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# The Foreign Trademark Owner Living with American Products Liability Law

Arthur Schwartz\*

When Americans think of France, they think of wine and perfume. When Frenchmen (or for that matter, business persons in any foreign country) think of America, they think of litigation. Twelve million lawsuits were filed in state courts between 1978 and 1983.<sup>1</sup> The average products liability award increased from \$345,000 to more than \$1,000,000 in ten years,<sup>2</sup> and the number of products liability suits filed in federal courts alone has tripled since 1960.<sup>3</sup> Whether a cause or an effect, there are three times as many lawyers practicing now as there were in the 1950s, and it costs thirty-seven times more to run the tort system than it did then.<sup>4</sup>

In order to appreciate the question of products liability as it interacts with trademarks, the function of a mark must be appreciated. A trademark identifies the goods of one manufacturer or merchant and distinguishes them from those manufactured or sold by others.<sup>5</sup> That is, the mark denotes the source of the goods. There are two ways a trademark owner can use his mark. One is as the actual manufacturer and/or seller of the goods. The other, which is becoming more common, is for the trademark owner to license or "permit" the use of his mark on goods produced or services rendered by others. Whether the trademark owner manufactures the goods himself, or the goods are provided by a licensee, seems to make little difference to the public. Thus, when there is injury caused by a product bearing a trademark, the injured party looks to wherever he can find a "deep pocket." The trademark owner, whether the actual manufacturer or not, is therefore a likely candidate.

## I. Theories of Liability

To understand why and how the foreign or domestic trademark

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<sup>1</sup> Bacas, *Liability: Trying Times*, NATION'S BUSINESS, Feb. 1986, at 24.

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> Lanham Act § 45, 15 U.S.C. § 1127 (1982).

owner is liable for injury and damages caused, the various bases for liability must be considered. The starting point is the often expounded premise that when a third person is injured through no fault of his own, or when property is damaged by a product, legal responsibility may well rest on the one who places the goods into the channel of trade or the "stream of commerce."<sup>6</sup> Several theories have been developed to achieve this result.

#### A. *Breach of Warranty*

An express warranty exists when, as part of the basis of the bargain, there is 1) a written or oral statement of a fact or promise which relates to the goods; 2) a description of the goods; or 3) a sample or model of the goods.<sup>7</sup>

An implied warranty, as imposed by the Uniform Commercial Code, usually relates to the merchantability or fitness of a product for the ordinary purpose for which the goods in question are used.<sup>8</sup>

These theories are limited in their application because they usually extend only to a direct purchaser (i.e., one who has privity with the manufacturer or seller), his family, or guests.<sup>9</sup> Warranties, however, can also come into play if the licensee impleads the licensor, or brings a cross-claim against him.

#### B. *Negligence*

Negligence occurs essentially when one does not use reasonable care in the design or manufacture of a product. Typically, the lack of reasonable care is tied to a defendant's doing (or not doing) something a reasonable person of ordinary prudence would have done (or not have done) in the same or similar circumstances. The person injured, or the owner of property that is damaged, must be someone to whom the defendant owes some duty. The product in question must have been defective or dangerous, and this must have been known to the defendant. Finally, the defendant's acts of omission or commission with respect to the product must be the proximate cause of the injury.<sup>10</sup>

#### C. *Strict Liability*

Both of the above theories lack the obvious appeal of strict liability, which, in various forms, is the law in many U.S. jurisdictions. The theory of strict products liability was developed by the courts in the interest of having the ultimate manufacturer protect life and

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<sup>6</sup> See *infra* notes 17-20 and accompanying text.

<sup>7</sup> U.C.C. § 2-313 (1968).

<sup>8</sup> *Id.* § 2-314.

<sup>9</sup> *Id.* § 2-318.

