’s goods. This appears to be a universally accepted purpose of trademarks that initiates little, if any, argument. However with the globalization of travel, a new purpose presents itself: distinguishing one’s goods from one’s goods. This is an argumentative and new approach to the idea of trademark regulation. Before exploring this new goal, a closer look at the idea and regulation of distinguishing one’s goods from another’s is warranted.

II. DISTINGUISHING ONE’S GOODS FROM ANOTHER’S GOODS

A. PHARMACEUTICAL TRADEMARKS: WHEN LIKELIHOOD OF CONFUSION BECOMES DEADLY

Tim’s bags are packed, and he is ready to go. This summer he will be emerging himself in new cultures, experimenting with local cuisine, and sleeping in hostels along the way as he backpacks through Europe. In preparation for the trip, he booked plane tickets months in advance, made sure all of his immunizations were current, and purchased traveler’s cheques, which are now inconspicuously stowed in multiple pockets of his rucksack. Like millions of global travelers this year, Tim is leaving the familiarity of home and venturing across the seas.

Although Tim will be experiencing new languages, street signs, and local customs, he will seek comfort in the familiarity of trademarked brands. With the globalization of commerce, whether Tim is in London or Rome, he will always be within a Tube or Metro ride of a brand he recognizes, like McDonald’s. But if Tim becomes ill during his trip, or needs to refill preventative medication, culture shock may quickly become anaphylactic shock.

Although manufacturers market and distribute pharmaceutical medicines globally, such marketing and distribution is still regulated locally. Thus, to market a product in any particular region,

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11 McDonald’s has restaurants in over one hundred countries. McDonald’s Corp., Annual Report (Form 10-K), at 3 (Feb. 26, 2010).
pharmaceutical manufacturers must seek local trademark registration, and if required by local law, apply for regional marketing authorization. Due to the lack of a uniform, global registration and authorization process, pharmaceutical medicines with very different active ingredients are currently marketed in different regions of the world under identical trade names, also called invented names.\textsuperscript{12}

An American traveling in Serbia refilled his prescription for Dilacor XR, which is an invented name for diltiazem extended release, a high blood pressure medication marketed by U.S. company Watson Labs.\textsuperscript{13} The Serbian pharmacist filled the prescription with digoxin 0.25 mg because Dilacor is an invented name for digoxin, marketed by a Serbian company.\textsuperscript{14} Digoxin treats heart failure and abnormal heart rhythms, and patients who take digoxin require blood testing to monitor drug levels to “avoid serious adverse events.”\textsuperscript{15} The patient unwittingly ingested digoxin, believing it was diltiazem, and upon returning to the U.S. had to be hospitalized with life-threatening drug toxicity.\textsuperscript{16}

In January 2006, the U.S. Food and Drug Administration (FDA) issued a public health advisory cautioning American travelers who fill prescriptions abroad that the drug they receive may have the same brand name as their prescription, but contain different active ingredients.\textsuperscript{17} As of the advisory, the FDA found 18 foreign pharmaceutical products with identical names as U.S. products, and over 100 foreign pharmaceutical products with names that were confusingly similar to U.S. products.\textsuperscript{18}

In the U.S. and Europe, several substances marketed by different companies share identical invented names.\textsuperscript{19} These substances can contain different active ingredients, and are used to treat varying maladies.\textsuperscript{20} In addition to Dilacor, discussed above, the

\textsuperscript{12}MEDICATION ERRORS 103-04 (MICHAEL R. COHEN ed., 2d ed. 2007).
\textsuperscript{14} See id.
\textsuperscript{15} Id.
\textsuperscript{16} Id.
\textsuperscript{17} Id.
\textsuperscript{18} Id. (noting that the list is non-exhaustive and subject to change).
\textsuperscript{19} MEDICATION ERRORS, supra note 12, at 104.
\textsuperscript{20} Id.
four other examples are Flomax, Norpramin, Trexan, and Vivelle. See the table below for details:

<table>
<thead>
<tr>
<th>Invented Name</th>
<th>Active ingredient; intended use &amp; manufacturer (U.S.)</th>
<th>Active ingredient; intended use &amp; manufacturer (Europe)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flomax</td>
<td>Tamsulosen; enlarged prostate; Boehringer Ingelheim</td>
<td>Morniflumate; fever/pain reliever; Chiesi (Italy)</td>
</tr>
<tr>
<td>Norpramin</td>
<td>Desipramine; depression, Aventis</td>
<td>Omeprazole; peptic ulcer/heart burn; CEPA (Spain)</td>
</tr>
<tr>
<td>Trexan</td>
<td>Naltrexone; opioid dependence; DuPont</td>
<td>Methotrexate; Rheumatoid arthritis; Orion (Finland/Hungary)</td>
</tr>
<tr>
<td>Vivelle</td>
<td>Estradiol; estrogen deficiency/menopausal disorders/osteoporosis; Novartis</td>
<td>Ethinyl estradiol, norgestimate; acne/oral contraceptive; Janssen-Cilag (Austria)</td>
</tr>
</tbody>
</table>

