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TRADEMARKS

The authors revisit the theory of liability of trademark licensors for the torts of their licensees in light of the development of the so-called ''sharing economy.''

Torts Über Trademarks or Trademarks Über Torts: That is the Question

BY KENNETH B. GERMAIN AND SEAN K. OWENS

Liability of trademark licensors for the torts of their licensees has been of topic of considerable discussion[1] and case law[2] for over 35 years. The topic deserves to be revisited today because the development of the so-called ''sharing economy,'' including ''ridesharing'' services such as Uber (and Lyft, Sidecar, etc.) and lodging booking services such as Airbnb, warrant consideration of *whether and to what extent product liability concepts per se should be carried over into what can be dubbed ''service liability.''*[3]

Ken Germain, of counsel to Wood Herron & Evans, Cincinnati, has more than 35 years of varied experience in the trademark/unfair competition field and is a former full-time law professor, having taught courses on both trademarks and torts. He focuses his practice on trademark counseling, consulting and litigation. He is also a member of this publication's advisory board.

Sean Owens is an associate at Wood Herron & Evans, whose practice focuses on trademarks, copyrights, and related soft-side intellectual property matters. Sean has also served as an adjunct professor at the University of Cincinnati College of Law.

[1] *See, e.g.*, K. Germain, *Tort Liability of Trademark Licensors in an Era of ''Accountability'': A Tale of Three Cases*, 69 Trademark Rep. 128 (1979); T. Gorman, Limitations on Licensor's Liability: Can a Licensor Get Away with Capping Trademark Liability? Hotel Business Review (June 2015), at http://hotelexecutive.com/business_review/2505/limitations-on-licensors-liability-can-a-licensor-get-away-with-capping-trademark-liability; M. Carrey and L. Eulgen, *New Concerns Over Product Liability Risk for Trademark Licensors*, The National Law Review (Dec. 11, 2012) J. C. Thompson, Jr. and C Peters, *Litigation: Trademark licensor liability in product-liability cases*, Inside Counsel (Oct. 18, 2012), at http://www.insidecounsel.com/2012/10/18/litigation-trademark-licensor-liability-in-product; E. Higgins, *Trademark licensors potentially subject to strict liability*, New England In-House (Oct. 7, 2011), at http://newenglandinhouse.com/2011/10/07/trademark-licensors-potentially-subject-to-strict-liability/; and Behringer, J. W. and Otte, M. A., *Liability and the Trademark Licensor: Advice for the Franchisor of Goods or Services*, American Business Law Journal, 19: 109-152 (Aug. 22, 2007).

[2] *See, e.g., Lou v. Otis Elevator Co.*, 77 Mass. App. Ct. 571 (Mass. App. Ct. 2010); *Lopez v. El Palmar Taxi, Inc.*, 297 Ga. App. 121 (Ga. Ct. App. 2009); *Kennedy v. Guess, Inc.*, 806 N.E.2d 776 (Ind. 2004); *Patterson v. Central Mills, Inc.*, 112 F. Supp. 2d 681 (N.D. Ohio 2000); *Yoder v. Honeywell, Inc.*, 104 F.3d 1215 (10th Cir. 1997), *cert denied*, 522 U.S. 812 (1997); *Mobil Oil Corp. v. Bransford*, 648 So. 2d 119 (Fla. 1995). *See also* J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 18:74, at 18-189 (''As Professor Kenneth B. Germain perceptively observed, there exists an '. . . emerging, probably unstoppable trend in favor of holding trademark licensors liable for the tortious conduct of their licensees. . . . ' '' quoting 69 Trademark Rep. 128 (1979), supra note 1, at 141 n.50.

[3] M. Cohen and C. Zehngebot, *Heads Up: What's Old Becomes New: Regulating the Sharing Economy*, Boston Bar Journal (Spring, 2014). This terminology also follows naturally from recognition of what Mr. Germain often has dubbed ''ser-

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To the point: Torts Uber Trademarks *or* Trademarks Uber Torts?

A. Traditional Torts Approach

A number of basic theories have been proposed for why society should extend liability to trademark licensors, including honoring justifiable reliance, preventing preventable losses, and spreading liability for unpreventable losses. Courts, in turn, have at various times extended (or declined to extend) tort liability to trademark licensors both through direct and vicarious theories of liability, with the latter being based in various situations on either negligence/warranty approaches or a strict liability approach. Hesitance by some courts to extend liability—which typically manifests itself in what can be seen as hypertechnical, fact-specific inquiries relating to how involved the licensor was with the design, manufacture, distribution and/or usage of the defective product (e.g., was the licensor the ''apparent manufacturer,'' was there ''additional involvement'' in the stream of commerce beyond a mere license, etc.)—accounts for many of the decisions holding *no* tort liability for trademark licensors.[4]

More recent case law remains in flux as courts continue to complicate and categorize inquiries over whether product liability should be extended to trademark licensors.[5] As noted, liability in these cases typically depends upon how involved the licensor was with the product or trademark usage, which is supported by the evolution of the Restatement of Torts from Second to Third.[6] Academics, on the other hand, have come out consistently in favor of extending liability to trademark licensors, regardless of their level of involvement.[7]

