Present Status—Applicability of Federal Law to Cases Involving Unfair Competition

Prior to the case of *Erie v. Tompkins*,[1] the question of whether state or federal substantive law applied to cases involving unfair competition was never presented to the courts. The problem of "choice of law" never arose before the opinion of Brandeis in the *Erie* case, because of the "general federal common law" that evolved under the doctrine of *Swift v. Tyson*.[2] Therefore, as a result of the *Erie* decision, since 1938 a great problem has been presented to the federal courts, that is, they may no longer base their holdings on the decisional law of all the states, for they must base it merely on the law of the state where the cause of action arose. The next question to be asked is, what is the effect of the *Erie* case in the field of unfair competition? The effect has generally been held to be disastrous, since it *forced* the federal courts to follow state precedents, both of lower and upper courts, of great antiquity and doubtful validity. However, not only are the state decisions antique and doubtful, but also, many states have little or no decisional law concerning unfair competition.

The relationship of the *Erie* case to the law of trademarks and unfair competition presents not one but a series of interrelated problems. The opinion of Brandeis caused commentators and the lower federel courts to search for a basis upon which federal law could be applied in unfair competition cases. Since *Erie v. Tompkins* decided that state law must be applied in cases concerning diversity of citizenship, other concepts were attempted to be made the basis for applying federal law. The concepts, that have been attempted to be made the basis of applying federal law, have never been directly passed upon by the United States Supreme Court, either pro or con.

A. The Effect of the Federal Trade Commission Act

The first view was set forth by Professor Bunn in an article entitled The National Law of Unfair Competition.[3] He advocated that the Federal Trade Commission Act created a federal private cause of action for unfair competition, in which federal law was to be applied. The only argument that has been made by a judge against such a theory, that is, that the Federal Trade Commission Act created a private cause of action, was that Congress showed their intention to put such things in the hands of a commission by expressly providing for the Federal Trade Commission.[4] Professor Bunn had an answer for this. He proclaimed that the Act makes all unfair methods of competion illegal but only gives the

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[1] 304 U.S. 64 (1938).

[2] 41 U.S. (16 Pet.) 1 (1942).

[3] 62 Harv. L. Rev. 987 (1949).

[4] National Fruit Product Co. v. Dwinell-Wright Co., 47 F. Supp. 499 (D. Mass. 1942) *aff'd.*, 140 F. 2d 618 (1st Cir. 1944) (unfair competition issue not raised on appeal).

Commission the power to act where the public interest was involved. The Act does not state that the Commission has exclusive jurisdictions but neither does it state that section 5 of the Act creates a private remedy. It therefore may be conceded that the Commission has no authority to enforce private remedies, but rights based on a federal statute should be enforced by the courts. The Act nowhere forbids such action.

B. PENDENT JURISDICTION

The second view involves the problem of pendent jurisdiction. In the case of *Hurn v. Oursler*,[5] it was determined that the federal courts had jurisdiction of a claim of unfair competition joined to a substantial federal claim. Each ground must be distinct in support of one cause of action and not two distinct causes of action. The difficulty in the application of the rule has been in determining when the unfair competition claim is so related to the federal claim as to constitute one "cause of action".[6] When Congress passed the new Judicial Code in 1948, it enacted section 1338(b).[7] The intent of Congress was to give statutory authority for the Hurn doctrine, but the result has been that the wording of the statute is very vague. Our problem at hand, however, is not what is a substantial and related claim, but is what law, either state or federal, is to be applied to the pendent ground. There is a split in authority, because the United States Supreme Court has never made a direct holding in point. In *Bulova Watch Co. v. Stolzberg*,[8] the court held that all federal courts should apply "federal law" where a claim for unfair competition was joined with a substantial and related claim under the copyright, patent, or trade mark statutes. The opposite view, however, was taken in *National Fruit Product Co. v. Dwinel-Wright Co.*,[9] that is "state law" controls the pendent ground as to what is considered unfair competition. The latter view is probably the better. The proponents of applying the *Erie* doctrine to pendent jurisdiction cases, base their argument upon the axiom that since the pendent ground is derivative of a right arising under state law, the applicable state law should be imposed by the federal courts. This writer also tends to agree with the latter view, primarily on the basis of Brandeis' words in the Erie case, ... "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". Following this quotation, it seems that pendent as well as diversity cases were included.

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[5] 289 U.S. 238 (1933).