Additionally, over 118 other brand names for varying active substances have been deemed confusingly similar by the U.S. Food and Drug Administration. For example, Amyben is an amiodarone (irregular heartbeat medication) marketed in the U.K. It “is for use only in life-threatening situations” and “has the potential to cause side effects that could be fatal.” Ambien is a U.S. sleep-aid that contains the active ingredient zolpidem, a sedative. The names sound very

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21 Id.
22 See id. (showing more exhaustive table of pharmaceutical products marketed in the U.S. and Europe with identical names).
23 See FDA Public Health Advisory, supra note 13.
24 Id.
26 LACY ET AL., supra note 25, at 1591.
similar, especially when spoken with an accent, but taking Amyben instead of Ambien can lead to "disastrous results." 27

Unknowingly ingesting a different active ingredient marketed under a familiar brand name can lead to severe discomfort, adverse consequences and possibly even death. Thus, a uniform, global pharmaceutical marketing authorization process with integrated globally-recognized trademark registration is necessary to protect global travelers and prevent the prevalence of pharmaceutical products with confusingly similar or identical invented names.

B. THE CURRENT STATE OF PHARMACEUTICAL TRADEMARK REGISTRATION AND MARKETING AUTHORIZATION IN EUROPE AND NORTH AMERICA

The World Health Organization (WHO) has a constitutional mandate “to develop, establish and promote international standards with respect to food, biological, pharmaceutical and similar products.” 28 In furtherance of this goal, the WHO provides a single nomenclature of worldwide acceptability for each active substance marketed as a pharmaceutical; these are called International Nonproprietary Names (“INNs”). 29

INNs are derived from common stems, and selected when an INN request form for a new active substance is submitted to a committee of WHO experts. 30 After the experts agree on a name for the new substance, the proposed name is published in WHO Drug Information. 31 Following publication, the proposed name faces a four-month objection period; if no successful objections are made during that period, then the name becomes a recommended INN, meaning it can be used world-wide on packaging and labeling of the substance. 32 The WHO advises that INNs should not be registered as trademarks because such registration would prevent other parties from using them. 33 Additionally, the WHO contends deriving invented names

27 MEDICATION ERRORS, supra note 9, at 105.
30 Id. at 3, 6.
31 Id. at 3.
32 Id.
33 Id.
from INNs, and particularly INN common stems, should be avoided because it can lead to confusion.\textsuperscript{34} As discussed below, not all local trademark laws adhere to this recommendation.

Pharmacological trademarks registered in European Union member states must meet not only EU directives\textsuperscript{35} as interpreted by the European Court of Justice and the Court of First Instance, but also national regulations and the interpretation of EU directives as determined by national courts.\textsuperscript{36} National interpretation of EU directives varies by region and tends to be more restrictive than the intended meaning of original directive.\textsuperscript{37}

Before a pharmaceutical product can be marketed in any EU member states, an additional and separate analysis is undertaken by the European Medicines Agency ("EMEA").\textsuperscript{38} This lengthy and difficult process determines whether the requested mark is clear and valid in every EU member state.\textsuperscript{39} As part of the authorization process, the EMEA’s (Invented) Name Review Group ("NRG") evaluates whether the invented name given to a product “could create a public-health concern or potential safety risk.”\textsuperscript{40} According to the NRG, an invented name “should not be liable to cause confusion in print, handwriting or speech with the invented name of an existing medicinal product.”\textsuperscript{41} The NRG rejects over 50% of the trademarks applied for in the context of pharmaceutical marketing authorization.\textsuperscript{42}

The Intellectual Property Code, which governs trademark law in Italy, distinguishes between “strong” trademarks, which are similar to arbitrary and fanciful marks in the U.S., and “weak” trademarks,
which are similar to suggestive and descriptive marks in the U.S.\footnote{See Daniele Caneva, Italy, in World Trademark Review, Pharmaceutical Trademarks 2009 – A Global Guide, 43, 43 (2009), available at http://www.worldtrademarkreview.com/issues/Article.ashx?g=8ea6d7b6-94ec-4d8b-afcd-d92b84567d20.} When evaluating “weak” pharmaceutical trademarks, Italian courts allow drug companies to trademark names that are similar to the generic name of a drug; these marks are considered “expressive” and do not need to acquire secondary meaning to be registered.\footnote{Id. at 43-44.} When evaluating “strong” pharmaceutical trademarks, Italian courts depart from other EU member states by measuring likelihood of confusion from the perspective of physicians.\footnote{See id.} Thus, competing drug companies can register fanciful trademarks with similar invented names in Italy so long as the court determines that qualified professionals would not be confused as to the source of each drug.\footnote{See id. at 44.}

The French Code of Public Health provides that pharmaceutical trade names, which are typically registered as trademarks, must not be confusingly similar to INNs.\footnote{See Marie, supra note 39, at 20.} Similarly, the French Trademark Office will reject applications for trademarks that are confusingly similar to INNs.\footnote{See id.} The French Trademark Office evaluates the risk of confusion from the viewpoint of an average consumer, not a specialist.\footnote{See id.}

