

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

)
Review of Nonpostal Services)
)

Docket No. MC2008-1

PUBLIC REPRESENTATIVE RESPONSE TO ORDER NO. 126:
SUPPLEMENTAL BRIEFING ON LICENSING AGREEMENTS

(November 24, 2008)

The Public Representative's initial and reply briefs discussed the statutory construction arguments against the Postal Service using its patents, copyrights, trademarks, and similar rights without Commission authorization pursuant to 39 U.S.C. § 404(e).¹ The briefs also discussed why such intangible rights should be treated differently than real and personal property rights. This supplemental brief responds to the Postal Service's November 17 filing and provides further information on licensing arrangements with respect to the Postal Service trademarks as requested by the Commission in Order No. 126. This brief further supports the Public Representative's argument that these types of agreements are within the scope of § 404(e).

¹ See Public Representative Brief at 16-17, 26. See *also* Public Representative Reply Brief at 9 & n.17.

A. The Purpose of Trademark Law Is to Protect Consumers from Confusion; Not to Create Property Rights

The Postal Service explained in its November 17 Response to Order No. 126 that it licenses its brand name and other trademarks for licensees' use.² At the outset, the Commission must bear note the main purpose of trademark law: to protect consumers. If a consumer wants to purchase a particular brand of a product, the consumer can see the trademark on the product and be assured that he is actually getting what he thinks he is buying. If a trademark owner could not protect his trademark (and others could begin using the mark without his permission), consumers would become a victim of the confusion that results. For example, a shoe manufacturer cannot put the Nike "swoosh" on its shoes since consumers and the general public may believe that those shoes were actually made by Nike.

In other words, the goal of trademark law is not to protect property rights, but rather to protect consumers from the confusion and deception that would result if the use of trademarks was unregulated. *Bonita Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989) (although unfair competition law may create "quasi-property rights," the focus is consumer protection not encouraging innovation by protecting producers); *accord Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 774 (1992).³ Thus, while the Postal Service obtains revenue from licensing trademarks to third parties for their use, trademark law exists to ensure that consumers do not falsely identify a product being offered by one company due to the use of a certain markings on that product. For example, Brinker International Payroll Company licenses its Romano's Macaroni Grill® trademark to General Mills, Inc. for use in connection with

² Response of the United States Postal Service to Order No. 126 Regarding Licensing Agreements and Notice of Filing of Sworn Statement, November 17, 2008 (Postal Service Response). See Attachment B for a Postal Service flyer on licensing and a list of Postal Service branded products offered by licensees. Attachment B. Such items include: pins, pens, clocks, socks, totes, coats, carriers for critters, and pet and people cookies. *Id.* The Postal Service notes: "The possibilities are endless!" *Id.*

³ See also S. Rep. No. 1333, 79th Cong., 2d Sess., 4 (1946) (By protecting trademarks, Congress hoped "to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not.").

some of its frozen pasta dishes in exchange for royalty payments.⁴ See Attachment A. Trademark law allows such arrangements so long as certain criteria are met.

However, if a trademark is used in ways that may cause it to cease being identified solely with the goods and services of the trademark owner, the protection may be lost. This is because the trademark is based upon identification of the mark with a particular brand and if the owner of the mark indirectly shows or indicates it is not concerned with protecting that source identification, the mark may lose its value to that owner. In such cases, courts may strip the owner of the protection the mark originally afforded. For example, if Ruth's Chris licensed its brand name for use in connection with low quality hotdogs, a court may decide that the Ruth's Chris trademark no longer deserves protection.