[6] 37 MINN. L. REV. 268 (1953).

[7] The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent or trademark laws.

[8] 69 F. Supp. 543 (D. Mass. 1947), following the argument suggested by Zlinkoff, *Erie v. Tompkins: In Relation to the Law of Trademarks and Unfair Competition*, 42 COLUM. L. REV. 955 (1942).

[9] See note 4 *supra*.

C. THE EFFECT OF THE LANHAM ACT

The third view is the result of broad interpretation of recent trade mark legislation. Mr. Justice Holmes, in *Pennsylvania R. Co. v. Public Service Comm.*,[10] said "[A]s to trademarks and trade names, the subject matter in this instance is peculiarly one that calls for uniform law. If each state were permitted to diversely control such areas of law, it would largely defeat the purpose of registering a trademark with the federal government." As a result of these words, it is conceded that Congress when passing the Lanham Act intended to occupy the field of claims, resulting from such trademark infringement. But the problem immediately at hand is whether Congress, when they enacted the said legislation intended to include the area of unfair competition along with the rights and remedies provided for in cases of infringement. The intent of Congress was set out in section 45[11] of the Act—"the intent of this act is to regulate commerce within the control of Congress." Broad comprehensive statutory remedies are provided for in the Act, "for infringement of marks".[12] These statutory remedies include broad injunctive relief as well as damages for infringement and for unfair competition in the use of any registered trademark. But what if the trademark is not registered, does a federal court still have jurisdiction; are the remedies still available? This is an area in which a great controversy has arisen concerning the construction of the Lanham Act. The best manner by which this problem could most easily be discussed is to break down the diversity of opinions into three major categorical areas.

(1) First of all the view of the Ninth Circuit as originally set out in *Stauffer v. Exley*.[13] In this case, the plaintiff, using an unregistered trade name of "Stauffer System, Inc.", sued the defendant, a citizen of the same state, in a federal district court, alleging unfair competition, in interstate commerce, of the defendant's use of the name "Stauffer" and in his use of advertising similar to that of the plaintiff so as to mislead the public. The district court dismissed the claim for want of jurisdiction but on appeal it was reversed, proclaiming that the complaint states a claim under sections 44(b), (h) and (i) of the Lanham Act.[14] The significance of the holding is that the Lanham Act creates a federal cause of action for unfair competition even though unrelated to a registered trademark or trade name, and gives the district courts jurisdiction without regard to diversity of citizenship or amount in controversy. The rationale of the court in support of such a finding was

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10 250 U.S. 566 (1919).
11 60 Stat. 443, 15 U.S.C. §1127 (1946).
12 Section 44(h), 15 U.S.C. §1126(h) (1946).
13 184 F. 2d 962 (9th Cir. 1950).
14 60 Stat. 441, 15 U.S.C. §1126 (b), (h) and (i) (1946).

previously profounded by Professor Rogers.[15] Where there is present the requisite effect on interstate commerce, the Lanham Act creates substantive rights and remedies available to United States citizens irrespective of a registered trademark or trade name.[16] The federal jurisdiction was conferred by section 39 for actions arising under the Act, and the statement in section 45 that it was the intent of Congress to prevent unfair competition. Three interrelated subsections of section 44 were used to substantiate its conclusion: (a) section 44(b) gave to foreigners the benefits of the Act insofar as it was necessary to give effect to certain conventions and treaties to which the United States was a party; (b) section 44(h) gave the parties described in subsection (b) a right to protection against unfair competition; (c) section 44(i) states: "citizens or residents of the United States shall have the same benefits as are granted by this section to persons described in subsection (b) . . . . . ." granted to United States citizens a right of protection against unfair competition among themselves—this in effect creating a federal law of unfair competition. The true attitude at the present time in the Ninth Circuit has not changed, but a dissentience has been presented. In *Panaview Door and Window Co. v. Fred Van Ness et al.*,[17] District Judge Hall stated, "If the matter were before me initially, I would follow the reasoning in the Second[18] and Third[19] Circuits as I think it is more sound than the expressions of the Ninth Circuit cases. However, it is my duty to follow the decisions of the Ninth Circuit."

(2) The view of the Second Circuit was best presented in *American Auto Ass'n (Incorporated) et al. v. Spiegal.*[20] The plaintiff brought an action for trademark infringement and for unfair competition in relation to the defendant's display of the plaintiff's registered trademark, A.A.A., in front of defendant's

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[15] To be found in an introduction to ROBERT, THE NEW TRADEMARK MANUAL 168-80 (1947).

