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OUTSIDE COUNSEL

BY BARRY WERBIN

The Demise of Certification Mark Licensee Estoppel

The concept of “licensee estoppel” traditionally has been embodied in trademark license agreements to prevent a licensee from later challenging the validity or ownership of the licensed mark. This scenario typically arises when a licensee raises a challenge to a mark’s validity as a defense or counterclaim, either in response to an infringement action brought by the licensor following a breach of the license agreement, or where the licensee attempts to usurp the licensed mark for its own benefit.

Licensee estoppel clauses embodied in trademark license agreements preclude the licensee from ever challenging the validity of the licensed mark and the licensor’s valid ownership of the mark. Such clauses generally have been upheld by the courts as valid commercial contract provisions.¹

Until now, one issue that had not been decided by any federal circuit court, and by very few other courts or the Trademark Trial and Appeal Board (TTAB), has been whether estoppel clauses in certification mark licenses are enforceable to the same extent as such provisions in standard trademark licenses.²

While commercial trademarks and service marks are intended to promote and protect their underlying goodwill and prevent any likelihood of confusion

Barry Werbin is a partner at Herrick, Feinstein specializing in intellectual property, emerging technology and e-commerce issues.



in the market place, certification marks provide validation that the products or services to which they are affixed or used “have been examined, tested, inspected,

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or in some way checked by a person who is not their producer, by methods determined by the certifier/owner.”³

Certification marks include kosher food certifications, trade associations certifying that products emanate from a certain geographic area, and union labels certifying garments are made by union labor.

Certification marks are defined in the

Lanham Act as any mark used by someone other than the owner as to which “its owner has a bona fide intention to permit a person ... to use in commerce and files an application to register on the principal register established by this Act to certify regional or other origin, material, mode of manufacture, quality, accuracy, or other characteristics of such person’s goods or services or that the work or labor on the goods or services was performed by members of a union or other organization.”⁴

Examples would be Roquefort for cheese,⁵ Sunshine Tree for Florida citrus products,⁶ UL for electrical equipment safety standards⁷ and the (U) and (K) kosher food certifications.⁸

Certification mark registrations are subject to cancellation at any time on specific grounds set forth in the Lanham Act, including that the registrant “(A) does not control, or is not able legitimately to exercise control over, the use of such mark, or (B) engages in the production or marketing of any goods or services to which the certification mark is applied, or (C) permits the use of the certification mark for purposes other than to certify, or (D) discriminately refuses to certify or to continue to certify the goods or services of any person who maintains the standards or conditions which such mark certifies.”⁹

‘Idaho Potato Commission’

In a case of first impression in the federal circuit courts, the U.S. Court of

Appeals for the Second Circuit recently ruled in *Idaho Potato Commission v. M&M Produce Farm & Sales*¹⁰ that a licensee estoppel provision contained in a certification mark license is not valid as a matter of public policy because its enforcement would injure the public interest. In so holding, the court distinguished cases that have generally upheld licensee estoppel clauses in traditional trademark license contexts, and instead adopted the reasoning of the U.S. Supreme Court set out in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), which overturned estoppel provisions in patent licenses on the ground they were preempted by the federal policy embodied in the patent laws.

Prior to *Lear*, patent licensees operating under agreements that contained clauses estopping them from attacking the licensed patent were barred from challenging the ownership or validity of the patent under the theory that freedom of contract should be upheld.¹¹ In *Lear*, however, the Supreme Court found there was a “strong federal policy favoring the full and free use of ideas in the public domain,” thereby tilting the balance against freedom of contract.

The Second Circuit addressed the estoppel issue in the context of a certification mark license issued by the Idaho Potato Commission (IPC). The IPC is an agency created under Idaho state law to promote the sale of Idaho russet potatoes and to guard against the sale of potatoes grown in other regions but marketed as “Idaho” potatoes.

The IPC had registered with the U.S. Patent and Trademark Office several marks, including the word “Idaho” and the slogan “Grown in Idaho,” to certify that the products on which they appear are grown in the state of Idaho.