<sup>10</sup> W. PROSSER, HANDBOOK OF THE LAW OF TORTS 143 (4th ed. 1970).

safety (because it is difficult for the consumer to determine and prove negligence), as well as of spreading the risk of loss. Section 402(A) of the Restatement (Second) of Torts defines strict liability as follows:

(1) One who sells any product in a defective condition unreasonably dangerous to the user or consumer or to his property is subject to liability for physical harm thereby caused to the ultimate user or consumer, or to his property, if

(a) the seller is engaged in the business of selling such a product, and

(b) it is expected to and does reach the user or consumer without substantial change in the condition in which it is sold.

(2) The rule stated in Subsection (1) applies although

(a) the seller has exercised all possible care in the preparation and sale of his product, and

(b) the user or consumer has not bought the product from or entered into any contractual relation with the seller.<sup>11</sup>

The product defects usually referred to are:

- 1) a manufacturing defect
- 2) a design defect
- 3) a defect in warnings or in the failure to warn of a danger.<sup>12</sup>

#### *D. Vicarious Liability*

The term "vicarious liability" is applied to situations where, for example, a franchisor gives apparent authority to a franchisee to act for the franchisor. Section 267 of the Restatement (Second) of Agency states the doctrine as follows:

One who represents that another is his servant or other agent and thereby causes a third person justifiably to rely upon the care and skill of such apparent agent is subject to liability to third persons for harm caused by the lack of care or skill of the one appearing to be a servant or other agent as if he were such.<sup>13</sup>

In order to discuss trademark licensor liability properly, section 400(D) of the Restatement (Second) of Torts, often relied on in U.S. trademark cases, must also be considered. This section reads as follows:

One who puts out as his own product a chattel manufactured by another is subject to the same liability as though he were its manufacturer.<sup>14</sup>

## II. The Stream of Commerce Approach

The term "stream of commerce" has been used extensively, beginning over twenty years ago, when discussing where liability will be

<sup>11</sup> RESTATEMENT (SECOND) OF TORTS § 402(A) (1965).

<sup>12</sup> *Id.*

<sup>13</sup> RESTATEMENT (SECOND) OF AGENCY § 267 (1958).

<sup>14</sup> RESTATEMENT (SECOND) OF TORTS § 400(D) (1965).

imposed, to denote those in the chain of responsibility for placing a defective product in the stream of commerce.<sup>15</sup> Obviously, anyone between the manufacturer and the injured party is "downstream," and the licensor is "upstream."

The often-cited "Stream of Commerce" case, *Kasel v. Remington Arms Company, Inc.*,<sup>16</sup> involved an American injured by a defective shotgun shell while in Mexico.<sup>17</sup> The shell had been manufactured by a Mexican licensee of Remington, that also owned a minority interest in the Mexican company and had the right to inspect and control the products bearing the Remington trademark.<sup>18</sup> The California Court of Appeals held that the U.S. company was "an integral part of the composite business enterprise which placed the defective shell in the stream of commerce."<sup>19</sup>

#### A. Control

The requirement that the trademark owner exercise control over the quality of the goods sold or services rendered by a licensee is now regularly used in trademark and franchise cases where the licensor or franchisor is upstream from the point of injury.<sup>20</sup> The application of the stream of commerce approach seems perfectly logical in trademark cases since "control" is synonymous with a trademark or service mark license. The control requirement is actually a "Catch-22" predicament for the trademark owner. Section 5 of the Lanham Act provides that use by "related companies" inures to the benefit of the trademark owner. Section 45 defines a "related company" as any entity "who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used."<sup>21</sup>

Thus, in order for a trademark owner to maintain the validity of its trademark, it is necessary that such owner control the quality of goods or services offered under the trademark. The trademark owner accordingly becomes a prime candidate for liability for injury by a product sold under the trademark, whether manufactured by the trademark owner or not.

#### B. Illustrative Cases

Cases from a variety of factual backgrounds illustrate the gradual development of liability on the part of trademark licensors for injuries caused by products made under license. The cases discussed

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<sup>15</sup> See *Delaney v. Towmotor Corp.*, 339 F.2d 4 (2d Cir. 1964).

<sup>16</sup> 24 Cal. App. 3d 711, 101 Cal. Rptr. 314 (1972).

<sup>17</sup> *Id.* at 711, 101 Cal. Rptr. at 314.