B. Trademark Law Requires the Postal Service to Exercise Control Over Licensees' Uses of its Trademarks

A trademark owner must exercise an appropriate degree of control over its licensees' use of its trademarks to ensure the quality of the product bearing its trademarks. In the Romano's Macaroni Grill® example, Brinker must ensure adequate quality control over the Romano's Macaroni Grill products sold by General Mills. If not, consumers would be deceived into believing that this particular General Mills pasta was actually manufactured or otherwise endorsed by Brinker as a associated with Romano's Macaroni Grill®. As one court explained:

If the licensor is not compelled to take some reasonable steps to prevent misuses of his trademark in the hands of others the public will be deprived of its most effective protection against misleading uses of a trademark. The public is hardly in a position to uncover deceptive uses of a trademark before they occur and will be at best slow to detect them after they happen. Thus, unless the licensor exercises supervision and control over the operations of its licensees the risk that the public will be unwittingly

⁴ It is difficult to understand the Postal Service's rationale for believing that the name of each licensee is "commercially sensitive." Postal Service Response at 2. General Mills lists the fact that it is a licensee of Brinker International Payroll Company on the bottom of its advertisement. See Attachment A. In addition, the Postal Service lists the names of licensees on the following publicly available webpage: <http://www.usps.com/licensing/>.

deceived will be increased and this is precisely what the Act is in part designed to prevent. ... Clearly the only effective way to protect the public where a trademark is used by licensees is to place on the licensor the affirmative duty of policing in a reasonable manner the activities of his licensees.

Dawn Donut Co. v. Hart Food Stores, Inc., 267 F.2d 358, 367 (2d Cir. 1959); accord *Barcamerica Int'l USA Trust v. Tyfield Imps, Inc.*, 289 F.3d 589 (9th Cir. 2002).

Accordingly, a licensor who adequately maintains control over a licensee's use of trademarks will have a valid trademark licensing program. If not, then the trademark owner risks abandonment of its trademark rights. At least one practitioner suggests the following forms of quality control: licensor supervision, inspections, product specifications, the review of early models and prototypes, and the review of design drawings.⁵

Trademark law ensures that the trademark owner has as much control as it desires over the licensee's use of those trademarks, although it must ensure, at a minimum, that the quality of products sold by the licensee are not so low as to harm the value of trademark itself. McDonalds, for example, retains significant control over its franchisees – going so far as to require franchisees to obtain food (such as the Big Mac®) and materials for use in their restaurants through third party logistics operators approved by McDonalds – in exchange for the use of its trademarks such as its golden arches.

Thus, the Postal Service cannot just enter into a trademark licensing agreement, sit back, and collect royalties.⁶ The quality control obligation discussed above mandates that the Postal Service remain significantly involved in the licensee's manufacturing of products that bear the Postal Service's trademarks.

⁵ Susan Proff, *Trademark Licensing*, Practising Law Institute: Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series, Oct.-Dec. 2007, at 109, 112.

⁶ The Postal Service's claim that the licensee is solely responsible for customer service regarding the product is not entirely accurate. Postal Service Response at 4. If the licensee is not providing adequate customer service, the Postal Service must either compel the licensee to provide appropriate levels of customer service or withdraw the license. Otherwise, the Postal Service's trademarks will lose their value.

C. The Public May Perceive a Licensee as the Postal Service Engaging in a Nonpostal Service

One of the main reasons that a licensee obtains a trademark license is to bring the goodwill and trust associated with the trademark (and trademark owner) to the product offered by the licensee. In exchange for this goodwill and trust, the licensee pays a fee. The licensee is attempting to purchase some of the goodwill and trust of the licensor.

With respect to products bearing Postal Service trademarks, the public perceives that either the Postal Service is directly involved in manufacturing that product or has meaningful involvement with that product's design and/or manufacture. From the point of view of the public, the difference is immaterial. A consumer sees the trademark and associates the product with the goodwill, trust, and quality of Postal Service. The consumer does not really care whether the product was made by a licensee or the Postal Service as long as the quality of the product is of the same caliber as the consumer associates with the Postal Service brand.