[16] Followed in Chamberlain v. Columbia Pictures Corp., 186 F. 2d 923 (9th Cir. 1951); Pagliero v. Wallace China Co., Limited, 198 F. 2d 339 (9th Cir. 1952); Ronson Art Metal Works, Inc. v. Hilton Lite Corp., 111 F. Supp. 691 (N.D. Cal. 1953); Ross-Whitney Corp. et al. v. Smith Kline and French Laboratories, 207 F. 2d 190 (9th Cir. 1953); Lane Bryant Inc. v. Glassman, 95 F. Supp. 320 (E.D. Mo. 1951); *see* Briddell, Inc. v. Alglobe Trading Corp., 194 F. 2d 416, 422 (2d Cir. 1952) (dissenting opinion). An obiter approval of the Stauffer doctrine was given in In re Lyndale Farms, 38 C.C.P.A. 825, 186 F. 2d 723, 88 U.S.P.Q. 377 (1951).

[17] 124 F. Supp. 329 (S.D. Cal. 1954).

[18] American Auto Ass'n. (Incorporated) et al. v. Spiegal, 205 F. 2d 771 (2d Cir. 1953), *Cert. denied* 346 U.S. 887, 99 U.S.P.Q. 490.

[19] L'Aiglon Apparel, Inc. v. Lana Lobell, Inc., 214 F. 2d 649 (3d. Cir. 1954).

[20] See note 18, *supra.*

gasoline station. The defendant denied infringement and also asserted the defense of lack of jurisdiction by the federal court. The defendant's defense was upheld on the basis that a substantial federal claim of infringement was not shown, to come within section 1338(b) of the Judicial Code,[21] nor do the provisions of the Lanham Act[22] confer upon the federal courts jurisdiction in actions involving unfair competition. The intent of Congress was not to create a federal law of unfair competition.[23] The reasoning behind the decision of the Second Circuit was that subsection (i) permits only a suit by an American against a foreigner for the purpose of equalizing an American's rights against the foreigner to the same degree as the foreigner has against an American. Therefore, a suit wholly between Americans does not come within the purview of this section. This idea had been previously proclaimed in *Old Reading Brewery v. Lebanon Valley Brewing Co.*,[24] where a plaintiff filed a suit in a state court for infringement of an unregistered trademark and for unfair competition. Defendant attempted removal to a federal court on the basis of the Lanham Act, but the court refused. The basis for refusing jurisdiction was that there was no showing that any claim or right in the action arose under the laws of the United States and contained no allegation of a federally registered trademark. In both of these cases, the court specifically denounced the *Stauffer* doctrine.[25]

(3) The view, as set out in *L'Aiglon Apparel, Inc. v. Lana Lobell, Inc.*,[26] was the most recent theory upon which a federal court based original jurisdiction in an unfair competition case. The plaintiff based his cause of action on sections 39, 43(a) and 44(b) (h) (i) of the Lanham Act. The court followed the *A.A.A.* case as to section 44(b) (h) (i), but went on to say, however, the complaint clearly states a cause of action under 43(a)[27] for false designation of goods in commerce. Appli-

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[21] Title 28 U.S.C. §1338(b) (Supp. 1952).

[22] Sections 39, 44(b)(h)(i) and 45; 60 STAT. 440, 15 U.S.C. §1121 (1946); 60 STAT. 441, 15 U.S.C. §1126(b)(h)(i) (1946); 60 STAT. 443, 15 U.S.C. §1127 (1946).

[23] 22 GEO. WASH. L. REV. 367, 369-370 (1954)..

[24] District courts in aline with these ideas. Ross Products, Inc. v. Newman, 94 F. Supp. 566 (S.D. N.Y. 1950); Ronson Art Metal Works v. Gibson Lighter Manufacturing Co., 108 F. Supp. 755 (S.D. N.Y. 1952). These courts also stated that any other interpretation of the Act, such as the one in the Stauffer case, contravened the intentions of Congress when they enacted section 1338(b) of the Judicial Code.

[25] See note 13, *supra*.

[26] See note 19, *supra*.