To distribute pharmaceuticals in the UK, drug companies must acquire marketing authorization from the Medicines and Healthcare Products Regulatory Agency (“MHRA”).\footnote{Arty Rajendra & Ewen Mitchell, United Kingdom, in World Trademark Review, Pharmaceutical Trademarks 2009 – A Global Guide, 71, 72 (2009), available at http://www.worldtrademarkreview.com/issues/Article.ashx?g=26e48584-7381-4517-afa4-c347677cf21b.} The MHRA will not allow a pharmaceutical product to be marketed under a trade name consisting of the product’s INN and the name of the manufacturer;\footnote{Id. at 72.} however, the inclusion of an INN or its stem in an invented name will not preclude authorization.\footnote{Id.}

To receive trade mark protection in the UK, which is separate from marketing authorization, the manufacturer must apply to the Intellectual Property Office (“IPO”).\footnote{See id. at 71.} The IPO puts the onus on trade
mark owners to object where confusion is likely.\textsuperscript{54} In evaluating an opposition to a trademark application, the IPO judges the likelihood of confusion to both healthcare professionals and end consumers.\textsuperscript{55} In doing so, the IPO assumes consumers have a higher level of attentiveness when purchasing pharmaceutical products than when purchasing other goods.\textsuperscript{56} Once a trademark application has been approved, its registration may be revoked \{if\} . . . in consequence of the use made of it by the proprietor or with his consent in relation to the goods or services for which it is registered, it is liable to mislead the public, particularly as to the nature, quality or geographical origin of [the] goods or services.\textsuperscript{57}

Before a drug can be marketed for human use in Ireland, its invented name must be reviewed by the Irish Medicines Board to determine whether it is likely to confuse or mislead the public.\textsuperscript{58} Evaluation criteria include compliance with EU Directive 2001/83/EC, and the WHO’s advisory to avoid using INNs or INN stems in inventive names.\textsuperscript{59} Successful registration of a trademark with the Irish Patents Office is not sufficient grounds for approval of an invented name.\textsuperscript{60} Rejected applications can be defended by a proposal justifying approval of the name, which can then be appealed to the board’s Management Committee.\textsuperscript{61}

In the United States, the United States Trademark and Patent Office also recognizes that INNs must be kept generic and will not register a trademark for a pharmaceutical product that contains the stem of an INN.\textsuperscript{62} Additionally, the FDA Division of Medication Errors and Technical Support conducts a premarketing review of all

\textsuperscript{54} Id.
\textsuperscript{55} Id.
\textsuperscript{56} See id.
\textsuperscript{57} Trade Marks Act 1994, 1994, ch. 28, § 46(1)(d) (Eng.).
\textsuperscript{59} Id. at 35-36.
\textsuperscript{60} Id. at 36.
\textsuperscript{61} Id.
proposed trademarks for pharmaceutical products. In conducting the review, the FDA recognizes that drug labeling may be misleading if the drug or ingredient is designated “by a proprietary name that, because of similarity in spelling or pronunciation, may be confused with the proprietary name or the established name of a different drug or ingredient.”

In nations where marketing authorization is required, the agency with the authority to evaluate applications conducts a likelihood of confusion analysis in determining whether to authorize the marketing of invented names, which may or may not be registered trademarks. In Mexico, invented names can be rejected by the Federal Commission for the Protection Against Sanitary Risks if it is confusingly similar to a previously authorized drug name. Mexican Health Law Regulations define confusing similarity as “when at least three consecutive letters in the proposed name and the prior drug name are identical.”

National likelihood of confusion analysis ranges from broad acceptance, as in the UK where an invented name can be disqualified if consumers would be misled based on the spoken name of the drug being confusingly similar to the spoken name of another drug, to limited acceptance, as in Italy where an invented name is acceptable if a professional with specialized knowledge can distinguish between the two drugs with similar names. Thus, travelers are exposed to varying levels of risk with respect to likelihood of confusion when refilling prescriptions in different countries.

C. DEVELOPING A GLOBAL FRAMEWORK FOR PHARMACEUTICAL TRADEMARK REGULATION

Due to the lack of a uniform, global pharmaceutical trademark regulatory system, drug manufacturers can market pharmaceutical products with different active substances under identical registered trademarks in different regions of the world. As global commerce and travel continue to grow, tourists and other international travelers face

63 See MEDICAL ERRORS, supra note 12, at 105.
64 21 C.F.R. § 201.10(c)(5) (2009).
66 Id. at 51. Furthermore, a proposed name can be rejected if it is identical to a prior name, even if the prior name’s application is pending or its marketing authorization has been cancelled. Id. at 52.
67 See RAJENDRA & MITCHELL, supra note 50, at 71; CANEVA, supra note 43, at 34.
increasing risks when filling prescriptions abroad. Nations must work together to create global solutions while the number of identical and confusingly similar branded prescriptions is still manageable.

The ideal solution is a global, uniform marketing authorization process similar to the EMEA’s marketing authorization process in the European Union. The WHO should use its constitutional authority to develop a committee of experts who will evaluate proposed invented names, similar to the current committee that evaluates proposed INNs. The committee should review proposed submissions based on guidelines derived from trademark principles, particularly likelihood of confusion. After a public objection period, the committee should have the authority to approve proposed invented names. Unlike approval from current marketing authorization agencies, international approval should become a prerequisite for locally registering any trademark that is an invented name for a pharmaceutical product. Local agencies should retain trademark registration authority for all products and the right to reject a proposed pharmaceutical trademark for any reason regardless of its international marketing authorization status.