As part of its comprehensive licensing program, IPC requires nearly everyone in the chain of Idaho potato distribution to be licensed in order to portray the IPC marks on packaging. The license terms

include quality control provisions and audit procedures to allow the IPC to check on compliance and prevent counterfeiting through sales of non-Idaho potatoes under the IPC marks.

The specific clause in issue was a licensee estoppel provision under which the licensee “(1) acknowledged that the marks ‘are valid, registered marks;’ and (2) agreed that it would ‘not during the term of the agreement, or at any time thereafter, attack the title or any rights’ of the IPC in the relevant marks.”

An IPC license granted to the defendant, M&M Produce Farm & Sales, expired, but M&M continued to re-package genuine Idaho potatoes for a larger distributor and “resell” the re-packaged potatoes back to the distributor, which then sold them to major supermarkets.

M&M continued to use the IPC certification marks on its repackaged potatoes, although the distributor on whose behalf it acted was validly licensed by the IPC. The IPC sued to enjoin M&M’s use of the marks and for money damages.

After a jury trial, the IPC was awarded damages. While that award was reversed by the district court, an injunction was left standing. M&M’s counterclaims to invalidate the IPC license on the ground of trademark misuse, however, were stricken by the district court, which concluded that similar estoppel provisions had been enforced consistently in analogous cases.

The district court rejected any distinction between certification marks and regular trademarks. Instead, it emphasized that owners of certification marks had the right to license their marks just like trademark owners and were entitled to enforce estoppel restrictions contained in their license agreements.

Ruling Appealed

On appeal, the Second Circuit held it

was reversible error to have dismissed the counterclaims. IPC argued that the estoppel provisions in the license barred M&M absolutely from challenging the validity of the underlying certification marks.

On the other hand, M&M argued, as a matter of public policy, that the court should extend the Supreme Court’s holding in *Lear* to the certification mark context. According to M&M, enforcement of the estoppel provision would violate public policy under the Lanham Act by creating a scenario that would allow the IPC to avoid any challenge to its marks because the only parties with standing to assert a challenge would be IPC licensees who executed the same license agreement that contains the estoppel provision.

The Second Circuit agreed with M&M’s position and held there was a difference between the public interests in certification marks and trademarks that compelled a different result in this case. Unlike traditional trademarks, whose owners can choose to license their marks to others on terms and conditions they dictate or negotiate so long as confusion does not result, the court analogized certification mark licensing to a compulsory license, where the certifying entity is obligated to certify the goods or services of anyone who meets the standards and conditions for mark certification.

The court emphasized that a certification mark protects the public interest in “free and open competition among producers and distributors of the certified product. It protects the market players from the influence of the certification mark owner ... and aims to ensure the broadest competition, and therefore the best price and quality, within the market for certified products.”

Finding that this policy is similar to that underlying our patent laws, which, as stated in *Lear*, promote the “full and free use of ideas in the public domain,”

the court extended the Supreme Court's holding and balancing test in *Lear* to certification marks.

Under that test, an assessment must be made as to whether the public interest in trademarks and in preventing harm to the public outweigh contractual provisions that limit challenges to a mark so as to render them unenforceable.

The Second Circuit emphasized that under *Lear*, the courts must weigh federal intellectual property law policies against express contractual provisions and refuse to enforce contractual provisions that would undermine the public interest. Even in a traditional trademark context, agreements that allow continued use of confusingly similar marks injure the public.

The court concluded that the estoppel provision in the IPC license injured the public interest in several ways. First, it imposed a non-quality control restriction of sellers of certified products that interfered with the free market for the certified products. Second, the only parties with sufficient economic incentive to challenge the IPC licensing restrictions and force IPC to conform to the law are those entering into the challenged license arrangement. Third, there were allegations made by M&M, among others, that the IPC itself was dominated by producers of the certified products and discriminately refused to certify potatoes that otherwise met the certification standards, which are grounds under the Lanham Act for cancellation of certification marks for misuse.¹²

Accordingly, the court held that M&M was not estopped from alleging and attempting to prove its claims. It vacated the district court's order dismissing M&M's counterclaims and remanded the case for consideration of the merits of those claims.