[27] Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation

cation of section 43(a) is not a new innovation or interpretation, it has been used in two other cases. In one case,[28] the court gave a remedy for unfair competition in federal court even though the unfair competition was a cause of action under state law. The court thus applied section 43(a) in the remedial area, however, in a Ninth Circuit case,[29] it was applied in the jurisdictional area. It is true that section 43(a) is not as all-inclusive as the term unfair competition, but for all practical purposes it covers a large part of the field.

In summarization, of whether the Lanham Act has created a federal cause of action for unfair competition, we must first attempt to tie in and reconcile the theory as set out in *Stauffer v. Exley* with section 1338(b) of the Judicial Code. The *Stauffer* case held that there is no contradiction between section 1338(b) and the Lanham Act, because jurisdiction under the Lanham Act is limited to unfair competition which affects interstate commerce, and therefore section 1338(b) applied only to unfair competition which does not affect interstate commerce. In support of this view, the general rule may be applied that a procedural statute, such as 1338(b), could not be interpreted so as to impliedly nullify an important substantive right, such as the Lanham Act.[30] This writer believes, however, that either the Lanham Act never created a new federal claim or it was repealed by section 1338(b). In *Ross Products, Inc. v. Newman*,[31] the conflict between the Lanham Act and section 1338(b) was attempted to be reconciled. The court held that the Lanham Act has not created a federal cause of action for unfair competition, but proclaimed that the Act only provided for remedies when the unfair competition claim was in the federal court on other independent jurisdictional grounds. This latter theory is also groundless because it is difficult to find a basis for justifying the idea that subsection (i) is sufficient to give citizens of the United States in cases of unfair competition the remedies in section 32[32] of the Lanham Act but not federal jurisdiction under section 39.[33]

The next problem, is whether the *Stauffer* and *A.A.A.* cases may

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of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

[28] Dad's Root Beer Co. v. Doc's Beverages, 193 F. 2d 77, 81 (2d Cir. 1951).

[29] Chamberlain v. Columbia Pictures Corp., 186 F. 2d 923 (9th Cir. 1951).

[30] 64 HARV. L. REV. 1209, 1211 (1951).

[31] 94 F. Supp. 566 (S.D. N.Y. 1950).

[32] 60 Stat. 437, 15 U.S.C. §1114 (1946).

[33] See note 22, *supra*.

be distinguished. In the case of *In re Lyndale Farms*,[34] it was held by the United States Court of Customs and Patent Appeals that the doctrine of the *Stauffer* case may be upheld on the basis that it concerned a *trade name* and not a *trademark*. The difference between the function of a trademark and a trade name is that the former is to identify and distinguish a product, whereas the latter is to identify and distinguish a business. *In re Lyndale Farms* based its holding on section 44(g),[35] which relates to trade names and states that they "shall be protected without the obligation of filing or registration whether or not they form parts of marks". It must be noted that the *Stauffer* case and the other two court of appeals cases[36] of the Ninth Circuit concern trade names while the *A.A.A.* case concerns a trademark. This writer believes that this is not a valid distinction, because section 44(g) is found under the heading of "[I]nternational Treaties" just as 44(b)(h)(i). As we have seen, the legislative history of section 44[37] was not to create a cause of action between American citizens or residents. This legislative intent as interpreted from the hearings in the sub-committee shows that not only is 44(b)(h)(i) exclusive to suits between foreigners and Americans, but it also makes 44(g) exclusive. The conclusions to be drawn from the *Lyndale* interpretation of section 44 are that the theories profounded are absolutely without ground. Trademarks and trade names cannot be differentiated within section 44 because the complete section is headed "International Treaties", thus applying only to suits between an American and a foreigner and not to suits strictly between Americans. The result being that the *Lyndale* case stands in a position directly opposite the *A.A.A.* decision just as the *Stauffer* case. The only possible effect that the *Lyndale* case may have is to delimit the scope of the *Stauffer* doctrine in future cases arising in the Ninth Circuit.

In conclusion therefore, it is very doubtful whether the Lanham Act in any way provides for a federal law of unfair competition. However, if it may be conclusively found in the future that section 43(a) was intended to provide for a cause of action in the narrow scope of "false designation", then a slight area of unfair competition has been filled by federal law through Congressional enactment. The question still arises however, whether section 43(a) is substantial enough to independently support jurisdiction in the federal courts. Therefore, if Congress should want to enact law completely filling the field of unfair competition, it would be more logical to expand section 43 than to place it in a remote corner of section 44. Congress does have the power to fill the field completely, that is to regulate any business affecting interstate commerce.[38]

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[34] 38 C.C.P.A. 825,186 F. 2d 723, 88 U.S.P.Q. 377 (1951).

