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Trademark Law As an Agency Problem – Part I
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A few months ago, my IP Issues entry demonstrated that the exclusive rights that trademark law provides are rooted in consumer welfare – in the need to ensure that consumers are able to distinguish one producer's goods from those of its competitors. In this entry and the next, I will consider the implications of this point for modern trademark law.

If the consumer interest is really what trademark law is all about, then one conundrum that follows is that consumers do not have trademark rights. Producers do. A moment's reflection explains why: When consumers are deceived by Producer X's use of Producer Y's mark, the injury to any one consumer is small – he or she buys the wrong product. But Producer Y's injury is large, because it loses the sales of all those consumers in the aggregate. It therefore makes sense to give the producer the right to sue for trademark infringement even if the goal is to protect consumers from being fooled into mistaken purchases.

What this means, then, is that giving enforceable rights to producers creates an agency relationship. The producer that brings a trademark infringement suit is essentially acting as an agent vindicating the interest of its principal, the consumer. And whenever the law establishes an agency relationship – employee-employer, trustee-beneficiary, guardian-ward – we need to keep an eye on whether the agent is acting on its principal's behalf, as it is supposed to, rather than on its own behalf.

It turns out that modern trademark law is full of doctrines that don't work well from this perspective. Misalignment between producer interest and consumer interest happens in two ways. I will cover the first here, and will leave the second (and some suggestions about reform) for my next entry in this series.

The first kind of misalignment we see in trademark law is when the law ignores the existence of consumer fraud when addressing it leads to no gain (or even a loss) on the part of producers. I call this the problem of Absent Agents, or Fraud Without Rights. There is fraud on consumers, but producers fail to seek a judgment of trademark infringement – either because trademark law does not provide a viable claim, or because the producer has a viable claim but decides not to pursue it.

An example of the absence of a viable claim is how the doctrine of laches applies in trademark litigation. If a third party regularly engages in unauthorized use of a producer's trademark, the statute of limitations does not usually present an obstacle to the producer's winning an infringement suit; each unauthorized use of the mark is a separate act of infringement, a "continuing wrong" that renews the limitations period. Courts nevertheless do not allow a rightsholder to sit idly by before bringing suit. Instead, they employ the doctrine of laches to deny a claim to those whose delay in filing is inequitable.

Although the precise elements of a laches defense vary from court to court, the doctrine tends to focus on the reasons for the delay, the prejudice suffered by the defendant from the delay, and the prejudice suffered by the rightsholder if relief were to be denied. A rightsholder that has known of the use for years and done nothing is likely to find its suit barred, particularly if the defendant was unaware of the senior mark.

Note, however, whose interest is absent from this analysis: the consumers'. As a matter of equity, the trademark owner that delays filing may deserve to have its infringement claim thrown out. But the trademark owner is a mere agent; the claim really belongs to the consumers. And the consumers are blameless. They did not delay filing, but they nevertheless suffer the consequences of having an agent who was asleep at the switch. Laches doctrine accordingly punishes the innocent principal for the conduct of the culpable agent – and in doing so, it perpetuates the defendant's ongoing fraud.

A similar situation arises when a trademark owner goes bankrupt and some third party ends up owning the mark. Consider the recent liquidation of Hostess, originator of the delicious (if less than healthy) TWINKIE. A company unrelated to Hostess acquired the relevant trademarks in the bankruptcy proceeding, and it soon began making its own TWINKIEs. Although the company planned not to change the recipe, the new TWINKIE has a different manufacturing and distribution system, and the result is, in the words of one critic, "an oily, heavy cake that makes a mess of both fingers" – a shadow of its former glory.

In other words, consumers are not getting what they have come to expect from the TWINKIE mark. Although in theory trademark law prevents fraud from occurring here, because assignment of a mark cannot take place unless the underlying goodwill also transfers, in practice no one involved in the Hostess transaction cares that consumers might be unaware that the TWINKIE they are now buying is made by an entirely different producer. The creditors want the money that comes from the assignment. The debtor is liquidating – and in any event would likely be deemed to have abandoned the mark, thus severing any confluence of its interest with the consumer interest. And the mark's buyer wants the exclusivity that comes with owning the trademark; that's the whole point of paying for the assignment. The one party that might keep an eye on the consumer interest is the court, but in reality bankruptcy judges are unlikely to want to rock the boat and reduce the corpus of the estate by burdening the assignment with conditions that would shield against consumer fraud.

These infirmities in assignment are not fringe issues in the life of a trademark. A recent study of 35 years of federally registered trademarks found that almost one-third had been affected by some transaction over their lives, with more than one in five changing ownership and more than one in 10 being subject to a security interest.

In short, unless some other producer is so bold as to begin to use an assigned mark (and is prepared to explain why an assignment blessed by the bankruptcy court is nevertheless invalid), trademark law provides no redress to anyone who cares about vindicating the consumer interest. The agency relationship breaks down, and consumers suffer for it.

Another example of Fraud Without Rights might be found when an infringement case settles with a payment to the rightsholder but there is no cessation of the defendant's use of the mark, as in a concurrent use agreement. Perhaps such settlements are recognitions that there was no merit to the suit in the first place – but if there were merit, and the settlement simply means that the rightsholder is merely being paid off to tolerate some consumer confusion, then the agent's interest is served but the principal's is not.

By this point, I hope you get the idea behind Fraud Without Rights. In my next IP Issues entry, we will consider the inverse proposition: Rights Without Fraud. Stay tuned.