Some courts have sought to cut back on the absolute prohibition of estoppel

clauses even in traditional trademark licenses due to concerns over anti-competitive conduct. They have done so by limiting estoppel clauses only to the period during which the license is in force, thereby allowing licensees to challenge a licensor's title to a mark based on facts arising after expiration of the license. On the other hand, the inapplicability of *Lear* to traditional trademark license estoppel clauses has been applied so as to uphold settlement agreements in infringement litigation where one party agrees not to challenge trademark rights.

In the settlement context, the courts have often ruled that the public policy favoring settlements outweighs challenges to trademark validity.¹³ But the Second Circuit emphasized in the *IPC* case, however, that federal courts have nevertheless applied the *Lear* balancing test to estoppel provisions in settlements by assessing whether the public policy in favor of settlements outweighs, for example, the public interest in patents.

Conclusion

As a case of first impression, *IPC* decision will serve as valuable precedent and makes good law.

Organizations that own and control certification marks play an important role in preserving consumer confidence and maintaining quality control of products to guard against consumer fraud. At the same time, precisely because certifying entities serve an important public function, the legal monopoly granted by our trademark laws can be abused and converted to an anticompetitive weapon that suppresses honest competition, thereby harming the public interest.

By voiding estoppel provisions in certification licenses, certifying entities will be unable to shield themselves from the Lanham Act's special cancellation

provisions, which are designed to protect the public from such misuse.



(1) See generally 2 McCarthy on Trademarks and Unfair Competition, §18:63 (4th ed. 2003). Estoppel clauses can also preclude a licensee from ever suing its licensor for infringement of the licensed mark, although this result can also be reached under the principal that licensees do not acquire ownership rights in the licensed mark and thus do not have standing to sue for infringement.

(2) At least one district court has invalidated an estoppel provision in a certification mark agreement by construing the underlying agreement not as a "license," although denominated as such, but as a distribution agreement, thereby avoiding any licensee estoppel preclusion issue. *National Board for Certification in Occupational Therapy Inc. v. American Occupational Therapy Association*, 49 U.S.P.Q.2d 1010 (D. Md. 1998). The TTAB also reached a similar result in *Midwest Plastic Fabricators, Inc. v. Underwriters Laboratories, Inc.*, 12 U.S.P.Q.2d 1267, ns. 3, 6 (T.T.A.B. 1989).

(3) *Opticians Assoc. of America v. Independent Opticians of America, Inc.*, 14 U.S.P.Q.2d 2021, 2027 (D.N.J. 1990).

(4) 15 U.S.C. §1127.

(5) *Community of Roquefort v. William Faehndrich, Inc.*, 303 F.2d 494 (2d Cir. 1962).

(6) *State of Florida v. Real Juices, Inc.*, 330 F. Supp. 428 (M.D. Fla. 1971).

(7) *Midwest Plastic Fabricators Inc. v. Underwriters Laboratories Inc.*, 906 F.2d 1568 (Fed. Cir. 1990).

(8) Both The Union of Orthodox Jewish Congregations, which issues the (U) certification, and the Committee for the Furtherance of Torah Observance, which issues the (K) certification, own registered certification marks that they license. Other lesser widespread kosher certification marks are also in use, such as KOA by the Kosher Overseers Association of America and COR by the Council of Orthodox Rabbis.

(9) 15 U.S.C. §1064 (Lanham Act §14).

(10) 335 F.3d 130 (2d Cir. 2003).

(11) See *Flex-Foot Inc. v. CRP Inc.*, 238 F.3d 1362, 1368 (Fed. Cir. 2001).

(12) See 15 U.S.C. §1064(5).

(13) See McCarthy at pp. 18-110 to 110.1 and cases cited in notes 2 and 7.

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