<sup>18</sup> *Id.* at 717, 101 Cal. Rptr. at 317.

<sup>19</sup> *Id.* at 723, 101 Cal. Rptr. at 321.

<sup>20</sup> See, e.g., *Kosters v. Seven-Up Co.*, 595 F.2d 347, 352-53 (6th Cir. 1979).

<sup>21</sup> Lanham Act §§ 5, 45, 15 U.S.C. §§ 1055, 1127 (1982).

below indicate how the "stream of commerce" concept grew into a coherent body of law governing licensor's liability.

1. *Carter v. Joseph Bancroft & Sons, Co.*

The *Kasel* case was followed in 1973 by *Carter v. Joseph Bancroft & Sons, Co.*,<sup>22</sup> where the plaintiff was burned when a dress bearing the defendant's fabric certification label caught fire.<sup>23</sup> There were several theories presented from which to choose, namely strict liability, breach of warranty, and negligence.<sup>24</sup> The court first determined that Bancroft was "sufficiently involved in the manufacturing process to be a seller" as required by section 402(A).<sup>25</sup> In adopting section 400 of the Restatement, the court quoted comment "d" as follows:

Thus, one puts out a chattel as his own product when he puts it out under his name or affixes to it his tradename or trademark. When such identification is referred to on the label as an indication of the quality or wholesomeness of the chattel, there is an added emphasis that the user can rely upon the reputation of the person so identified.<sup>26</sup>

In discussing section 402(A) the court stated in a footnote:

It might be appropriate to point out that by providing the specifications and prescribing and controlling the quality standards of the Ban-Lon fabric, defendants were involved in the manufacture of a component, the Ban-Lon fabric that went into the final product of the dress. In this regard, we note that the Pennsylvania Supreme Court has declared that a manufacturer of a defective component part of a product is liable under Section 402(A) for the injury to the ultimate user.<sup>27</sup>

2. *City of Hartford v. Associated Construction Co.*

In *City of Hartford v. Associated Construction Co.*,<sup>28</sup> the Connecticut court held in 1978 that the trademark owner might be held liable for damages which resulted from a leaky roof in one of plaintiff's schools.<sup>29</sup> The damage was caused by faulty insulation which was manufactured and installed by a contractor. The insulation base was sold under the mark ALL-CRETE. The owner of the mark, Silbrico Corporation, was a licensor and had entered into an agreement with

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<sup>22</sup> 360 F. Supp. 1103 (E.D. Pa. 1973).

<sup>23</sup> *Id.* at 1106.

<sup>24</sup> *Id.*

<sup>25</sup> *Id.* at 1109. See *supra* note 12 and accompanying text.

<sup>26</sup> 360 F. Supp. at 1107.

<sup>27</sup> *Id.*

<sup>28</sup> 34 Conn. Supp. 204, 384 A.2d 390 (1978).

<sup>29</sup> *Id.* Defendant demurred to the complaint, saying that plaintiff had failed to allege, as an essential element of a strict liability cause of action, that the product had reached the owner in substantially the same condition in which it was sold. The court overruled the demurrer, agreeing with plaintiff's contention that defendant could be subject to liability because it licensed its product and the right to control the quality of the product.

Associated Construction Co., a franchisee. Silbrico licensed Associated to use the mark and provided instructions for manufacturing the product. Further, Silbrico furnished one of the key ingredients in the insulation, although that ingredient was not necessarily the cause of the product defect.<sup>30</sup>

As is often the case, the named defendant, Associated Construction, was out of business, and it was necessary for the city of Hartford to look to Silbrico. The court followed *Kasel* and held for Hartford, on the rationale that, "as long as the franchisor or trademark licensor can be said to be a link in the marketing enterprise which placed a defective product within the stream of commerce, there is no logical reason in refusing to apply strict liability in tort to such an entity."<sup>31</sup>

