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THE FRANCHISOR'S DILEMMA: JUSTIFYING TYING ARRANGEMENTS IN ANTITRUST SUITS

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> Tying agreements serve hardly any purpose beyond the suppression of competition. [J]ustification . . . fails in the usual situation because specifications of the type and quality of the product to be used in connection with the tying device is protection enough.[1]

> They deny competitors free access to the market for the tied product, not because the party imposing the tying requirements has a better product or a lower price but because of his power or leverage in another market. At the same time buyers are forced to forego their free choice between competing products. For these reasons "tying agreements fare harshly under the laws forbidding restraints of trade."[2]

The application of antitrust laws to the franchise relationship poses unique problems for the franchisor.[3] Recent case developments would plausibly indicate the strict illegality of tying arrangements in the franchise relationship. The facts are, however, that tying arrangements may be valid under certain circumstances.[4] Posing *Siegel v. Chicken Delight, Inc.*,[5] and its attendant antitrust law as background for discussion, the objective sought is a review of the manner in which tie-ins have been brought under scrutiny as unfair methods of competition. Specifically, the attempt is to establish a working base from which the practicing attorney may draw the necessary inferences as to the relative merits of an action involving a chain-style franchise.

THE FRANCHISE RELATIONSHIP AND TYING ARRANGEMENTS

Franchise Relationship

"In its simplest terms a franchise is a license from the owner of a trademark or trade name permitting another to sell a product or service under that name or mark."[6] Beyond this conceptual definition, the

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1 Standard Oil Co. v. United States, 337 U.S. 293, 305, 60 S. Ct. 1051, 1058, 93 L. Ed. 1371, 1382 (1949).

2 Northern Pac. Ry. v. United States, 356 U.S. 1, 6, 78 S. Ct. 514, 518, 2 L. Ed. 2d 545, 550 (1958) (citations omitted).

3 Comment, *Antitrust Problems in Trademark Franchising*, 17 STAN. L. REV. 926 (1965); Comment, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171 (1963).

4 Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 89 S. Ct. 1252, 22 L. Ed. 2d 495 (1969).

5 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

6 Glickman, *Franchising*, 15 BUSINESS ORGANIZATIONS ch. 2, at 1 (1972). On November 10, 1971 the FTC announced a proposed trade regulation rule involving disclosure re-

relationship established in franchising may become quite complicated. However, the pervading point of consideration in franchise relationships is that the term "franchise" is "primarily a device for exploiting an established trademark or trade name."[7] Obviously, the *de facto* status of franchising might be considered as a justification for its existence. However, a more adequate *raison d'etre* of franchising is found in the resultant combination of the capital requirements of the franchisor with the desire of the individual to be an independent businessman.[8]

In practical application, franchise relationships[9] may be appropriately viewed from a vantage point which considers the role of the franchisor as either a manufacturer[10] or a seller of franchises.[11] In the former role, the franchisor's primary interest is that of distributing a product in which he personally is engaged in the manufacturing process. On the other hand, when the franchisor's role is that of "selling franchises," his primary interest is in establishing a series or chain of retail businesses[12] in which the franchisee manufactures or produces the end

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quirements and prohibitions concerning franchising. The proposed rule defines "franchise" as

> every aspect of the relationship between a franchisor and a franchisee by an oral or written agreement or understanding, or series of agreements or undrstandings, or transactions which involve or result in a continuing commercial relationship by which a [franchisee] is granted or permitted to offer, sell, or distribute the goods or commodities manufactured, processed, or distributed by the franchisor, or the right to offer or sell services established, organized, directed, or approved by the franchisor, under circumstances where the franchisor continues to exert any control over the method of operation of the franchisee, particularly, but not exclusively, through trademark, trade name, or service mark licensing, or structural or physical layout of the franchisee's business.

Proposed Trade Reg. § 436.1, 436.2, 36 Fed. Reg. 21607, 22187 (1971).

7 Glickman, *Franchising*, 15 BUSINESS ORGANIZATIONS ch. 2, at 2 (1972).

8 Address by George A. Pelletier, Franchising Institute, Houston, Tex., March 16, 1972. In essence, the franchise relationship allows a franchisor with a unique product or other expertise to market his product with a relatively small capital outlay. In return for his investment, the franchisee obtains the unique product and the franchisor's expertise. Furthermore, the arrangement is buttressed by a regional or national advertising program which engenders mutual benefit and profit.

9 Franchise relationships may be classified into three basic types:

> (1) *Distributorships*, under which a manufacturer (franchisor) licenses another businessman (franchisee) to sell his product either exclusively or in conjunction with other products. . . .
>
> (2) *Chain-style businesses*, under which the franchisee operates his business under the franchisor's trade name, is identified as a member of a select group of dealers, and generally is required to follow standardized or prescribed methods of operation. . . .
>
> (3) *Manufacturing or processing plant*, under which the franchisor transmits to the franchisee the essential ingredients or formula for making a product to be manufactured or processed and marketed either at wholesale or retail in accordance with the franchisor's standards.

Glickman, *Franchising*, 15 BUSINESS ORGANIZATIONS ch. 2, at 3 (1972).

10 *Id.* ch. 3, at 1.

11 *Id.* ch. 3, at 1.

12 *Id.* ch. 3, at 2. Typically, these franchises are "found in such businesses as candy stores, dry cleaning establishments, drive-in refreshment stands, ice cream dispensers, restaurants, and other consumer service establishments." *Id.* ch. 3, at 2.

product. In this latter role, the franchisor is in reality, engaged in a "rent-a-name"[13] business which is characterized "by the development of a pattern or formula for the conduct of a particular kind of business and the extending to other firms or individuals the right to engage in the business provided they follow the established pattern."[14]

Franchise relationships are essentially contractual matters of which the licensing of the trademark is the most important item.[15] The Lanham Act[16] permits licensing of the trademark subject to the licensor's obligation to protect the quality of the merchandise or service associated with the mark.[17] Translated into the contract, this duty of the franchisor becomes a matter of internal and external control over the licensee's operation.[18]

Those restrictions affecting the external relations of the franchisee are more apt to be anticompetitive,[19] and thus, both territorial restrictions[20] and resale price fixing[21] have been summarily dealt with by the

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13 McCarthy, *Trademark Franchising and Antitrust: The Trouble with Tie-ins*, 58 CALIF. L. REV. 1085, 1086 (1970).

14 Glickman, *Franchising*, 15 BUSINESS ORGANIZATIONS ch. 3, at 1 (1972).

15 "[T]he cornerstone of a franchise system must be the trademark or trade name . . . ." Susser v. Carvel Corp., 332 F.2d 505, 516 (2d Cir. 1964), *cert. dismissed as improvidently granted*, 381 U.S. 125 (1965).

16 15 U.S.C. §§ 1051-1127 (1970).

17 "The Lanham Act does not specifically allow licensing in so many words, but several of its provisions clearly contemplate licensing . . . . The Act permits use of a trademark by a 'related company' which is defined as '[a]ny person who legitimately . . . is controlled . . . in respect to the nature and quality of the goods or services in connection with which the mark is used.'" McCarthy, *Trademark Franchising and Antitrust: The Trouble with Tie-ins*, 58 CALIF. L. REV. 1085, 1113 (1970).

For failure to exercise control over the use of the trademark, "A mark shall be deemed to be 'abandoned'—

. . . .