When evaluating applications, the WHO should consider whether proposed trade names are likely to “create a public-health concern or potential safety risk,” particularly for international travelers. Thus, regional restrictions commonly placed upon trademark owners for other types of products and services will no longer apply to pharmaceutical trademark owners. Approval to market and distribute a pharmaceutical product in even just one country will preclude anyone else from marketing and distributing a competing pharmaceutical product anywhere in the world with the same invented name. Coupled with the fact that no one will be permitted to register pharmaceutical trademarks without marketing authorization, these changes effectively create a uniform, global trademark system for pharmaceutical products.

Given that pharmaceutical manufacturers will receive unprecedented broad, world-wide trademark protection, marketing authorization should require minimum drug development standards and good faith intent to enter the stream of commerce within 5 years of the date of authorization. Thus, a company currently searching for a cure for cancer may not receive authorization now to use an invented name for a product it will develop some time in the future. Instead, the committee must develop guidelines for showing that use of the name in commerce is relatively imminent. For example, a nationally

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68 CHMP Overview, supra note 38.
approved patent application may be considered sufficient for the application to move forward.

Since trademark law and health law are primarily intended to protect consumers and the public at large, likelihood of confusion should be analyzed from the standpoint of a consumer at the point of sale, not a physician or pharmacist with specialized training. The committee should only hold consumers of pharmaceutical products to a heightened level of attentiveness if the INN is required to appear anywhere the trade name is displayed. In that case consumers have the option of comparing the INN of their original prescription with the INN found on the prescription they receive while visiting another country. Similarly, the WHO will follow its own guidelines of rejecting proposed invented names that are too similar, or likely to be confused with INNS.

If the INN is not required to appear anywhere the trade name is displayed, the committee should evaluate the attentiveness of consumers of pharmaceutical products the same as they would evaluate the attentiveness of consumers of other goods. Although many drug companies would like consumers to associate trademarked names with their companies and become loyal to their brands and some nations currently charge consumers of pharmaceutical products with a higher level of attentiveness than consumers of commodities, many consumers do not understand the differences between brand name and competing generic pharmaceutical products. 

Unlike many consumer goods where trademarks serve as the source identifier and relate tangible information about quality to consumers, pharmaceutical products can be indistinguishable because are typically chosen by the prescribing doctor and contain the same active ingredients that produce the intended effects. Many pharmacies in the U.S. sell generic products at a fraction of the price of brand name products and will fill a brand name prescription with a generic product if the less-expensive substitute is available. This means, U.S. consumers are accustomed to taking a prescription to the

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69 See RAJENDRA & MITCHELL, supra note 50, at 71.
pharmacy that has the name of one pharmaceutical product on it, and receiving a less-expensive substitute product with a different name. In most instances, consumers ingest the product and it works as intended. The only distinguishing factor at the point of sale is the impact on the consumer’s wallet.

While traveling in a foreign country, average consumers of pharmaceutical products could reasonably believe that the name of the drugs used to fill their prescriptions are just the foreign nation’s versions of their usual prescription medications. Even skeptical consumers who inquire about dissimilar names could face language barriers, or be incorrectly informed that they have received the correct products. The risk for confusion is significantly increased when pharmaceutical products with very different active ingredients that are used to treat very different conditions have identical trademarked names. Preventing invented names from being identical or confusingly similar will give consumers the chance to realize if the pharmacist has made a mistake when refilling the prescription and allow pharmacists to more easily recognize their mistakes.

When evaluating likelihood of confusion, the committee should not separate permissible names into categories based on chemical compounds intended medical uses, or design of the pill. Although some countries, such as the United Kingdom, allow pill design to serve as a trademark, other nations, including Germany, reject such applications. Unlike the intended use of most consumer products, like vacuum cleaners, televisions, and refrigerators, the intended use of medications, which typically come in pills of various shapes and sizes, is not facially distinguishable. As a trip to the local drug store will prove, even medications that are all intended to relieve headaches come in various forms, sizes and colors. While many consumers can distinguish an Advil from a Tylenol (typically the drug name is printed on the pill), Tylenol itself comes in many different colors, shapes and sizes. The appearance of a pill containing varying active substances is extremely easy to manipulate; a little blue pill may contain the same ingredients as a large white capsule. Sight alone does not sufficiently notify consumers of the pill’s chemical compound. Therefore, likelihood of confusion analysis should apply equally to all pharmaceutical medicines, regardless of form.

Finally, likelihood of confusion should apply to both the written and spoken name. Language barriers and thick accents increase the likelihood that consumers will receive the incorrect products at foreign pharmacies.

73 See, e.g. RAJENDRA & MITCHELL, supra note 50, at 71.
74 See, e.g. BEST & PFLEGHAR, supra note 36, at 24.
1. Encouraging Corporate Social Responsibility

Historically, company A could market its product to consumers in region X and company B could market its product to consumers in region Y, and both companies could use the same trade name without infringing so long as neither company marketed its product in the competing company’s region. Today consumers, not companies, are creating the mobile force that causes brand confusion. Responsible companies can remedy the problem without agency interference.