The court also cited section 400 of the Restatement, which imposes liability on one who "supplies another's chattel as his own product."<sup>32</sup> Further, the court recognized the importance of control, noting that in order to avoid abandonment of the trademark when Silbrico licensed the mark, it was necessary for Silbrico to control the licensee's use of it.<sup>33</sup>

### 3. *Connelly v. Uniroyal, Inc.*

Another section 400 case occurred in 1979, *Connelly v. Uniroyal, Inc.*,<sup>34</sup> which involved an injury caused by a defective car tire.<sup>35</sup> This case bears certain similarities to *Kasel* in that the tire was manufactured in Belgium by a Uniroyal subsidiary corporation who in turn sold it to General Motors, which installed the tire on an Opel assembled in Belgium.<sup>36</sup> Uniroyal argued that it was not a seller since it was not in the chain of distribution. The court held that as licensor of the trademark Uniroyal played an integral part in placing the product in the stream of commerce, and so was liable if the product proved to be defective.<sup>37</sup>

### 4. *Kosters v. Seven-Up Co.*

In *Kosters v. Seven-Up Co.*,<sup>38</sup> the plaintiff, injured by an exploding soft drink bottle, sued the soft drink manufacturer, which had retained the right of control over the carton design, even though it did

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<sup>30</sup> *Id.* at 208, 384 A.2d at 392.

<sup>31</sup> *Id.* at 211, 384 A.2d at 394 (quoting *Kasel v. Remington Arms Co., Inc.*, 24 Cal. App. 3d 711, 723, 101 Cal. Rptr. 314, 321 (1972)).

<sup>32</sup> *Id.* at 215, 384 A.2d at 376; RESTATEMENT (SECOND) OF TORTS § 400 (1965).

<sup>33</sup> 34 Conn. Supp. at 212-13, 384 A.2d at 395-96.

<sup>34</sup> 75 Ill. 2d 393, 389 N.E.2d 155 (1979).

<sup>35</sup> *Id.* at 398, 389 N.E.2d at 157.

<sup>36</sup> *Id.*

<sup>37</sup> *Id.* at 411, 389 N.E.2d at 163.

<sup>38</sup> 595 F.2d 347 (6th Cir. 1979).

not actually manufacture or supply the carton.<sup>39</sup> The trial court instructed the jury to base any finding of liability on at least one of five theories: negligence; implied warranty; inherently dangerous product; opportunity to change design; and third-party beneficiary theory of contract.<sup>40</sup> The court of appeals applied the "stream of commerce" theory to the facts surrounding the soft drink bottle's explosion, noting that Seven-Up had controlled the type, style, size, and design of the product.<sup>41</sup> The appellate court, however, rejected this *Kasel*-type analysis and remanded the case for the lower court to apply a four-factor test that the appellate court devised for determining breach of implied warranty. The court stated that:

When a franchisor consents to the distribution of a defective product bearing its name, the obligation of the franchisor to compensate the injured consumer for breach of implied warranty, we think, arises from several factors in combination: (1) the risk created by approving for distribution an unsafe product likely to cause injury, (2) the franchisor's ability and opportunity to eliminate the unsafe character of the product and prevent the loss, (3) the consumer's lack of knowledge of the danger, and (4) the consumer's reliance on the trade name which gives the intended impression that the franchisor is responsible for and stands behind the product. Liability is based on the franchisor's control and the public's assumption, induced by the franchisor's conduct, that it does in fact control and vouch for the product.<sup>42</sup>

##### 5. *Harris v. The Aluminum Company of America*

In *Harris v. The Aluminum Company of America*,<sup>43</sup> a suit was brought against Alcoa and Coca-Cola for injuries sustained when a twist-off aluminum cap blew off the bottle and struck the plaintiff in the eye.<sup>44</sup> The court followed *Kosters*, quoted the risk factors set out above, and held both defendants liable for the plaintiff's injury. The court held that under Virginia law an implied warranty extended to the soft drink franchisor who caused the product to enter the stream of commerce, engaged in extensive advertising to promote sales of the product, and controlled its specifications and requirements, even though the franchisor did not manufacture the soft drink bottle itself.<sup>45</sup> Therefore, because Coca-Cola caused the defective product to enter the stream of commerce, it was subject to the same liability as if it were a seller or manufacturer.