(b) when any course of conduct of the registrant, including *acts of omission as well as commission*, causes the mark to lose its significance as an indication of origin."
15 U.S.C. § 1127 (1970) (emphasis added).

18 Glickman, *Franchising*, 15 BUSINESS ORGANIZATIONS ch. 4, at 3 (1972), *quoting* Jones, *Franchising and Antitrust*, FRANCHISING TODAY 105-118 (Vaughn & Slatak 1966-67), Report of the Second Annual Management Conference on Franchising, held at Boston College, April 11-13, 1966, sponsored by Boston College Center for the Study of Franchise Distribution.

In the chain-style franchise, "the franchisor may control the franchisee as to such matters as the location and appearance of his business, the products sold or used, his bookkeeping methods, advertising and sales methods, appearance and qualification of personnel, hours of business, territory served, [and] prices." Glickman, *Franchising*, 15 BUSINESS ORGANIZATIONS ch. 2, at 3 (1972).

19 Glickman, *Franchising*, 15 BUSINESS ORGANIZATIONS ch. 4, at 3 (1972).

20 There is an apparent distinction to be drawn between horizontal and vertical territorial restrictions. The Supreme Court has long held horizontal restrictions to be a per se violation of the Sherman Act. *See, e.g.*, Timken Roller Bearing Co. v. United States, 341 U.S. 593, 71 S. Ct. 971, 95 L. Ed. 1199 (1951). The Court has also held vertical restraints to be a per se violation of the Sherman Act in United States v. Arnold Schwinn & Co., 388 U.S. 365, 87 S. Ct. 1856, 8 L. Ed. 2d 1249 (1967). But in White Motor Co. v. United States, 372 U.S. 253, 83 S. Ct. 696, 9 L. Ed. 2d 738 (1963), the Court upheld a vertical restraint. The validity of *White Motor Co.* apparently remains as qualified by the Court:

> We do not suggest that the unilateral adoption by a single manufacturer of an agency or consignment pattern and the Schwinn type of restrictive distribution system would be justified in any and all circumstances by the presence of the com-

Supreme Court. A more subtle form of external restraint over the franchisee's operation involves "controlling the suppliers with whom he may deal or regulating the type of products which he can sell . . . ."[22] Contractually, these latter limitations result in exclusive dealing and requirements clauses.[23]

Requirements and exclusive dealing contracts are not violative of the antitrust laws necessarily,[24] so long as they are freely entered into, and it is not "probable that performance of the contract will foreclose competition in a substantial share of the line of commerce affected."[25]

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petition of mass merchandisers and by the demonstrated need of the franchise system to meet that competition. But certainly, in such circumstances, the vertically imposed distribution restraints—*absent* price fixing and in the presence of adequate sources of alternative products to meet the needs of the unfranchised—may not be held to be *per se* violations of the Sherman Act.

United States v. Arnold Schwinn & Co., 388 U.S. 365, 381, 87 S. Ct. 1856, 1866, 18 L. Ed. 2d 1249, 1261 (1967) (Court's emphasis).

21 *E.g.*, United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 60 S. Ct. 811, 84 L. Ed. 1129 (1940).

22 Glickman, *Franchising*, 15 BUSINESS ORGANIZATIONS ch. 4, at 3 (1972), *quoting* Jones, *Franchising and Antitrust*, FRANCHISING TODAY 105-118 (Vaughn & Slatak 1966-67), Report of the Second Annual Management Conference on Franchising, held at Boston College, April 11-13, 1966, sponsored by Boston College Center for the Study of Franchise Distribution.

23 Requirement and exclusive dealing contracts are dealt with separately by the UNIFORM COMMERCIAL CODE § 2-306, Comment 2 (output or requirements), & Comment 5 (exclusive dealing) (1972 version). One commentator suggests that "exclusive buying" or "requirements contracts" should be used for restrictions on buyers and either "exclusive selling" or "output contracts" for restrictions on sellers. See Day, *Exclusive Dealing, Tying and Reciprocity—A Reappraisal*, 29 OHIO STATE L.J. 539, 541 (1968). For the purposes of this paper, a valid distinction can and should be made between requirements and exclusive dealing contracts. The exclusive dealing contract is used for those contracts in which, for some consideration, the buyer agrees to deal only in the seller's goods, *e.g.*, Susser v. Carvel Corp., 332 F.2d 505 (2d Cir. 1964), *cert. dismissed as improvidently granted*, 381 U.S. 125 (1965). The requirements contract, on the other hand, may be considered as an agreement to purchase all of one's specific needs of one particular item (with no attendant obligation in reference to other purchases) from one supplier. Requirements contracts are often considered void for lack of mutuality. McMichael v. Price, 58 P.2d 549 (Okla. 1936). Lack of mutuality should not be an onerous burden in these cases as Comment 2 to UNIFORM COMMERCIAL CODE § 2-306 (1972 version) states:

> Nor does such a contract lack mutuality of obligation since, under this section, the party who will determine quantity is required to operate his plant or conduct his business in good faith and according to commercial standards of fair dealing in the trade so that his output or requirements will approximate a reasonably foreseeable figure.

24 "Requirements contracts . . . may well be of economic advantage to buyers as well as to sellers, and thus indirectly of advantage to the consuming public." Standard Oil Co. v. United States, 337 U.S. 293, 306, 69 S. Ct. 1051, 1058, 93 L. Ed. 1371, 1382 (1949).

25 Tampa Electric Co. v. Nashville Coal Co., 365 U.S. 320, 327, 81 S. Ct. 623, 628, 5 L. Ed. 2d 580, 587 (1961). In determining the probability of a foreclosure of competition, the Court announced the following guidelines for violation of section 3 of the Clayton Act:

> *First*, the line of commerce, i.e., the type of goods, wares, or merchandise, etc., involved must be determined, where it is in controversy, on the basis of the facts peculiar to the case.
>
> *Second*, the area of effective competition in the known line of commerce must be charted by careful selection of the market area in which the seller operates, and to which the purchaser can practicably turn for supplies. In short, the threatened foreclosure of competition must be in relation to the market affected.
>
> . . . .

Yet, often the subject matter of these contracts is not open to negotiation between the parties. When the franchisor uses a standard form contract to impose his will upon the unwilling or unknowing franchisee, the agreement does not result from good faith bargaining, and is appropriately designated an adhesion contract.[26]

Tying Arrangements

> [A] tying arrangement may be defined as an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier.[27]

When exclusive dealing and requirement provisions[28] are part of a franchise agreement, the immediate question becomes whether or not they constitute an illegal tying arrangement. In practice, a tie-in exists when the vendee (franchisee) is forced to buy product B in order to get the vendor (franchisor) to sell product A, product A being the item which the vendee actually wants to purchase. By substituting a trademarked product (*e.g.*, a chicken franchise) for product A, and a totally unrelated item (office supplies) for product B, the anticompetitive effects are readily seen:

> First, the buyer [franchisee] is prevented from seeking alternative sources of supply for the tied product [office supplies]; second, competing suppliers of the tied product are foreclosed from that part of the market which is subject to the tying arrangement.[29]

A successful tie-in obviously will "serve hardly any purpose beyond the suppression of competition," and, consequently, be very difficult to justify.[30]

> *Third*, and last, the competition foreclosed by the contract must be found to constitute a substantial share of the relevant market.
>
> To determine substantiality in a given case, it is necessary to weigh the probable effect of the contract on the relevant area of effective competition, taking into account the relative strength of the parties, the proportionate volume of commerce involved in relation to the total volume of commerce in the relevant market area, and the probable immediate and future effects which pre-emption of that share of the market might have on effective competition therein. It follows that a mere showing that the contract itself involves a substantial number of dollars is ordinarily of little consequence.