Until global solutions become reality, pharmaceutical manufacturers that own names that are identical or confusingly similar to the names of pharmaceutical products marketed in different regions should be encouraged to meet or work things out through mediation. If the parties reach impasse or simply avail themselves to the jurisdiction of the court, a good default rule is for the court to award the right to market the product to the company with the most widespread commercial use, thus minimizing the total number of consumers impacted by the change. Additionally, the company that gets to retain use of the invented name should be required to compensate the other company for costs associated with losing the rights to use the product’s name in local markets, like repackaging and educating consumers about the change. Since geographical separation prevents the parties from actually infringing on each other’s rights, neither party is more at fault than the other. Thus, both manufacturers, acting in the best interests of consumers, should share the costs and responsibilities of implementing a safer system.

2. Responding to Criticism

Critics may argue that such a wide-range overhaul of pharmaceutical trademark regulation and delegation to international authorities is unnecessary for a problem that has impacted very few people to date. However, where the impact of a trademarked name means a deadly risk, even one affected consumer is one too many. Also, as the number of global travelers continues to increase and more pharmaceutical companies enter the market and develop new products, the likelihood that invented names will be identical to similar to

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existing names or INNs increases, and the risk becomes greater. Proactive action can prevent “disastrous results.”\textsuperscript{76}

Additionally, critics may argue that consumers should be responsible for protecting themselves by bringing medications along or consulting with their physicians before refilling prescriptions abroad. Websites even encourage travelers to refill prescriptions before travel to avoid running out of medication.\textsuperscript{77} However, there are always unforeseeable events, like lost luggage, theft, or an emergency situation that can expose even the most precautious travelers to risk.

Other critics may argue that an international database is unnecessary because information about drug content and specifically information regarding brand name drugs and their possible active ingredients in different countries is prevalent. However, this is often unreliable and subject to change making it insufficient to protect traveling consumers of pharmaceutical products.\textsuperscript{78} A non-profit website designed by the WHO solely for the purpose of provided current and reliable information, and made readily available through emerging technologies, like smart phones, is a much better source of information and protection.

Finally, critics may argue that travelers should have heightened awareness when purchasing medications abroad. However as discussed above, consumers have less information readily available to them when traveling and are more likely to mistake substitute nomenclature for their prescription medications as just another of the many cultural differences they are experiencing between their home countries and foreign nations.

3. Implementation

In current international law, the manufacturers, who gain pecuniary benefits from being able to trademark invented names for their unique combination of active and inactive ingredients, may be immune from liability even though the mix-up would likely not have

\textsuperscript{76} See Medication Errors, supra note 12, at 105 (enumerating precautions which can reduce the risk of receiving the wrong drug when traveling abroad).


\textsuperscript{78} See, e.g., Drugs.com, Dilacor Information, http://www.drugs.com/international/dilacor.html (last visited Mar. 27, 2010) (asserting that Dilacor is not known to be marketed in the United States and failing to warn consumers that Dilacor XR is marketed in the United States); Lacy, supra note 25, at 452 (noting that Dilacor XR is a brand name in the United States for diltiazem).
occurred if the products had distinguishable names. Even if such remedies existed, they would take years to come to fruition in international courts.

As illustrated above, concerted action among nations is difficult to obtain because most international agreements are voluntary in nature, and sometimes subject to interpretation by national courts. While striving for the ideal solution, intermediary practical solutions should be implemented. Some of the steps taken toward global resolve can be utilized for intermediate relief.

For example, the benefits of an international marketing authorization process include a global database of all registered, proposed and rejected pharmaceutical trade names. This database would at first be difficult to compile, but once created would facilitate an efficient authorization process where pharmaceutical companies and authorities alike could conduct quick searches of trade names to track both their international marketing authorization status and status of all trademark registration applications.

The database would be similar to the online U.S. PTO database\(^79\) with a few modifications. First, the database would consist exclusively of pharmaceutical trade names. Second, a designated agent of each participating nation would have internal access to update its nation’s information, along with the duty to keep the data current. Third, the information would be publicly available through a link of the WHO’s website, although tiered access levels may be developed for consumers, pharmaceutical companies and regulatory agencies. And finally, users would have the option of conducting broad searches using the entire database, searching based on criteria (such as all names registered by a particular manufacturer, all products containing an active ingredient, or all products designed to cure a certain ailment), or conducting a reverse search where users input the proposed name and the database generates a list of all possible conflicting or confusingly similar names and, upon request, uses an algorithm to suggest non-conflicting names.

Even before all nations support the international marketing authorization initiative, having all of this information organized, updated and centrally located would assist consumers in source identification. A consumer-friendly, interactive website, kiosks located at pharmacies, and even an application designed for smartphones would assist consumers in determining whether the products pharmacies distribute match the medicine their doctors prescribed, thus reducing the likelihood of confusion at the point of sale.

Regardless of the solutions implemented, pharmaceutical companies and regulatory agencies need to educate consumers, like our hypothetical traveler Tim, about the risks of filling prescriptions abroad and the tools available to make filling prescriptions abroad risk- and hassle-free.

III. DISTINGUISHING ONE’S GOODS FROM ONE’S OWN GOODS

A. A NEW PURPOSE FOR TRADEMARKS: PROTECTING THE CONSUMER

The subject of pharmaceuticals shows the need for expanding the existing global trademark regulation to help truly distinguish one’s goods from another’s. However, a new issue presents with the increasing ease of global travel and with the global marketing of products: distinguishing one’s goods from one’s own.