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<sup>39</sup> *Id.* at 350.

<sup>40</sup> *Id.* at 350-51.

<sup>41</sup> *Id.* at 352-53.

<sup>42</sup> *Id.* at 353.

<sup>43</sup> 550 F. Supp. 1024 (W.D. Va. 1982).

<sup>44</sup> *Id.* at 1025.

<sup>45</sup> *Id.* at 1028.



### III. Precautions

Set out below are a variety of precautions which may be taken by the trademark owner. Many of the measures are equally applicable to trademark owners who are themselves manufacturers as well as licensors.

#### A. Insurance

Authors and commentators routinely recommend that licensors require their licensees to carry products liability insurance and to name the licensor as a co-insured.<sup>46</sup> However, the subject cannot be concluded with such a simple recommendation. One author has said:

It is almost as if these requirements are routinely added as standard "boiler plate" without any real consideration given to their importance and potential impact in each situation. Our view is that liability amounts, formats, reasons, and special coverage should be carefully examined and reviewed in each situation.<sup>47</sup>

Because licensing personnel and their lawyers are normally not sufficiently knowledgeable about insurance, it is becoming more common to employ an insurance consultant. With that caveat, the following comments are ventured:

1) The maximum coverage will obviously vary with the product. While the upper limits of coverage are the first consideration, the deductible limits are equally important and must be specified. Too high a deductible can be almost as bad as no insurance at all since it makes the licensee self-insured for a substantial amount and can give a sense of false security to the unwary.

2) The licensor should always insist that it be named co-insured. However, it is not uncommon for the licensee or its insurance carrier to balk at the demand by noting that higher premiums will be required to cover the licensor. This is frequently the case when there is a "big name" licensor and a relatively small licensee, because such a licensor is perceived as taking an especially big risk in licensing its products.

3) The licensor should always require proof of insurance. Licensors in the United States have found that this is particularly true when dealing with foreign licensees who are unfamiliar with American practices. More than once, foreign licensees have signed licenses with insurance clauses without knowing how to comply or even giving a thought to compliance.

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<sup>46</sup> Anson, *Product Liability Insurance: A Consultant's Observations*, THE MERCHANDISING REPORTER, May 1984, at 10.

<sup>47</sup> *Id.* at 8.

### B. *Self-Insurance*

Many large companies with a wide variety of products are self-insured, which is perfectly acceptable if they have sufficient financial strength. In addition, many large and small manufacturers are selling products in the United States without any products liability insurance. That they may be judgement-proof, for jurisdictional or other reasons, should make their U.S. distributors or retailers cautious in dealing with them.

### C. *Indemnifications/Personal Guarantees*

The term "indemnification" typically covers a broad range of protection for the licensor and is not merely limited to products liability.<sup>48</sup> Also, such a clause can be used in conjunction with insurance provisions to cover any other possible sources of liability. In the same vein, personal guarantees can be included by principals of the licensee when there is a question as to the viability of the licensee itself.

### D. *Other Approaches*

There are several additional approaches that can be tailored to specific situations. These include sureties, specific term bank guarantees or letters of credit, and escrowed or designated assets which are pledged or otherwise sequestered to provide a fund in the event of products liability litigation.<sup>49</sup>

### E. *Liability Disclaimer*

Although there is little doubt as to the invalidity of a disclaimer vis-à-vis third parties, a provision disclaiming liability should be valid against a counterclaim or impleader by the licensee, particularly if both parties are adequately represented, deal in a commercial setting, and are generally commercial equals.

### F. *Warnings*

As manufacturers selling in the United States should have adequate warnings where appropriate on a product, the licensor should insist that the licensee also provide adequate warnings.

### G. *Compliance with Regulations and Standards*

Various government agencies (OSHA, FDA, CPSC, as well as state agencies) issue regulations. Trade and engineering associations also set standards. The foreign manufacturer should be aware of

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<sup>48</sup> For example, patent, trade, and copyright infringement are also covered.