Id. at 327, 328, 329, 81 S. Ct. at 628, 629, 5 L. Ed. 2d at 587, 588.

26 *See generally* Ehrenzweig, *Adhesion Contracts in the Conflicts of Laws*, 53 COLUM. L. REV. 1072 (1953), Kessler, *Contracts of Adhesion—Some Thoughts About Freedom of Contract*, 43 COLUM. L. REV. 629 (1943).

27 Northern Pac. Ry. v. United States, 356 U.S. 1, 5, 78 S. Ct. 514, 518, 2 L. Ed. 2d 545, 550 (1958).

28 In the absence of express contractual provisions amounting to exclusive dealing or requirements contracts, the court may look to the substance of the relationship to determine if an illegal tying agreement exists. Furthermore the substance of the relationship will control even in those instances where the contract expressly states otherwise. Advance Bus. Syss. & Supply Co. v. SCM Corp., 415 F.2d 55, 64 (4th Cir. 1969).

29 *Id.* at 60.

30 Standard Oil Co. v. United States, 337 U.S. 293, 305, 69 S. Ct. 1051, 1058, 93 L. Ed. 1371, 1382 (1949).

The Antitrust Laws

Actions against illegal tie-ins, including those brought by governmental as well as private parties, are governed primarily by two federal statutes. Section 1 of the Sherman Act broadly proscribes "[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce . . . ."[31] Section 3 of the Clayton Act augments the Sherman Act for the purpose of dealing with the specific problems of exclusive dealing contracts and other conditional sales of goods.[32] The government's arsenal is supplemented by section 5 of the Federal Trade Commission Act, under which "[u]nfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are declared unlawful."[33]

The present antitrust laws are complemented further by growth in both state[34] and federal laws which deal specifically with franchise problems. Of particular import is the proposed Federal Trade Commission Rule[35] to deal with disclosure requirements and prohibition of certain acts and omissions of franchisors as being "an unfair method of competition and an unfair or deceptive act or practice within the meaning of Section 5"[36] of the Federal Trade Commission Act.

THE SUPREME COURT'S APPLICATION OF ANTITRUST LAWS TO TYING ARRANGEMENTS

Notwithstanding the broad prohibitions found in the statutory language, the Supreme Court has interpreted the antitrust laws as barring only unreasonable restraints of interstate commerce.[37] The tying of patented machines to unpatented supplies consistently has been found to be patent misuse, and, therefore, a violation of both the Sherman and Clayton Acts.[38]

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[31] 15 U.S.C. § 1 (1970).

[32] Section 3 of the Clayton Act, 15 U.S.C. § 14 (1970) provides:

> It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for the sale of goods . . . for use, consumption, or resale within the United States . . . on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods . . . of a competitor or competitors of the . . . seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

[33] 15 U.S.C. § 45(a) (1970). The FTC has announced that investigations are under way to determine whether restrictions upon the purchasing of materials and supplies in the franchise agreement are violative of section 5 of the Federal Trade Commission Act. CCH Trade Reg. Rep. No. 25, at 13 (June 19, 1972).

[34] *E.g.*, The California Franchise Investment Law, CAL. CORP. CODE § 31005 (Deering Supp. 1972). *See generally* Comment, *Franchise Regulation: An Appraisal of Recent State Legislation*, 13 B.C. IND. & COM. L. REV. 529 (1972).

[35] Proposed Trade Reg. § 436.1, 436.2, 36 Fed. Reg. 21607, 22187 (1971).

[36] *Id.*

[37] Northern Pac. Ry. v. United States, 356 U.S. 1, 5, 78 S. Ct. 514, 518, 2 L. Ed. 2d 545, 549 (1958).

[38] Turner, *The Validity of Tying Arrangements Under the Antitrust Laws*, 72 HARV. L.

*Summary of Pre-*Fortner Enterprises *Decisions*

In *International Salt Co. v. United States,*[39] the Court extended the reasoning of previous patent misuse cases, and found it to be

> unreasonable *per se*, to foreclose competitors from any substantial market. The volume of business [$500,000] affected by these [requirements] contracts cannot be said to be *insignificant* or *insubstantial* and the tendency of the arrangement to accomplishment of monopoly seems obvious.[40]

In *Times-Picayune Publishing Co. v. United States,*[41] the issue was whether the adoption of a unit plan of advertising for two newspapers owned by the same company was an unreasonable restraint of trade. The Court, after reviewing past tying decisions, distinguished the applicable rules of law:

> From the "tying" cases a perceptible pattern of illegality emerges: when the seller enjoys a monopolistic position in the market for the tying product, *or* if a substantial volume of commerce in the "tied" product is restrained, a tying arrangement violates the narrower standards expressed in § 3 of the Clayton Act because from either factor the requisite potential lessening of competition is inferred. And because for even a lawful monopolist it is "unreasonable, *per se,* to foreclose competitors from any substantial market," a tying arrangement is banned by § 1 of the Sherman Act whenever *both* conditions are met.[42]

In applying the announced standards,[43] the Court found not only a *lack of market dominance*[44] from which a lessening of competition might be inferred, but *no dominant product* which could be "tied" within definitional requirements of an illegal tying arrangement.[45]

REV. 50, 51 (1958). *See* International Bus. Mach. Corp. v. United States, 298 U.S. 131, 56 S. Ct. 701, 80 L. Ed. 1085 (1936), and United Shoe Mach. Corp. v. United States, 258 U.S. 451, 42 S. Ct. 363, 66 L. Ed. 708 (1922), which was the first case in which the Supreme Court found tying as a basis for antitrust violation.

39 332 U.S. 392, 68 S. Ct. 12, 92 L. Ed. 20 (1947).

40 *Id.* at 396, 68 S. Ct. at 15, 92 L. Ed. at 26 (emphasis added).

41 345 U.S. 594, 73 S. Ct. 872, 97 L. Ed. 1277 (1953).

42 *Id.* at 608, 73 S. Ct. at 880, 97 L. Ed. at 1290 (Court's emphasis).

43 The United States did not allege a violation of section 3 of the Clayton Act. *Id.* at 609, 73 S. Ct. at 881, 97 L. Ed. at 1290. The apparent reason for such failure appears in an earlier "informal Federal Trade Commission opinion to the effect that advertising space was not a 'commodity' within the meaning of § 2 [§ 3] of the Clayton Act."

A more perplexing question arises in the failure of the United States to raise the issue of the copyrights on the newspapers. The Court had already found "blockbooking" of copyrighted films to be illegal in United States v. Paramount Pictures, Inc., 334 U.S. 131, 68 S. Ct. 915, 92 L. Ed. 1260 (1948), by drawing an analogy between copyrighted films and patents.

44 Times-Picayune Publishing Co. v. United States, 345 U.S. 594, 611, 73 S. Ct. 872, 882, 97 L. Ed. 1277, 1291 (1953).

45 [T]he essence of illegality in tying arrangements is the wielding of monopolistic

In addition, the contracts had an "open end;"[46] purchasers could obtain advertising elsewhere. Finally, although trade had been restrained, the predominant motives were legitimate business requirements.[47] Consequently, the restraints were reasonable,[48] did not fall within the "class of restraints that are illegal *per se*,"[49] and the judgment was reversed.