In essence, if a trademark license is properly executed, the public will not perceive a difference between items that are manufactured and sold by the Postal Service and those sold by licensees using the Postal Service's trademarks. Given this public perception, the Commission should not allow the Postal Service to avoid Commission oversight and accountability by allowing the Postal Service to enter into licensing agreements to engage in nonpostal activities that it would not be able to enter directly. Indeed, this is main reason that the Public Representative suggested that the Commission consider public perception in determining whether an activity should be considered a service under § 404(e).⁷

⁷ Public Representative Reply Brief at 9 & n.17 ("whether the public perceives that the activity is backed by the trust of the Postal Service").

D. The Postal Service May Be Held Liable for Harm Caused by a Licensee's Products Bearing the Postal Service's Trademarks

The Postal Service can be held liable for injury caused by defective products bearing the Postal Service's trademarks even though the product was manufactured by a licensee. Traditional theories of products liability have generally been applicable to manufacturers or sellers of the goods which caused the injury.⁸ However, public policy in favor of consumer protection has expanded, and various non-manufacturers have also been found subject to strict liability. This is due to the fact that a trademark owner's mark induces the consumer to buy the product, and is the one to whom the consumer ultimately looks for the assurance of quality.

A trademark licensor can be subject to products liability even where the licensor neither manufactured nor sold the product at issue. Several courts have held that a licensor can be held strictly liable for defects in a licensed product if the trademark was an integral part of the marketing enterprise or if the licensor exercised a certain degree of control over the product.⁹ Other courts have held a trademark licensor strictly liable for injuries caused by the licensed product since the licensor appears to be the actual manufacturer of the product.¹⁰ Courts have also held that a licensor can be subject to liability for breach of warranty claims where the trademark licensor had sufficient involvement with the product.¹¹ Accordingly, since the Postal Service can be held liable

⁸ Restatement (Third) of Torts: Products Liability § 1.

⁹ See e.g., *Connelly v. Uniroyal Inc.*, 389 N.E.2d 155 (Illinois 1979); *Torres v. Goodyear Tire & Rubber Co.*, 786 P.2d 939 (Ariz. 1990); *Torres v. Goodyear Tire & Rubber Co., Inc.*, 901 F.2d 750 (9th Cir. 1990); *Kasel v. Remington Arms Co.*, 24 Cal. App. 3d 711 (2d Dist. 1972); *Taylor v. General Motors, Inc.*, 537 F. Supp. 949 (E.D. Ky. 1982); *Carter v. Joseph Bancroft & Sons Co.*, 360 F. Supp. 1103 (E.D. Pa. 1973); *Rawlings v. D.M. Oliver Inc.*, 159 Cal. Rptr. 119 (Ct. App. 1979); *E.I. du Pont de Neumours & Co. v. McCain*, 414 F.2d 369, 371 (5th Cir. 1969).

¹⁰ Restatement (Third) of Torts: Products Liability § 14; see also e.g., *Hardford v. Associated Const. Co.*, 384 A.2d 390 (Conn. Super. Ct. 1978); *Brandimarti v. Caterpillar Tractor Co.*, 527 A.2d 134 (Pa. Super. 1987); *Nelson v. International Paint Co.*, 734 F.2d 1084 (5th Cir. 1984); *Dudley Sports Co. v. Schmitt*, 279 N.E. 2d 266, 272 (Ind. Ct. App. 1972).

¹¹ *Kosters v. Seven-Up Co.*, 595 F.2d 347 (6th Cir. 1973); *Harris v. Aluminum Co. of America*, 550 F. Supp. 1024 (W.D. Va. 1982).

for harms caused by its licensees, these license agreements of nonpostal services should be subject to 39 U.S.C. § 404(e).

E. Licensing of Postal Service Trademarks for Use in Nonpostal Services May Hinder Competition

If the Commission does not have jurisdiction under § 404(e) to oversee Postal Service licensing of its trademarks for use by third-parties engaging in nonpostal services, free market competition may suffer. One of the goals of § 404(e) is to ensure that the Postal Service does not engage in nonpostal activities where the private sector can adequately meet the public need.¹² This ensures that the Postal Service does not use its strong brand name to stifle competition in the nonpostal sectors of the free market. If the Commission interprets § 404(e) as not including Postal Service trademark licenses, then the Postal Service can effectively enter into new nonpostal markets through such licensing agreements. This may harm small and other business attempting to compete in such markets since a quasi-government agency is allowed to indirectly competing with them.