<sup>49</sup> Anson, *supra* note 46, at 10.

those which pertain to its products, and any license agreement should require compliance with all applicable regulations and standards.

#### *H. Warranty Disclaimers*

In certain types of licensing arrangements (usually where something other than simply a trademark is licensed), the licensor will want to insert disclaimers of implied warranties of merchantability and fitness for a particular purpose.<sup>50</sup> Although such disclaimers probably will not operate against third parties, they may prove helpful against licensees.

#### *I. Termination/Revocation Clause*

The licensor may possibly protect itself by retaining the right to cancel the license if industry regulations or standards are not complied with or if products liability claims are filed against the licensee or licensor. The latter possibility would only eliminate the chance of future claims if it appeared that the likelihood of additional claims being made against the licensor was sufficient to warrant termination of the entire agreement.

### **IV. Other Countries**

To provide a point of departure for the foreign trademark owner, a brief reference should be made to the situation in a few other countries.

The biggest difference, compared to U.S. practice, is that the contingency suit is at least frowned upon, and generally not even available, in other countries. Whatever the merits of this policy choice, it is apparent that if an injured party must retain legal counsel in order to sue for damages, the number of such suits is greatly diminished. This factor, in addition to the difference in substantive laws, makes products liability suits outside the United States the exception rather than the rule.

#### *A. European Economic Community*

While not necessarily following the United States, the European Economic Community seems to be creating generally parallel provisions with regard to products liability. On July 25, 1985, the Council of the European Communities adopted Directive 85/374 on the Approximation of Laws, Regulations and Administrative Provisions of the Member States Concerning Liability for Defective Products.<sup>51</sup> The Directive requires Member States to bring into

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<sup>50</sup> U.C.C. §§ 2-314, -315, -316 (1968).

<sup>51</sup> 25 O.J. EUR. COMM. (No. L 210) 29 (1985).

force, within three years, the laws necessary to comply with its provisions.<sup>52</sup> Its basic principle is that a producer is liable for damages caused by his defective product, without the injured party's needing to establish that the producer was negligent. The directive specifically requires protection of the consumer and provides that "liability should extend to importers of products into the Community and to persons who present themselves as producers by affixing their name, trademark, or other distinguishing feature, or who supply a product the producer of which cannot be identified."<sup>53</sup>

A producer "means the manufacturer of a finished product, the producer of any raw material or the manufacturer of a component part who by putting his name, trademark or other distinguishing feature on the product presents himself as its producer."<sup>54</sup> The latter portion approximates section 400 of the Restatement (Second).

Article 6 of the Directive sets out when a product is defective as follows:

1. A product is defective when it does not provide the safety which a person is entitled to expect, taking all circumstances into account, including:
  - (a) the presentation of the product;
  - (b) the use to which it could reasonably be expected that the product would be put;
  - (c) the time when the product was put into circulation.
2. A product shall not be considered defective for the sole reason that a better product is subsequently put into circulation.<sup>55</sup>

### *B. Other European Countries*

At the present time, strict products liability is still the exception among the European countries, as in the case of West Germany's statutorily imposed strict liability for drug manufacturers.<sup>56</sup> At least in theory, France has achieved true strict liability by imputing to a manufacturer knowledge of any defect in any product it produces and, in addition, by imposing a continuing duty on the manufacturer after the product has left its control.<sup>57</sup> The law may not actually be strictly enforced, however, because only certain French courts have extended article 1384 to impose a kind of absolute liability on manufacturers.

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<sup>52</sup> *Id.* at 33.

<sup>53</sup> *Id.* at 29.

<sup>54</sup> *Id.* at 30.

<sup>55</sup> *Id.* at 31.

<sup>56</sup> Revised Pharmaceutical Law, Bundesgesetzblatt, Teil I 2445 (W. Ger.).

<sup>57</sup> CODE CIVIL art. 1384, 1645 (Fr.).