The attempted clarification in *Times-Picayune* led to confusion. Two essential questions evolved; first, did the rule of *International Salt* apply only in patent tie-ins;[50] and, second, what was the effect of the language in *Times-Picayune* which referred to " 'monopoly power' and 'dominance' over the tying product as a necessary precondition of the rule of *per se* unreasonableness to tying arrangements?"[51] The Court, speaking through Justice Black, in *Northern Pacific Ry. v. United States*,[52] stated that the decision in *International Salt* was rendered, "[i]f anything . . . *despite* the fact that the tying item was patented, not because of it."[53] Furthermore, the language used in *Times-Picayune* was construed as not "requiring anything more than *sufficient economic power* to impose an appreciable restraint on free competition in the tied product . . . ."[54] The Court also found that the two cases were not in conflict when read in conjunction with other decisions.[55] When considered in this manner, *Times-Picayune* and the other cases merely clarify the Court's position which is to disfavor "the use of economic

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leverage; a seller exploits his dominant position in one market to expand his empire into the next.

Id. at 611, 73 S. Ct. at 882, 97 L. Ed. at 1291.

. . . .

The common core of the adjudicated unlawful tying arrangements is the forced purchase of a second distinct commodity with the desired purchase of a dominant "tying" product, resulting in economic harm to competition in the "tied" market. Here, however, two newspapers under single ownership at the same place, time, and terms sell *indistinguishable products* to advertisers; no dominant "tying" product exists (in fact, since space in neither the Times-Picayune nor the States can be bought alone, one may be viewed as "tying" as the other); *no leverage in one market excludes sellers in the second, because for present purposes the products are identical and the market the same.*

Id. at 614, 73 S. Ct. at 883, 97 L. Ed. at 1293 (emphasis added).

46 *Id.* at 615, 73 S. Ct. at 884, 97 L. Ed. at 1294.

47 The test for determining reasonableness under section 1 of the Sherman Act "must focus on 'the percentage of business controlled, the strength of the remaining competition (and) whether the action springs from business requirements or purpose to monopolize.' " *Id.* at 615, 73 S. Ct. at 884, 97 L. Ed. at 1294 (citation omitted).

48 "In summary, neither unlawful effects *nor aims* are shown by the record." *Id.* at 624, 73 S. Ct. at 889, 97 L. Ed. at 1299 (emphasis added).

49 *Id.* at 614, 73 S. Ct. at 883, 97 L. Ed. at 1293.

50 Northern Pac. Ry. v. United States, 356 U.S. 1, 9, 78 S. Ct. 514, 520, 2 L. Ed. 2d 545, 552 (1958).

51 *Id.* at 11, 78 S. Ct. at 521, 2 L. Ed. 2d at 553.

52 *Id.*

53 *Id.* at 9, 78 S. Ct. at 520, 2 L. Ed. 2d at 552.

54 *Id.* at 11, 78 S. Ct. at 521, 2 L. Ed. 2d at 553 (emphasis added).

55 *Id.* at 11, 78 S. Ct. at 521, 2 L. Ed. 2d at 553.

power in one market to restrict competition on the merits in another . . . ."[56]

The ultimate value of *Northern Pacific* is found in the Court's discussion of what constitutes an unreasonable restraint of trade and the attendant consequences:

> [T]here are certain agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are *conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use.* This principle of *per se* unreasonableness not only makes the type of restraints which are proscribed by the Sherman Act more certain to the benefit of everyone concerned, but it also avoids the necessity for an incredibly complicated and prolonged economic investigation into the entire history of the industry involved . . . in an effort to determine at large whether a particular restraint has been unreasonable—an inquiry so often wholly fruitless when undertaken.[57]

Since *Northern Pacific*, the Court has considered block booking of television films and has found them violative of section 1 of the Sherman Act on the basis of uniqueness:

> Market dominance—some power to control price and exclude competition—is by no means the only test of whether the seller has the requisite economic power. *Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes.*[58]

Furthermore, the Court has determined that the doctrine *in pari delicto*[59] does not constitute a defense in private antitrust actions.[60]

This cursory review of the leading tie-in cases has revealed the requisite elements and the manner of ferreting out an illegal tying arrange-

56 *Id.* at 11, 78 S. Ct. at 521, 2 L. Ed. 2d at 553.

57 *Id.* at 5, 78 S. Ct. at 518, 2 L. Ed. 2d at 549 (emphasis added). The Court continued: "Of course where the seller has no control or dominance over the tying product so that it does not represent an effectual weapon to pressure buyers into taking the tied item any restraint of trade attributable to such tying arrangements would be insignificant at most." *Id.* at 6, 78 S. Ct. at 519, 2 L. Ed. 2d at 549.

58 United States v. Loew's, Inc., 371 U.S. 38, 45, 83 S. Ct. 97, 102, 9 L. Ed. 2d 11, 18 (1962) (emphasis added). In a footnote the Court further stated: "[I]t should seldom be necessary in a tie-in sale case to embark upon a full-scale factual inquiry into the scope of the relevant market for the tying product and into the corollary problem of the seller's percentage share in that market." *Id.* at 45 n.4, 83 S. Ct. at 102 n.4, 9 L. Ed. 2d at 18 n.4.

59 The Latin term *in pari delicto* means of equal fault.

60 Perma Life Mufflers, Inc. v. International Parts Corp., 392 U.S. 134, 88 S. Ct. 1981, 20 L. Ed. 2d 982 (1968). The Court reasoned: "[T]he plaintiff who reaps the reward of treble damages may be no less morally reprehensible than the defendant, but the law encourages his suit to further the overriding public policy in favor of competition." *Id.* at 139, 88 S. Ct. at 1984, 20 L. Ed. 2d at 990.

ment. However, in *Fortner Enterprises, Inc. v. United States Steel Corp.*,[61] the Court notably expanded the application of the per se rule of illegality,[62] and as a result, *Fortner* has become the leading case in any discussion of the illegality of tie-ins.

Fortner Enterprises, Inc. v. United States Steel Corp.

The issue in *Fortner* was whether *credit* could be a tying item. The essential facts involved the sale of prefabricated housing manufactured by a division of United States Steel, and financing provided by the parent's wholly owned subsidiary. The plaintiff alleged the terms of the loans were unique, thus forcing him to erect noncompetitive houses or lose the benefit of the loan. The trial court found that the arrangement was a tie-in but granted summary judgment for United States Steel, noting that the plaintiff had failed to establish "sufficient economic power over the tying product and foreclosure of a substantial volume of commerce in the tied product."[63] The Supreme Court reversed and remanded, indicating that the standards applied in the lower court were "necessary only to bring into play the doctrine of *per se* illegality."[64] Furthermore, upon failure to establish the per se requisites, a plaintiff might still prevail on the merits.[65] Therefore, summary judgment was error.[66]

The Court found, however, that the petitioner had raised questions, which if proved at trial, would bring the tying arrangement within the scope of the per se doctrine.[67] To establish such violation, the plaintiff would first be required to show that the total amount of commerce affected by the tie-in was "substantial enough in terms of dollar-volume so as to not be merely *de minimus*. . . ."[68]

The expansion of the per se rule occurs in the second prerequisite, the standard of "sufficient economic power."[69] In reiterating the "uniqueness test" established in *United States v. Loew's, Inc.*,[70] the Court again rejected any consideration of market dominance in favor of a rule which would invalidate "any appreciable restraint on competi-

61 394 U.S. 495, 89 S. Ct. 1252, 22 L. Ed. 2d 495 (1969).