It is undisputed that a universal purpose of trademarks is to identify one’s goods from those made or sold by others. However, to address the issue of distinguishing one’s goods from one’s own, the universal purpose of trademarks must be expanded. The goal of trademark law should be not only to distinguish one’s goods from those made or sold by others but also to protect the consuming public from confusion (by distinguishing one’s goods from one’s own).

Imagine the hypothetical traveler Tim from above. He is excited to go abroad and discover new cultures and customs. However, at some point in his travels Tim will be faced with the dilemma of purchasing some sort of necessity, whether it is food, household goods, personal hygiene or so on. Tim may be persuaded to buy an item that he recognizes from home, expecting the same quality he has become accustomed to, but instead he buys a product that is different. Protecting Tim and travelers like him from confusion in purchasing products and goods is the new goal trademark law should address.

But is the idea of consumer protection really new? In Roman times, it was left to the defrauded purchaser to bring an action against a trademark infringer. This preferential treatment for the consumer over the owner of a trademark shows the historical presence of the consumer protection concept.

80 See supra page 217.
81 See supra Part I.
Furthermore, the generally accepted purpose of trademarks, distinguishing one’s goods from another’s, is enforced so as to prevent unfair competition. International businesses are using the familiarity of their mark with foreign travelers, like traveler Tim, but they are not offering the same product. This is a form of unfair competition over non-international, or local, companies who cannot use brand-name recognition to gain business from a foreigner.

Unfair competition exists when a product contains “indications…the use of which in the course of trade is liable to mislead the public as to the…manufacturing process [and] the characteristics…of the goods.” This definition, as recognized by the 173 contracting countries of the Convention for the Protection of Industrial Property (“Paris Convention”), prohibits indicators that would mislead the public. Therefore, as one of the first global treaties on trademark regulation, the Paris Convention recognized the need to protect the consuming public from confusion.

While perhaps the purpose of consumer protection has been overshadowed in the very recent by the purpose of protecting the trademark owner, the idea that consumers should be sheltered from confusion is not new. It is evident in the concept of unfair competition and has roots in the common law system of trademarks. To extend trademark regulation to better include the idea of consumer protection, a system must be developed that helps distinguish one’s goods from one’s own.

**B. TWO POSSIBLE AREAS OF CONCERN: SERVICE MARKS AND TRADEMARKS**

When implementing a system that incorporates a concern for consumer protection, two areas of concern are presented: service marks and trademarks. Each can be further broken down into subcategories of industries. Trademarks are used mainly for goods, such as food, drink, soap, toiletries, etc. Service marks are used chiefly by businesses in retail and restaurants. To develop a system

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83 Id. § 9 cmt. c (1995).
86 See 15 U.S.C. § 1052 (2006) (“No trademark by which the goods of the applicant may be distinguished from the goods of others . . .”).
87 See id. § 1053 (2006) (“[S]ervice marks shall be registrable.”).
that effectively addresses consumer protection, each area, service marks and trademarks, must be considered individually.

Beginning with service marks, and the industries of retail and restaurant, it is difficult to find international businesses that offer a same-named product globally that differ depending on the region where it is sold. For retail, most services and products sold do not tend to change in terms of quality, but rather the products available for sale will vary depending on where the store is located. This allows for local taste and preference to dictate what is sold, but still the quality of the products appears to be universal. For example, Adidas apparel and shoes can be found both in the United States and in England. A consumer may find a pair of Adidas shoes in England which are not available in America even in the same week or month. Either the shoes were never available in one country, or more than likely the shoe have already been available or will be in the future. While the selection of shoes may be different globally, the quality of the materials used to structure the products remains consistent.

Restaurants, like retail businesses, tend to cater to local trends and cultural specifications of a given territory. Restaurants may lower the amount of sugar in their food or may offer meat-alternative dishes in order to appease the local consumer. Although an international restaurant chain may not offer the exact same products, the quality of the food offered appears to remain as consistent as possible when dealing with such a variance of taste preferences. For example, McDonald’s has chains all over the globe. In the United States a popular sandwich is the Big Mac, which consists of beef patties. However in India, due to local customs and beliefs, McDonald’s serves the Maharajah Mac, which consists of chicken patties.

Because the success of retail businesses and restaurants depends so much on catering products to local preference, it is unrealistic to ask these industries to offer the exact same products globally, without alterations, so as not to confuse consumers. One possible solution to alleviate consumer confusion would be for the companies to only use the same name for a product when it is exactly the same world-wide. However, as evidenced by the above Big Mac example, most businesses already do that. Pizza Hut offers a Masala

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88 For example, in March of 2010, Adidas offered six different styles of “outdoor” shoes on its online British store but only six different styles of “outdoor” shoes on its online American store, two of which are different color combinations of the same style. Compare Adidas Official Online Store, http://www.shopadidas.com (last visited Apr. 6, 2010), with Adidas Online Store, http://shop.adidas.co.uk (last visited Apr. 6, 2010).

Pizza, a spiced-up version of what is offered in the West, but the different name serves as a warning to consumers that the product is not the same. Since most service marks already address the issue of consumer confusion by creating different names for their altered products, the potential for consumer confusion is extremely low and a new, global system is not warranted.

