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PRODUCT LIABILITY OF TRADEMARK LICENSORS

by

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Your client is driving carefully along, and suddenly is involved in an automobile accident. The accident is caused by tread separation of one of the Goodyear tires, manufactured by a Goodyear licensee in England. Can your client recover from Goodyear USA, the licensor?

The Supreme Court of Arizona recently held that the answer to this questions is yes. *Torres v. Goodyear Tire & Rubber Company*, Answer to Certified Questions, No. CV-89-0047-CQ, Memorandum at 16 (Ariz. Jan. 11, 1990), [Torres II]. Goodyear Tire and Rubber Company (Goodyear), as a trademark licensor who actively participated in the design, manufacture, promotion and sale of a defective product may be held liable for injuries caused when the licensed product is found to be defective and unreasonably dangerous.

TORRES FACTS

While driving a 1977 Triumph, manufactured in Great Britain, the Torres were involved in an automobile accident. The alleged cause of the accident was tread separation of one of the original tires which bore the legend "Goodyear". The tire was manufactured by Goodyear Tyre & Rubber (Great Britain), Ltd. (Goodyear GB) and designed by Goodyear International Technical Center, a division of Goodyear SA of Luxembourg (Goodyear SA). It was unclear as to which division issued the tire specifications. The evidence presented revealed that Goodyear International Corporation operates most of the foreign subsidiaries. Goodyear International is also a subsidiary. Most of the stock of the subsidiaries is owned by Goodyear. Goodyear retains control of its subsidiaries via a commonality of officers and directors between Goodyear and its subsidiaries.

Goodyear actively participates in the research, development and trademark licensing of its tires. Its involvement extends to warranting and advertising. The use of the Goodyear trademark is conditioned upon Goodyear's control of the domestic and foreign manufacturing process and quality assurance of its products. In conjunction, Goodyear honors any and all valid warranty claims on tires bearing the Goodyear trademark which are manufactured by either Goodyear or one of its subsidiaries.

The licensing agreement between Goodyear and Goodyear GB allows for the manufacture of Goodyear-trademark tires in accord with its formulas, specifications and directions which include utilizing Goodyear approved materials and complying with Goodyear production, labeling, marketing and packaging requirements.

The district court granted summary judgment in favor of Goodyear stating that the expansive theories of liability asserted by the Torres', (the "apparent manufacturer" doctrine; principles of apparent agency or agency by estoppel; the Arizona law of manufacturers warranties; and the "enterprise theory" of strict products liability) had not been adopted by either the Arizona Courts or the legislature. Affirming the summary judgment on all but one theory of liability, the Ninth Circuit certified to the Arizona Supreme Court the question of whether the "enterprise liability" theory could be utilized by the plaintiffs to hold Goodyear strictly liable. *Torres v. Goodyear Tire & Rubber Co. Inc.*, 867 F.2d 1234, 1239 (9th Cir. 1989), [Torres I].

The Arizona Supreme Court held that "Arizona's common law and statutes would countenance the imposition of strict liability on trademark licensors significantly involved in the overall process by which the product reaches consumers." *Torres II* (to date, this is an unpublished opinion).

APPLICATION OF ARIZONA LAW

The Arizona Supreme Court focused its opinion on the exercise of control by the trademark licensor in the design, manufacture and sale of the defective product. The Court held that:

[A]s a common law matter, trademark licensors who significantly participate in the overall process by which the product reaches its consumers, and who have the right to control the incidents of manufacture or distribution, are subject to liability under the rules of Restatement s.402A as adopted and applied in Arizona. Like lessors of products, they are the functional equivalent of manufacturers and sellers. *Torres II*, at 19.

Accordingly, the Ninth Circuit found that Goodyear's involvement was so significant that it reversed and remanded the case to the district court. *Torres v. Goodyear Tire & Rubber Co. Inc.*, 90 Daily Journal D.A.R. 4053, 4054 (April 16, 1990)[Torres III].

CALIFORNIA LAW

Liability in California against a trademark licensor may be even more expansive than in Arizona. California not only accepts the precepts of the Torres' decision in imposing strict liability on the trademark licensor who participates in the design, manufacture and quality of the merchandise bearing its marks, it potentially imposes liability on the licensor who only licenses the use of the mark. Strict liability would be imposed "upon the overall producing and marketing enterprise" responsible for placing defective products in the stream of commerce. *Kasel v. Remington Arms Co.*, 24 Cal.App.3d 711,724, 101 Cal. Rptr. 314 (1972). California has attached liability not only to the manufacturer of the defective products, but also, lessors, developers, licensors, retailers, and wholesale-retail distributors.

The Court in *Kasel* stated that "as long as the franchisor or trademark licensor can be said to be a link in the marketing enterprise which placed a defective product within the stream of commerce, there is no reason in logic for refusing to apply strict liability in tort to such an entity." *Id.*, at 725.

In *Kasel*, Remington Arms Co. executed a Trademark License Agreement, a Contract for the Sale of Technical Information and a Technical Services Contract with a Mexican ammunition manufacturing company called Cartuchos Deportivos De Mexico S.A. (CDM). CDM was granted a 20-year nonexclusive, nontransferable license to use Remington's registered trademarks on the ammunition it manufactured. However, Remington retained the right to approve the use of the marks on the ammunition, the packaging and all advertising. Further, Remington had the ability to monitor and inspect quality control of the ammunition manufactured by CDM. The plaintiff in *Kasel* was injured when the defective ammunition, which bore the mark "Remington," allegedly manufactured by CDM exploded.

The Court in *Kasel* stated that "the precise legal relationship between the parties has not played a particularly significant role in the cases imposing strict liability." Further the Court went on to hold that "[i]t is the defendant's participatory connection, for his personal profit or other benefit, with the injury-producing product and with the enterprise that created consumer demand for and reliance upon the product...which calls for imposition of strict liability." *Id.*

CONCLUSION

The Torres' decisions, although Arizona law, reemphasize California's position of imposing strict liability on those entities merely participating in the "stream of commerce" from which the defective product enters the marketplace. The trademark licensor, one who merely licenses a manufacturer to use a particular trademark, should be aware of the potential liability if the products bearing its marks turn out to be defective in any way, shape or form. The more the licensor participates in the design, manufacture and quality of the product, the greater its chances for possible strict tort liability.

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