62 Warriner Hermetics, Inc. v. Copeland Refrig. Corp., 463 F.2d 1002 (5th Cir. 1972).

63 Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 497, 89 S. Ct. 1252, 1256, 22 L. Ed. 2d 495, 502 (1969).

64 *Id.* at 499, 89 S. Ct. at 1257, 22 L. Ed. 2d at 503.

65 *Id.* at 500, 89 S. Ct. at 1257, 22 L. Ed. 2d at 503.

66 *Id.* at 499, 89 S. Ct. at 1257, 22 L. Ed. 2d at 503.

67 *Id.* at 500, 89 S. Ct. at 1257, 22 L. Ed. 2d at 503.

68 *Id.* at 501, 89 S. Ct. at 1258, 22 L. Ed. 2d at 504.

69 *Id.* at 502, 89 S. Ct. at 1258, 22 L. Ed. 2d at 505.

70 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962). The crucial consideration, was stated by the majority in *Fortner*, quoting *Loew's*: "'Even absent a showing of economic dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes.'" Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 503, 89 S. Ct. 1252, 1258, 22 L. Ed. 2d 495, 505 (1969) (citation omitted).

tion."[71] Furthermore, "[*s*]*uch appreciable restraint results whenever the seller can exert some power over some of the buyers in the market*. . . ."[72] Thus, the Court extended the "uniqueness test" from the inherent statutory monopoly of the copyright to any situation in which "any appreciable restraint on competition" is found.[73]

Basic to the Court's reasoning was the finding of credit to be indistinguishable from other goods and services;[74] therefore, it could function as a restraint of competition.[75] Yet the Court stated that upon trial, "[i]t may turn out that the arrangement involved here serves legitimate business purposes and that United State Steel's subsidiary does not have a competitive advantage in the credit market."[76]

Without reservation, one may conclude that the Court did decide that the first task in determining the validity of a tying arrangement is to establish the existence of more than one product.[77] Second, the sufficiency of the restraint of commerce may be presumed unless it is *de minimus*,[78] and the total dollar value of the affected commerce is the figure to use in establishing such sufficiency.[79] Finally, uniqueness may suffice for the requisite economic power.[80] How "uniqueness" is to be determined when the barriers are economic is not precisely established in the Court's opinion,[81] but the underlying consideration would seem to be the seller's cost advantage in producing the unique item.[82]

The franchise relationship has not been the essential issue in any of these Supreme Court cases.[83] Therefore, the discussion now turns to

[71] Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 503, 89 S. Ct. 1252, 1258, 22 L. Ed. 2d 495, 505 (1969).

[72] *Id.* at 503, 89 S. Ct. at 1258, 22 L. Ed. 2d at 505 (emphasis added).

[73] *Id.* at 503, 89 S. Ct. at 1258, 22 L. Ed. 2d at 505.

[74] *Id.* at 509, 89 S. Ct. at 1261, 22 L. Ed. 2d at 508.

[75] *Id.* at 509, 89 S. Ct. at 1261, 22 L. Ed. at 508. It should be noted that the Court did not hold that market power might be inferred simply because the kind of credit terms offered might be "unique and unusual." *Id.* at 505, 89 S. Ct. at 1259, 22 L. Ed. 2d at 506. In fact, the Court did not decide that credit should be considered as a tying item in future cases. *Id.* at 507, 89 S. Ct. at 1260, 22 L. Ed. 2d at 507.

[76] *Id.* at 506, 89 S. Ct. at 1260, 22 L. Ed. 2d at 507.

[77] *Id.* at 507, 89 S. Ct. at 1260, 22 L. Ed. 2d at 507.

[78] *Id.* at 501, 89 S. Ct. at 1258, 22 L. Ed. 2d at 504.

[79] *Id.* at 502, 89 S. Ct. at 1258, 22 L. Ed. 2d at 504.

[80] *Id.* at 505, 89 S. Ct. at 1259, 22 L. Ed. 2d at 506.

[81] Fortner Enterprises, Inc. v. United States Steel Corp., 452 F.2d 1095, 1100 (6th Cir.), *cert. denied*, — U.S. — (May 15, 1972).

[82] Uniqueness confers economic power only when other competitors are in some way prevented from offering the *distinctive* product themselves. Such barriers may be legal, as in the case of patented and copyrighted products, . . . or physical, as when the product is land . . . . It is true that the *barriers may also be economic*, as when competitors are simply unable to produce the distinctive product profitably, *but the uniqueness test in such situations is somewhat confusing since the real source of economic power is not the product itself but rather the seller's cost advantage in producing it.*

Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 505 n.2, 89 S. Ct. 1252, 1259 n.2, 22 L. Ed. 2d 495, 506 n.2 (1969) (citations omitted) (emphasis added).

[83] The franchise relationship was at issue in *Fortner* as the appellant was a franchised dealer-builder of United States Steel's products, but such status was not essential to the

the specific application of antitrust laws to this relationship between the franchisor and his licensee.

THE ANTITRUST LAWS AS APPLIED TO THE FRANCHISE RELATIONSHIP

Susser v. Carvel Corp.

In *Susser v. Carvel Corp.*[84] the franchise agreement between Carvel[85] and its franchisees posed two significant problems:[86] the licensee of the trademark was required to deal exclusively in Carvel products, and to purchase all of the items sold as part of the retail product from Carvel or sources which it had approved.[87] The franchisees alleged that these contractual provisions were illegal per se as tie-ins in violation of section 1 of the Sherman Act and section 3 of the Clayton Act.

The three judges of the Court of Appeals for the Second Circuit agreed that the licensor had no obligation to accede to the demands of its franchisees to market products unrelated to the trademark. There was also a basic agreement on the validity of the supplier contracts which obligated the suppliers of the basic mix to deal directly with Carvel and not with the individual dealers.[88] The harmony of the court, however, disappeared when considerations turned to the alleged tie-in of other products, and the requisite standard of power necessary to establish an antitrust violation. Judge Lombard's dissent asserted that there was no essential difference "between the power generated by a patent or copyright on the one hand and that generated by a trade-

Court's opinion. The Court also entertained questions concerning the franchise relationship in Perma Life Mufflers, Inc. v. International Parts Corp., 392 U.S. 134, 88 S. Ct. 1981, 20 L. Ed. 2d 982 (1968), but the essential issue was not the franchise relation, per se, but rather the tying of a full line of products to a trademarked muffler which was the essence of the relationship.

[84] 332 F.2d 505 (2d Cir. 1964), *cert. dismissed as improvidently granted,* 381 U.S. 125 (1965).

[85] By means of the franchise agreement Carvel Corp. was able to maintain a chain of 400 ice cream stores which were uniform in appearance and operation. The distinctive design of the sales outlets were protected by a design patent. In addition, the ice cream was processed from a mix prepared from a secret formula and was dispensed from a patented machine which bore the Carvel trademark. The paper containers, ice cream cones, and spoons also carried the Carvel name. *Id.* at 509.

[86] The plaintiff also alleged illegal price fixing which the Court found to be no more than suggested prices as the franchisee had the right to charge whatever price he desired. *Id.* at 510.