The use of trademarks, however, is not as independently regulated and as such is not as easily remedied. An example of the problem with global trademarks is evident when one examines the product of Coca Cola. The soft drink is sold worldwide, adorned with the same famous script trademark, yet the drink does not taste the same. More specifically, Coke made for sale in Mexico uses cane sugar while the same Coke, made for sale in the United States, uses high-fructose corn syrup. Consumers say that there is a sweeter, cleaner flavor with the Mexican version. It is this type of variance that confuses a consumer when one buys a Coke with the expectation that it will taste exactly the same as the identical-looking Coke enjoyed in another part of the world.

To address this problem of consumer confusion within the use of global trademarks, a system that clearly identifies the targeted region for sale and that adequately warns the consumer of product differences is proposed. Instead of developing a new system without any established foundation, a proposal is formed within the confines of the current global trademark regulation scheme, TRIPS.

Article 22 of TRIPS involves the use of geographical indications. The article is meant to address the permissible use of geographical indicators, stating that “geographical indications are…indications which identify a good as originating in [a] territory…where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.” With this definition, not only must the goods originate in a particular place, but the goods must be (or perceived to be) qualitatively different if they came from some other place. While this article was created so as to restrict the use of geographical indicators (or the misleading use of

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92 Id.
93 Id.
94 TRIPS, supra note 10, art. 22.
95 Id.
such indicators), it can be expanded to contend with the issue of consumer confusion and global trademarks.

Article 22 of TRIPS should be modified to require that all global trademarks use geographical indicators when the product is altered for sale in different parts of the world. The definition of such an indicator would remain relatively the same, reading “geographical indications are…indications which identify a good as *marketed and manufactured for* a territory…where a given quality, reputation or other characteristic of the good is essentially attributable to the *territorial preference*.” With this tweaked definition, a geographical indicator would serve as a warning to a potential consumer that, if the indicator is different than the consumer’s usual place of consumption, the product will be different based upon territorial preferences.

Practically, a universal indicator is needed so that consumers of any origin, language, and education may understand it. There is room for leeway here in developing a system, with the only requirement that the system be consistent. One possible system would involve the use of pictures. A manufacturer would place on its product a small, representative picture of the geographical region where the product was meant to be sold. For instance, the Mexican Coca Cola would have a picture of the outline of the country of Mexico or a picture of the Mexican flag.

While the picture of a country’s flag might be more readily identifiable, it does not allow for the idea that a product can be targeted for a multitude of countries (and that a product is not altered for each and every individual country). The map outline of a geographical region is perhaps the most feasible idea. However, this would require basic geographical knowledge of a territory so as to effectively warn the consumer. One would hope that, at the very least, a consumer will be able to identify that his or her country is *not* a part of the picture, and that knowledge will serve as a warning that the product will be different. The picture need only be big enough for the consumer to find it on the product, so the cost of placing the symbol on an item is not overbearing.

Another possible system would involve the use of colors, which are easily understandable despite language barriers. A manufacturer would put a small representative color on its product to signify an alteration. Each color could represent a desired trait, yet the spectrum of goods and desired traits is so numerous that it seems impractical to assign a color for each. Also, not only would meaning need to be attached to each color, but the global consuming public would have to be educated about the meaning attached to each color. This system appears to require more time and resources than a simple picture representation.
No matter what system is eventually adopted, a global requirement that companies use a universal representative system to identify altered products under the same trademark would alleviate the concern for consumer confusion. Thus consumers would be able to distinguish a manufacturer’s goods from its own goods.

C. REMAINING QUESTIONS: ADDRESSING THE CRITICISMS

As with any new proposal, there are criticisms and questions about implementing a global system that distinguishes one’s goods from one’s own goods. Some possible concerns are that such a system is not needed because the number of international travelers is trivial, because consumers should naturally expect something different in a foreign country, and because the harm is quite minimal.

Beginning with the concern that international travelers are few, the data and statistics show the exact opposite. In 2008, international tourism grew by 2% (or by 18 million) to reach 922 million travelers. These tourists generated 944 billion in U.S. dollars, which comprises 30% of the world’s exports of services. And there is no indication of any slowing down for the tourism industry. The forecast for 2020 is that there will be 1.6 billion international tourists. With such an enormous number of international explorers, it seems reasonable that there should be a system in place that protects the consuming traveler from confusion when traveling abroad.

The argument that a consumer should expect something different in a foreign country also falls apart when it is analyzed in terms of global trademark use. Companies use international marketing and global trademarks so as to attract a consumer, no matter where that consumer is located. These companies prey on the traveling consumer’s familiarity with the mark to gain a competitive edge over the local, unknown product. While it is accepted and encouraged that a company build goodwill to gain a consumer’s loyalty, the users of global trademarks misappropriate their mark by not offering the exact same product the international traveler expects. A system that prevents this type of unfair competition by confusing the international consumer is not only warranted but desired.

Lastly, and perhaps the most compelling, is the argument that the harm presented is quite minimal and does not require a global overhaul of product dress (by requiring a geographical indicator on

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97 Id.
98 Id.
individual products). If a consumer buys a product and finds that it is
different than expected, the consumer knows not to buy the product
again or at least can expect the difference at the next point of purchase.
The harm, consumer confusion, is minimal and therefore does not
warrant global redress.