### C. Canada

Fridman's text, **Sale of Goods in Canada**, provides the following encapsulation of Canadian product liability law:

The doctrine of product liability subjects one who sells goods which are harmful to a consumer or his property to liability to the ultimate user for damage thereby caused if the goods are expected to, and do, reach the consumer without substantial change in the condition in which they are sold. This is so even if the consumer has not bought the goods from, or entered into any contractual relation with, the seller.<sup>58</sup>

There have been two cases of interest that discuss licensors liability:

#### 1. *Fraser v. U-Need-A Cab, Ltd.*

The plaintiff in *Fraser v. U-Need-A Cab, Ltd.*,<sup>59</sup> requested a taxi over a direct-line telephone labelled U-Need-A Cab. The dispatcher answered "U-Need-A Cab," and sent a vehicle that, although independently owned and operated, bore the uniform colors and name of the defendant company. The defendant's fleet was largely staffed by independent cabbies who paid a monthly fee for the dispatcher's services, and were required to use defendant's "insignia," including a sign plate with telephone number.<sup>60</sup>

The Supreme Court of Ontario, a provincial trial-level court, in a narrow holding, found that the defendant's contract with Mrs. Fraser carried the implied warranty that the cab was reasonably safe for use.<sup>61</sup> The court found the defendant liable for breaching its implied warranty by failing to take reasonable steps to ensure that the cab was safe.<sup>62</sup> The court relied on the appearance of defendant's trademark and its advertising, and specifically stated that it was not applying the principle of vicarious liability.<sup>63</sup>

#### 2. *Home Service Club of Canada*

In a recent case, *Percival v. Mayes*,<sup>64</sup> the Supreme Court of Ontario decided in favor of a franchisor on the facts, but provided much dicta in favor of franchisor liability. It is understood that the case is now on appeal.

Toronto Home Services, Ltd., did business under the mark HOME SERVICE CLUB OF CANADA, as well as through local

<sup>58</sup> Burshtein, *Liability of Trademark Licensors*, LES NOVELLES, June 1984, at 94 (quoting FRIDMAN, *SALE OF GOODS IN CANADA* 489 (1973)).

<sup>59</sup> 43 O.R.2d 389 (1984), *aff'd on other grounds*, 50 O.R.2d 281 (1985).

<sup>60</sup> *Id.* at 390-92.

<sup>61</sup> *Id.* at 396.

<sup>62</sup> *Id.* at 397.

<sup>63</sup> *Id.* at 400.

<sup>64</sup> *Percival v. Mayes*, Supreme Court of Ontario (unreported, Boland, J., Mar. 6, 1986).

"clubs." The Club operated as does the American Automobile Association, by referring members to local plumbers, contractors, etc., who did home repair work.<sup>65</sup>

The court held that it was reasonable for the plaintiff to have assumed that the local club was a division of the franchisor, particularly since a cardholder could move from one "club" area to another. Thus, it would have been reasonable for someone to rely on the guarantee of the franchisor in taking the recommendation of a local club.<sup>66</sup>

## V. Conclusion

A foreign concern claiming rights to a trademark in the United States can expect to be held liable for injuries caused not only by the goods it manufactures and sells in the United States but also by goods sold (or services rendered) by someone licensed under the trademark. It also appears that at least European and Canadian trademark owners will soon, if they are not already, be held to a similar standard in their own countries.

The institution in Europe of strict liability for damage caused by goods sold or services rendered under a given company's trademark may help solve old problems of international licensing even as it creates new ones. For U.S. licensees of trademarked European products, the initiation of standards of liability in Europe similar to those in the United States should make European firms more cognizant of the risks they are taking when granting U.S. licenses, and correspondingly more adept at protecting themselves from heavy liability, through insurance, for example. Likewise, U.S. licensors should begin to find their European licensees more sophisticated in dealing with certain refinements of U.S. license agreements. As familiarity increases on each side of the Atlantic with the terms of liability which exist on the other side, foreign businesspersons, when they think of the United States, will now at least be able to think in more precise terms.

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<sup>65</sup> *Id.* at 2.

<sup>66</sup> *Id.* at 9-10.