[87] The contracts at issue were changed in 1955, after the FTC began an investigation of these types of franchise agreements. The contract in existence previous to 1955 required the franchisee to purchase all equipment, paper goods, etc., as well as the basic ice cream mix, from Carvel or a designated source of supply. The agreement was subsequently amended to allow the franchisee to purchase the equipment and other supplies from independent sources so long as the quality standards were maintained. *Id.* at 509.

[88] *Id.* at 517, where the Court said:

> [I]t seems perfectly clear that as the possessor of a *secret formula* for its ice cream mix Carvel enjoyed the right to sell it to whomever it chose, and this right was not diluted by its agreement . . . [to allow independent manufacturers] to produce the mix. (Emphasis added.)

mark on the other."[89] The majority agreed that the "true tying item was the Carvel trademark"[90] and that a trademark could acquire "such prominence that the coupling of some further item to its license would constitute a *per se* violation; but such a trademark would [necessarily] satisfy the *market dominance test* . . . [and] [t]he figures show that [the] Carvel [trademark] is not such a mark."[91] Furthermore, if the requisite market dominance had been evidenced, as asserted by Judge Lombard, the majority found the restraints imposed by Carvel were justified under the circumstances.[92]

The *Carvel* decision temporarily established the legal right of the franchisor to impose restrictions on the franchisee's external relations. Yet in *Fortner,* the Supreme Court totally repudiated the market dominance test. The time was ripe for a change in franchise law. In *Siegel v. Chicken Delight, Inc.,*[93] the Court of Appeals for the Ninth Circuit affirmed the district court's application of the *Fortner* "standard of economic power," and significantly altered the franchise relationship.

Siegel v. Chicken Delight, Inc.

The *Chicken Delight*[94] decision originated in a class action suit[95] in which the plaintiffs asserted damages resulting from restraints imposed by a franchise agreement. The franchisees alleged these restraints were in violation of section 1 of the Sherman Act. The license granted by the franchisor, Chicken Delight, Inc., granted the right to prepare and market certain food products under the Chicken Delight trademark, but instead of charging franchise fees or royalties, the license *standard*

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89 *Id.* at 513. Judge Lombard, in the dissenting portion of his opinion, would have held the existence of the trademark itself to be sufficient to bring the *per se* rule into effect, and if Carvel failed to advance sufficient justification, the franchisees would have prevailed. *Id.* at 514. In essence, Judge Lombard was asserting that the uniqueness test, as applied in the *Loew's* case, should be substituted for the market dominance test which the majority found to be the proper standard.

90 *Id.* at 519.

91 *Id.* at 519.

92 The majority noted that tying arrangements may be distinguished from the strict per se rules which otherwise might be applied:

> Tying arrangements differ from other *per se* violations, such as price fixing, in that they can be justified on occasion, as by proof that "the protection of good will may necessitate" their use "where specifications for a substitute would be so detailed that they could not be practicably supplied . . . ."

Id. at 519 (citations omitted). In essence, the per se rule which applies to tying arrangements is really nothing more than the establishment of a prima facie violation; the defendant is allowed to justify the tying arrangement after the plaintiff has shown a per se violation. *See* Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 506, 89 S. Ct. 1252, 1260, 22 L. Ed. 2d 495, 507 (1969).

93 311 F. Supp. 847 (N.D. Cal. 1970), *aff'd,* 448 F.2d 43 (9th Cir. 1971), *cert. denied,* 405 U.S. 955 (1972).

94 Siegel v. Chicken Delight, Inc., 311 F. Supp. 847 (N.D. Cal. 1970), *aff'd,* 448 F.2d 43 (9th Cir. 1971), *cert. denied,* 405 U.S. 955 (1972).

95 For an authoritative review of class action suits *see generally* Newberg, *Orders in the Conduct of Class Actions: A Consideration of Subdivision (d),* 10 B.C. IND. & COM. L. REV. 577 (1969).

form contract required the franchisees to purchase exclusively from the franchisor a specified number of cookers and fryers, as well as certain packaging supplies and mixes.

In defense of the tying arrangement, Chicken Delight alleged

(1) Quality control for protection of trademark goodwill;
(2) New business justification;
(3) A convenient accounting device for compensation of trademark license; and
(4) Franchisor's assurance [to the franchisee] of initial equipment and a continuing source of supply of essential items.[96]

The trial court summarily ruled, as a matter of law, that the latter two asserted justifications could not and did not justify "so onerous an anti-competitive device as the tie-in agreement herein condemned."[97] Furthermore, the new business justification could not apply, as a matter of law, when the undisputed facts were that Chicken Delight was not a new business.[98]

The defense of quality control for protection of tradmark goodwill was severed by the court into two considerations—the tie-in of paper products, and the tie-in of the dip and spice mixes and the cookers and fryers. The paper products requirement served only to meet a need for distinctive packaging, and could have been manufactured by any competent manufacturer if the defendants had furnished the requisite specifications.[99] Consequently, that requirement, when tied to the Chicken Delight trademark, could not be justified as a matter of law.

With reference to the remainder of the severed justification issue, the defendant-franchisor alleged that the dip and spice mixes were secret and imparted a "unique and distinctive flavor to the final products."[100] Furthermore, the cookers were alleged to be uniquely adapted to prepare the food in a special manner. Here, the court relied on *Carvel* and held that "where quality of food is a consideration the quality control defense is relevant to the issue of justification of a tie-in."[101] However, contradictory evidence was offered by the plaintiffs and the court submitted the issue as a question of fact for the jury. In two special verdicts, the jury found that the dip and spice mixes, and the cookers and fryers were *not* legally *justified* under instructions given by the court.[102] Since the defendants failed in their attempted justification, and

[96] Siegel v. Chicken Delight, Inc., 311 F. Supp. 847, 850 (N.D. Cal. 1970), *aff'd*, 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).
[97] *Id.* at 850.
[98] *Id.* at 851.
[99] *Id.* at 851.
[100] *Id.* at 852.
[101] *Id.* at 852.
[102] *Id.* at 852 (emphasis added).

the requisites of an illegal tie-in had been established, the court ruled that a per se violation was evidenced and gave judgment to the plaintiffs.[103]

Carvel and Chicken Delight: Harmony or Conflict?

The obvious conclusion is that *Carvel* and *Chicken Delight* faced the same basic questions but reached different answers. Inferences may be drawn from *Chicken Delight* which in essence indicate that the decision was closely paralled to the dissenting opinion of *Carvel*.[104] Yet there exists a basic agreement in both decisions; *the trademark itself may be a tying item.*

The conflict in the two decisions is directly related to the Supreme Court's opinion in *Fortner*; the extension of the "unique test" beyond the statutory monopoly of patents and copyrights provided the means for the two courts to differ. However, the basic distinction between *Carvel* and *Chicken Delight* is found in the application of the guiding language of *Standard Oil Co. v. United States*,[105] where Justice Frankfurter established the premise for the quality control justification:

> *The only situation, indeed, in which the protection of good will may necessitate the use of tying clauses is where specifications for a substitute would be so detailed that they could not practicably be supplied.*[106]

The language was applied in *Carvel*, by the majority, as a means of rebutting the dissenting assertions that even the ice cream mix might be considered tied to the trademark and the host of patents owned by the franchisor.[107] Thus, according to the majority in *Carvel*, even if such assertions were true, the result of such conclusions would "impose an impracticable and unreasonable burden"[108] and would not be valid under *Standard Oil*. Consequently, the majority ruled as a matter of law that the quality control question would justify the tying arrangement. In *Chicken Delight* the same language was determinative of the

103 The court found as a matter of law: (1) That there was an unlawful tie-in arrangement; (2) That sufficient market control existed; and, (3) That a not insubstantial amount of commerce was affected. *Id.* at 852.