The sale of Postal Service branded postage meter ink cartridges highlights the Public Representative's concern with interpreting the term nonpostal services in such a manner. With respect to that particular licensing agreement, Pinpoint LLC manufactures meter ink cartridges and places the Postal Service brand name and other trademarks on the product and product packaging. While Pinpoint is technically the manufacturer and seller, Pinpoint is using the Postal Service's goodwill and trust in order to obtain a greater share of the market. While this action may be appropriate in certain circumstances,¹³ the Commission should not allow this type of activity to escape its § 404(e) oversight. Is the Postal Service going to license its brand name and

¹² See 39 U.S.C. § 404(e)(3)(B) (requiring the Commission to take into account "the ability of the private sector to meet the public need for the service" in determining whether a nonpostal service should be allowed to continue).

¹³ The Postal Service may continue such arrangements where the Commission has determined that the factors in § 404(e)(3) weigh in favor of continuing such nonpostal services.

trademarks to a small start-up printer manufacturer to help it compete with Hewlett Packard and Canon next?

Theoretically, if the Commission did not have jurisdiction under § 404(e) to regulate such actions, then the Postal Service could effectively circumvent the § 404(e) ban from engaging in new nonpostal services. It would simply enter into various trademark licensing agreements (and retain large amounts of control over the activities—like McDonalds does with respect to its franchisee arrangements) in order to avoid Commission oversight and accountability with respect to all nonpostal services.

F. The Licensing of Postal Service Trademarks is Starkly Different from Leasing Real Estate or Personal Property

The Postal Service erroneously argues that the licensing of its trademarks is analogous to the leasing of real estate or personal property. Postal Service Response at 6-7. As discussed above, in licensing trademarks, the licensee uses the goodwill and trust of the licensor for financial gain. The licensee, in effect, acts as though it is an agent of the licensor with respect to licensed activities. The consumer believes that the product bearing the trademark is either made by the licensor or the licensor has meaningful involvement in the process.

Leasing real estate, however, is vastly different from the point of view of the consumer. If McDonalds leased space on a highway billboard advertising a special at a specific location, the average consumer would realize that the billboard owner was not involved in the manufacturing of McDonalds' food or supplies and was not specifically endorsing that particular location's food. The same consumer reaction would apply to the leasing of real estate space in Postal Service buildings to a Starbucks Coffee.

G. Effective Commission Oversight of the Postal Service's Trademark Licensing Arrangements

The Postal Service questions the Commission's ability to effectively oversee the Postal Service's trademark licensing arrangements. Postal Service Response at 7. The Public Representative believes that the law provides the Commission with an

appropriate mechanism for dealing with such activities. As required by § 404(e)(2), the Commission must ensure that the Postal Service does not engage in any nonpostal services that are not grandfathered pursuant to § 404(e)(3). The Public Representative suggests that the Commission satisfy this requirement by including Mail Classification Schedule (MCS) language that limits Postal Service trademark and other intangible asset licensing programs to only those that are “in furtherance of its core business activities.” See Public Representative Brief at 26. Including this or similar language in the MCS will ensure that the Postal Service will not enter into any new trademark licensing arrangements that may harm competition in markets where private entities already meet the public need for those services.

Respectfully Submitted,

/s/ Robert Sidman

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Attachment A

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Attachment B

What's on your holiday shopping list this year?

Pins, pens, clocks, socks, totes, coats, diecast trucks and planes, ceramic mugs and picture frames, upscale clothing, teddy bears for holding, watches that glitter, carriers for critters, switcheroo shoes, and even pet and people cookies too!



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