[35] 60 Stat. 441, 15 U.S.C. §1126(g) (1946).

[36] *Chamberlain* and *Pagliera* Cases, see note 16, *supra*.

[37] Legislative history set out in detail in 22 GEO. WASH. L. REV. 367, 369 (1954).

[38] Wickard v. Filburn, 317 U.S. 111 (1942). Under trademark law prior to

CONCLUSION

As a result there is no uniform federal law of unfair competition. If the intent of Congress was to create a federal law of unfair competition, either by enacting the Federal Trade Commission Act, section 1338(b) of the Judicial Code, or by the Lanham Act, they should have done so in a more positive manner. The Federal Trade Commission Act applies only to suits between the government and an individual; the courts have never interpreted it to apply to private actions. As to the potency of section 1338(b) in evolving a federal law of unfair competition, it must be stated that it neither has any stamina. The *Erie* doctrine definitely forecloses federal law in this area. The *Stauffer* doctrine today, is in all practicality completely destroyed, that is, except in the Ninth Circuit. It was a mere fabrication of writers that induced a few judges to fall in line. Section 44 of the Lanham Act definitely does not create a federal law of unfair competition. However, section 43, in a few instances perhaps, may be a basis for federal jurisdiction.[39] This is very questionable, however, that is, if Congress intended section 43 to effectuate an area of unfair competition, they should have been more exacting. The *L'Aiglon* case was not too clear, perhaps the congressional intent in enacting 43(a) was only to declare the existing common law. The enactment of the Lanham Act has further clouded the already hazy area of unfair competition. Too much has been read in between the lines and the original legislative intent has been disregarded in many jurisdictions.

Two possibilities of expanding present legislation to meet the turmoil in the area of unfair competition have been suggested by two commentators. One commentator advances the idea of expanding section 43 of the Lanham Act,[40] while the other would amend section 1338(b) of the Judicial Code[41] and grant federal courts jurisdiction over all unfair

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the Lanham Act, a party bringing an action for infringement was required to establish before he could recover that the infringement was *in commerce.* Since the Lanham Act, Congress relying on the *Wickard* case proclaimed that it merely must *affect commerce.*

[39] The doctrine set out in *L'Aiglon Apparel* case was followed in Gold Seal Company v. Weeks, 129 F. Supp. 928, 939 (D.C. 1955) stating, "We find nothing in the legislative history of the Lanham Act to justify the view that this section is merely declarative of existing law. Indeed, because we find no ambiguity in the relevant language in the statute, we would doubt the propriety of resort to legislative history even if that history suggested that Congress intended less than it said. It seems to us that Congress has defined a statutory civil wrong of false representation of goods in commerce and has given a broad class of suitors injured or likely to be injured by such wrong the right to relief in the federal courts. *** But, however similar to or different from pre-existing law, here is a provision of a federal stature which, with clarity and precision adequate for judicial administration, creates and defines rights and duties and provides for their vindication in the federal courts". (Notice the utter disregard for legislative intent).

[40] 22 GEO. WASH. L. REV. 367, 369 (1954).

[41] 37 MINN. L. REV. 268, 283 (1953). The theory profounded gives to the court a right to exercise the power over all business in commerce disregarding the *Erie* doctrine.

competition claims affecting interstate commerce and supplementing this power with the express right to apply federal law (denouncing *Erie v. Tompkins* in pendent jurisdictional cases); the field of unfair competition would be settled. However, we must remember, it is up to Congress to carry out either of the above ideas or a completely new innovation through legislation and it is not up to the courts. For these reasons, a federal law of unfair competition should be enacted by Congress, setting out exact standards, making specific activity unfair. Congress should not give the courts the broad discretionary power of determining what an act of unfair competition is by enacting a general statute, but they should spell out in minute detail the prerequisites needed so as to label a specific act or acts unfair competition. The spelling out of these details would not be speculative and inexact because of the complete requirements set out in the cases decided under the *common law*. These common law prerequisites should be embodied into statute, creating a code of violations, enumerating exactly what is unfair competition.

The result therefore is, that courts and commentators should stop searching for make-shift means by which to gain federal jurisdiction and to apply federal laws, they should continue to apply state law in cases of unfair competition and wait the day when Congress will exercise their power and enact a clear, concise, and complete law of unfair competition.

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