104 *See* Warriner Hermetics, Inc. v. Copeland Refrig. Corp., 463 F.2d 1002 (5th Cir. 1972).

105 337 U.S. 293, 69 S. Ct. 1051, 93 L. Ed. 1371 (1949).

106 *Id.* at 306, 69 S. Ct. at 1058, 93 L. Ed. at 1382 (emphasis added). Two distinctions are noteworthy. *Standard Oil* concerned a requirements contract but no issue of trademark was present, and the Court was not applying the quoted passage to the case at hand. Furthermore, this language was drawn only for purposes of analogy from the per se violation in *International Salt* where a patented item was tied to a nonpatented product.

107 Susser v. Carvel Corp., 332 F.2d 505, 519 (2d Cir. 1964), *cert. dismissed as improvidently granted*, 381 U.S. 125 (1965).

108 *Id.* at 520.

issue, but the court there determined that the matter of quality control requirements was one of fact for the jury.

The two leading cases which have dealt with the specific problems inherent in the tying of commodities to the trademark have provided a basic formula for determining the validity of such tie-ins. To establish an unlawful tying arrangement the plaintiff must establish the following three elements:[109]

(1) [T]hat the scheme in question involves two distinct items and provides that one (the tying product) is also purchased.[110]
(2) [T]hat the tying product posses sufficient *economic power* appreciably to restrain competition in the tied product market. [111]
(3) [T]hat a "not insubstantial" amount of commerce is affected by the arrangement.[112]

Of these elements, the third requisite has posed very little problem for plaintiffs. Furthermore, the extension of the uniqueness test in *Fortner* has likewise made the second element much less significant. The requirement of two products, however, is a very viable consideration and must be surmounted if an illegal tie-in is to be found.

Beyond these three elements, is the effect of *business justification*.[113] If the basic motivation of the franchisor is such as to bring the tying arrangement within the "reasonable"[114] framework, he may prevail.

JUSTIFYING TYING ARRANGEMENTS IN ANTITRUST SUITS

Traditionally, when confronted with the illegal tie-in the defense has been either the prerequisites of maintaining product goodwill or the protection of the trademark.[115] In reality the trademark value is nothing more than a reflection of goodwill. Although the two defenses are so interlocked that they may be considered as only one defense,[116]

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109 These above elements are summarized in the text of Siegel v. Chicken Delight, Inc., 448 F.2d 43, 47 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

110 Times-Picayune Publishing Co. v. United States, 345 U.S. 594, 614, 73 S. Ct. 872, 883, 97 L. Ed. 1277, 1293 (1953).

111 Northern Pac. Ry. v. United States, 356 U.S. 1, 6, 78 S. Ct. 514, 518, 2 L. Ed. 2d 545, 550 (1958) (emphasis added).

112 International Salt Co. v. United States, 332 U.S. 392, 396, 68 S. Ct. 12, 15, 92 L. Ed. 20, 26 (1947).

113 *See* United States v. Jerrold Electronics Corp., 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567, 81 S. Ct. 755, 5 L. Ed. 2d 806 (1961) (emphasis added).

114 Dennison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 407 (5th Cir. 1962). *See also* United States v. Jerrold Electronics Corp., 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567, 81 S. Ct. 755, 5 L. Ed. 2d 806 (1961).

115 *See* McCarthy, *Trademark Franchising and Antitrust: The Trouble with Tie-ins*, 58 CALIF. L. REV. 1085, 1110 (1970).

116 *See* Comment, *Tying Arrangements Under the Antitrust Laws: The "Integrity of the Product" Defense*, 62 MICH. L. REV. 1413 (1964).

for explanatory purposes the defense is more appropriately discussed as two separate entities.

Goodwill

That goodwill is a valid defense is firmly established.[117] The goodwill defense is valid where the defendant can prove that the tying product works in a satisfactory manner only when used in conjunction with the tied product.[118] However, this defense is available only in highly restricted situations, *i.e.*, only where less restrictive means of protection are not available.[119]

Protection of Trademark

The assertion of the protection of the trademark as a sufficient reason for validating an otherwise illegal tying arrangement has developed, as an inferential concept, from the language of the statute which governs trademarks.[120] The Lanham Act[121] defines a trademark as including, "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."[122] There is no specific provision which permits trademark licensing, but by inference and subsequent case law, it has been approved when the licensor maintains quality control over the goods and services upon which the mark is used.[123] If the franchisor fails to maintain this quality control, his trademark may be deemed "abandoned."[124]

The historical concept of trademarks was as a "strict emblem of source of the product to which it attaches."[125] This concept has generally been disregarded in favor of a newly developed "rationale for trademarks as representations of product quality."[126]

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117 *See* Advance Bus. Sys. & Supply Co. v. SCM Corp., 415 F.2d 55, 68 n.11 (4th Cir. 1969).

118 *Id.* at 68 n.11; *see* Dehydrating Process Co. v. A.O. Smith Corp., 292 F.2d 653 (1st Cir.), *cert. denied*, 368 U.S. 931 (1961). Here the court held that a tying arrangement was not in violation of the Clayton Act. The fact that 50 per cent of the manufacturers were dissatisfied led to the conclusion that the tying policy was reasonable to protect good will of the product.

119 International Salt Co. v. United States, 332 U.S. 392, 68 S. Ct. 12, 92 L. Ed. 20 (1947).

120 Comment, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171, 1178 (1963).

121 15 U.S.C. §§ 1051-1127 (1970).

122 *Id.* § 1127.

123 *E.g.*, Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959); Alligator Co. v. Robert Bruce, Inc., 176 F. Supp. 377 (E.D. Pa. 1959).

124 15 U.S.C. § 1127 (1970).

125 Siegel v. Chicken Delight, Inc., 448 F.2d 43, 48 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972). *See generally* Comment, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171 (1963).

126 Siegel v. Chicken Delight, Inc., 448 F.2d 43, 48 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972). Under this new concept:

> [T]he trademark simply reflects the goodwill and quality standards of the enterprise which it identifies. As long as the system of operation of the franchisees lives up to

The validity of this new rationale for trademarks may be no more than a moot question in view of the general acceptance of it by legal scholars.[127] Yet the manner in which it has been applied to the franchise relationship may still be debatable. The basic agreement in *Carvel* and *Chicken Delight* was that a trademark can fulfill the requirements of an illegal tying arrangement. In effect, therefore, no significant difference is made between tying arrangements, patents, and copyrights. This conclusion is diametrically opposed to the premise upon which the Lanham Act was passed. The purpose of the Act was not only to protect the public, but also to secure "to the owner the good will of his business."[128] Furthermore, this could be done with no fear of monopoly for "[t]rade-marks are not monopolistic grants like patents and copyrights."[129]

Obviously, current case law does not regard this legislative history as binding; the trademark is being treated as if it were a monopolistic grant. In *Chicken Delight* the trademark protection defense was raised unsuccessfully except for the question concerning the validity of tying the basic mix to the trademark.[130] However, the court determined that this basic mix used in preparing the product to which the trademark would traditionally attach, and the product itself, were subject to the test of reasonableness of specifications to be manufactured or prepared by others.[131] The inherent conclusion is that the defense of trademark protection has been severely restrained by the application of the representation of product quality as the rationale for trademarks.