However, the notion of consumer confusion is exactly the type
of harm trademark regulation should protect.\textsuperscript{99} Indeed, the concept of
confusion is pivotal to the regulation of trademarks in the United
States, with most circuits and courts recognizing as their model the
\textit{Polaroid} factors for assessing likelihood of confusion.\textsuperscript{100} While the
eight factors outlined by \textit{Polaroid} are meant to test confusion between
two different parties’ marks,\textsuperscript{101} they can be used to show the need for
a global system to distinguish identical trademarks on qualitatively
different products.

When applying the \textit{Polaroid} factors to establish a likelihood of
confusion, we analyze the confusion, at the very latest, at the point of
sale (and arguably before the point of sale with the initial interest).\textsuperscript{102}
If the \textit{Polaroid} factors are considered from the view of the
international consumer, at the point of sale, a likelihood of confusion
appears certain and thus a system to remedy the confusion is
warranted.

For some of the factors, degree of similarity, proximity of
products, and likelihood of bridging the gap, the marks are identical
which leans towards a likelihood of confusion. The strength of the
mark is obviously strong, as it has attracted the loyalty of the
international consumer. As mentioned above, companies using the
identical trademark on different products have an unfair competitive
edge, which may resemble bad faith in adopting/using the mark.
There is evidence of actual confusion, as international consumers have
purchased products and received something they were neither
expecting nor wanting. The sophistication of the consumer is perhaps
the only factor that does not weigh heavily in favor of likelihood of
confusion in that international travelers might be savvy enough to
know that products might differ from country to country. However, it
is the last factor, the quality of the product, which pushes the scale

\textsuperscript{99} See discussion \textit{supra} Part III.A.
\textsuperscript{100} Sung Yang, \textit{Note, Staking a Claim in Cyberspace: An Overview of Domain Name
\textsuperscript{101} See \textit{Polaroid Corp. v. Polarad Elecs. Corp.}, 287 F.2d 492 (2d Cir. 1961)
(considering the likelihood of confusion between Polaroid’s POLAROID mark and
Polarad Electronics’ POLARAD ELECTRONICS mark).
\textsuperscript{102} The Second Circuit has recognized initial interest confusion as part of the
likelihood of confusion analysis. See \textit{Mobil Oil Corp. v. Pegasus Petroleum Corp.},
818 F.2d 254, 259 (2d Cir. 1987).
unquestionably to a likelihood of confusion. Consumers are expecting a product of a certain, desired quality when they purchase an international trademarked item, yet they receive something different.

By analyzing each of the Polaroid factors, it is evident that there is a likelihood confusion for international travelers when global trademarks are used on different products. A system that requires geographical indicators would put an end to this confusion, as consumers would be warned of the existence of dissimilarities and could make an informed decision to purchase. No matter the point at which the confusion is analyzed (at the point of sale or before), the harm of likelihood of confusion is present and should be addressed by a global, unified scheme.

Arguments may exist that contradict the need for expanding global trademark regulation to distinguish one’s goods from one’s own goods, but either the arguments crumple with logic or are dispelled with practical policy concerns. Trademark law is meant to protect not only the owner of the trademark from infringement but also the consumer from confusion. Regardless of the system implemented, global trademark regulation needs to recognize the harm of consumer confusion and remedy it by providing the consumer with the requisite knowledge for making an informed international purchase.

IV. CONCLUSION

In evaluating whether trademark regulation should be expanded at the global level, we explored three broad categories of trademarks: pharmaceutical trademarks, service marks, and traditional trademarks.

Pharmaceutical trademarks present the strongest argument for global expansion because confusion at the point of sale poses the most severe risks to misled consumers. To prevent disastrous results, manufacturers, nations, and regulatory agencies should lead the push toward a global marketing authorization framework that would serve as a prerequisite to trademark registration in all nations.

Service marks present the weakest argument because recognition of service marks is not closely tied to the point of sale. Retail and restaurant service marks may attract consumers to trademark owners’ establishments, but consumers still have the opportunity to inspect the goods, read the menu, or ask customer service personnel clarifying questions before making a purchase decision. Thus, international regulation of service marks is unnecessary.

Traditional trademarks present compelling arguments for global expansion of trademark regulation when the quality of the
product varies by geographic region. Trademark owners should not be able to benefit from consumers’ preconceived expectations of quality at the point of sale when the actual quality of the product is noticeably different from a product with the same brand name marketed in a different country. A plausible remedy to this problem is for member nations to ratify a modification to TRIPS requiring companies to place geographic indicators on products when quality varies by region. These indicators would identify every region where the trademarked product is identical to the product contained in the package, so traveling consumers will recognize before purchase whether the quality of the product is identical to or different from the quality of the product sold under the same trademarked name in their native regions.

As commerce and travel become increasingly global, so must the laws and policies that regulate these industries. Authorities must recognize that the scope of trademark law includes protecting traveling consumers. The European Union has paved the way to international consumer protection by expanding trademark policies to encompass an entire region. Now global authorities must continue this trend by designing laws that protect consumers who reside in all regions of the world and travel between them.