The conclusiveness which surrounds the traditional approaches is apparent. However, there are a few cases which may be considered as specific exceptions to the illegality of tying arrangements.

Specific Exemptions to the Illegality of Tying Arrangements

The most persuasive defense to an illegal tying allegation is the *single product doctrine.* In order to establish a tie-in there must be, by

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> the quality standards and remains as represented by the mark so that the public is not misled, neither the protection afforded the trademark by law nor the value of trademark to the licensee depends on the source of the components.

Id. at 49.

[127] *E.g.,* McCarthy, *Trademark Franchising and Antitrust: The Trouble with Tie-ins,* 58 CALIF. L. REV. 1085 (1970); Turner, *The Validity of Tying Arrangements Under the Antitrust Laws,* 72 HARV. L. REV. 50 (1958). *Contra,* Note, *Siegel v. Chicken Delight, Inc.: What's in a Name?,* 23 HASTINGS L.J. 1147 (1972).

[128] S. REP. No. 1333 (May 14, 1946), U.S. Code Cong. Serv. 1274 (1946).

[129] *Id.* at 1275.

[130] Siegel v. Chicken Delight, Inc., 311 F. Supp. 847, 851 (N.D. Cal. 1970), *aff'd,* 448 F.2d 43 (9th Cir. 1971), *cert. denied,* 405 U.S. 955 (1972).

[131] If the product is such as may reasonably be manufactured or prepared by others, the trademark licensor will be required to provide the specifications so that the franchisee may have opportunities to purchase from suppliers of his choice. *Id.* at 852; *see* Standard Oil Co. v. United States, 337 U.S. 293, 306, 69 S. Ct. 1051, 1058, 93 L. Ed. 1371, 1382 (1949).

definition, at least two products.[132] Consequently, if the defendant successfully asserts that only one product is involved, the suit should be dismissed. A significant problem occurs, however, in determining exactly what constitutes a single product in the franchise relationship. The trademark is an item of property and is severable from all other commodities.[133] *Chicken Delight* has established that supplies, including mixes, may not be considered a single franchise package. Yet current case law also reveals that advertising fees may be considered a non-severable item; recognizing that "[a]dvertising was not tied to the purchase of the license; it was the essence of the license."[134] There are no set standards for determining the existence of a single product, but in seeking to establish this defense, the following must be considered:[135]

1. The practice of others in the field, *i.e.*, do competitors sell only a complete system in a single package;
2. Whether all versions of the product are in the same form;
3. Whether each item is charged separately or only in one lump sum; and
4. Whether any portion of the package is optional.

The ultimate concern in illegal tying cases is not necessarily whether a tying arrangement exists, but if it is reasonable. The important question is, therefore, what is the main purpose of the tying arrangement?[136] Where a tie-in is merely ancillary to a lawful objective, the implication is that the tie-in will be examined under the reasonableness test.[137]

In *United States v. Jerrold Electronics Corp.*[138] the crucial question, as recognized by the court, was "whether Jerrold could have accomplished the ends it sought without requiring the contracts."[139] The court concluded that "Jerrold's policy and practice of selling its community equipment only in conjunction with a service contract was *reasonable* and not in violation of § 1 of the Sherman Act *at the time of its inception.*"[140]

Just how long it is reasonable for one to assert this exempted status for new businesses has not been determined, but we do know, as was

132 In Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 507, 89 S. Ct. 1252, 1260, 22 L. Ed. 495, 507 (1969), the Court said: "There is, at the outset of every tie-in case . . . the problem of determining whether two separate products are in fact involved."

133 *See* Siegel v. Chicken Delight, Inc., 311 F. Supp. 847, 849 (N.D. Cal. 1970), *aff'd*, 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

134 Kugler v. Aamco Automatic Transmissions, Inc., 337 F. Supp. 872, 876 (D. Minn. 1971).

135 *Id.* at 875.

136 Dennison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 407 (5th Cir. 1962).

137 *Id.* at 407.

138 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567, 81 S. Ct. 755, 5 L. Ed. 2d 806 (1961).

139 *Id.* at 557.

140 *Id.* at 557 (emphasis added).

found in *Chicken Delight*, the concern must in fact be a new business. The application in *Jerrold*, where the owners were in fact launching a new business with a highly uncertain future, would seem to set boundaries within which the assertion of the new business defense would have to fall. An indirect extension of this new business doctrine occurred recently when a federal court found that it was reasonable to require franchisees to purchase initial inventory and other services from the franchisor upon the opening of the franchised outlet.[141] Furthermore, current developments indicate that in situations in which a franchised outlet has been reacquired by the franchisor, the subsequent sale to another franchisee may be conditioned upon the purchase of the equipment along with the license to operate the business under the franchisor's trademark and trade name.[142]

CONCLUSION

If anything is definite in the application of antitrust law to tying arrangements, it is that the law is still developing. However, a fair conclusion is that the franchisor is definitely hard-pressed to justify tying arrangements at the present time. Whether the lines of illegality should be so stringently drawn should be a matter of immediate concern for our courts.

The basic purpose of the antitrust laws is to promote competition. In considering the overall effects of the rules under which franchising is to operate, it is of utmost importance to recall that Justice Douglas, in *Standard Oil*, predicted that the logical consequence of the Court's opinion would be the defeat of competition rather than its stimulation:

> The small, independent business man will be supplanted by clerks. Competition between suppliers . . . will diminish or cease all together. The . . . companies will command an increasingly large share of both the wholesale and the retail markets.[143]

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141 Abercrombie v. Lum's, Inc., No. 71-602-Civ-JLK (S.D. Fla., June 14, 1972).

142 Beefy Trail, Inc. v. Beefy King Int'l, Inc., No. 70-246-ORL-Civ (M.D. Fla., filed July 25, 1972).

143 Standard Oil Co. v. United States, 337 U.S. 293, 321, 69 S. Ct. 1051, 1067, 93 L. Ed. 1371, 1390 (1949) (dissenting opinion). Mr. Justice Douglas' conclusion was based on the following reasoning:

> The elimination of these requirements contracts sets the stage for Standard and other oil companies to build service-station empires of their own. The opinion of the Court does more than set the stage for that development. It is an advisory opinion as well, stating to the oil companies how they can with impunity build their empires. The formula suggested by the Court is either the use of the "agency" device, which in practical effect means control of filling stations by the oil companies, or the outright acquisition of them by subsidiary corporations or otherwise. [E]ither of those devices means increasing the monopoly of the oil companies over the retail field. (Citations omitted.)
>
> . . . .
>
> The effect which it [the requirements contract] has on competition in this field is

> . . . .
> The requirements contract which is displaced is relatively innocuous. . . . The Court approves what the Anti-Trust Laws were designed to prevent. It helps remake America in the image of the cartels.[144]

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minor compared to the damage which will flow from the judicially approved formula for the growth of bigness tendered by the Court as an alternative.

Id. at 320, 69 S. Ct. at 1067, 93 L. Ed. at 1389.

[144] *Id.* at 321, 69 S. Ct. at 1067, 93 L. Ed. at 1390.