B. The Modern ''Sharing Economy''

But what is this new sharing economy and how does it relate to the somewhat muddied waters of trademark licensor product/service liability? At its most basic level, the sharing economy involves individuals sharing their personal property and/or resources (physical goods, services, time, etc.) with others for a fee (or, in some cases, an exchange of equally valued goods or services). While the core concept of a sharing economy (sometimes also described as ''collaborative consumption'') has been recognized by economists since at least the mid-1980s, the practice has increased significantly in recent years with the advent and widespread acceptance of services such as Uber, Airbnb, and a host of similar companies promising everything from pet care to personal loans.[8]

These services typically provide a centralized online or mobile platform through which consumers can connect with each other and facilitate a transaction of one sort of another. By way of example, in the ''olden days,'' a taxi company would own a fleet of vehicles and employ drivers. Under the new sharing economy, Uber offers a taxi-like service in which individuals may request a ride through the Uber ''app'' (software for a mobile device such as a smart phone). A private individual acting as a driver for Uber will receive that request through a similar app, and will pick up and drive the requester to the destination of his or her choice. Payment and reviews are all handled directly through the app using credit or debit cards. Thus, Uber avoids the cost of fleet ownership and costs associated with employing high numbers of drivers, etc. Instead, Uber ''merely'' provides the platform and technology through which private individuals may pay to receive rides from others.

Issues, of course, arise when users of sharing economy platforms, and/or unrelated third parties, suffer injury as a result of the services being rendered. As these platforms have grown[9], so too have reports of injuries sustained from accidents involving Uber drivers and hazards in Airbnb rental properties.[10] (In rare, but more troubling cases, individuals have brought charges against Uber drivers and Airbnb hosts—or vice versa—for crimes such as intentional property damage, and physical or sexual assault.[11])

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vice dress'' as in the Supreme Court's *Two Pesos, Inc., v. Taco Cabana, Inc.*, 505 U.S. 763 (1992).

[4] A structural analysis summarizing how liability could extend to trademark licensors under this existing doctrine was outlined in a presentation given by Ken Germain during the ''Avoid Liability: Trademark and Advertising Issues'' session at the 117th Annual Meeting of the International Trademark Association (Orlando, Florida; May 2, 1995). A portion of the relevant outline is attached hereto as Appendix A.

[5] *See, e.g., Lou*, 77 Mass. App. Ct. 571; *Lopez*, 297 Ga. App. 121; *Kennedy*, 806 N.E.2d 776; *Patterson*, 112 F. Supp. 2d 681; *Yoder*, 104 F.3d 1215; *Mobil*, 648 So. 2d 119.

[6] ''Trademark licensors are liable for harm caused by defective products distributed under the licensor's trademark or logo when they participate substantially in the design, manufacture, or distribution of the licensee's products. In these circumstances, they are treated as sellers of the products bearing their marks.'' *Restatement (Third) of Torts: Products Liability* § 14 at com. d (1998).

[7] *See, e.g.*, L. LoPucki, *Toward a Trademark-Based Liability System*, 49 U.C.L.A. L. Rev. 1009 at 1102-03 (2002) (''Trademark owners who authorize franchisees, subsidiaries, affiliates, and other licensees to use the owners' trademarks to identify themselves or their products to customers should be jointly and severally obligated for the licensees' liability to those customers''); see also, H. Gelb, *A Rush to (Summary) Judgment in Franchisor Liability Cases?*, 13 Wyo. L. Rev. 215 (2013); S. C. Jarvis, *Pure Confusion: Should Pure Licensors Share the Products Liability of Manufacturers and Sellers of Dangerously Defective Products?*, 61 DePaul L. Rev. 697 (2012); J. R. Deschamp, *Has the Law of Products Liability Spoiled the True Purpose of Trademark Licensing? Analyzing the Responsibility of a Trademark Licensor for Defective Products Bearing its Mark*, 25 St. Louis U. Pub. L. Rev. 247 (2006); J. H. King, Jr., *Limiting Vicarious Liability of Franchisors for the Torts of Their Franchisees*, 64 Wash & Lee L. Rev. 417 (2005); J. Hanks, *Franchisor Liability for the Torts of its Franchisees: The Case for Substituting Liability as a Guarantor for the Current Vicarious Liability*, 24 Okla. City U. L. Rev. 1 (1999); D. Franklyn, *The Apparent Manufacturer Doctrine, Trademark Licensors and the Third Restatement of Torts*, 49 Case W. Res. L. Rev. 671 (1999)

[8] While we use Uber and Airbnb as examples throughout this article due to their prominence in the marketplace, we do not mean to single them out or imply that they are bad actors. One author of the present article is an enthusiastic user of both Uber and Airbnb, and sincerely hopes that the positions taken herein do not negatively impact his user rating on either platform!

[9] *Travelers' Revolution*, USA Today, Aug. 20, 2015, at p. 5B (Airbnb currently boasts 1.5 million properties in 191 countries, with over 1 million travelers staying in Airbnb-listed properties on peak nights).

[10] *Reported List of Incidents Involving Uber and Lyft*, Who's Driving You? http://www.whosdrivingyou.org/rideshare-incidents.

[11] *Id.*

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C. A Possible New Paradigm

So the question then arises: who should be liable for such injuries arising from services rendered through sharing economy platforms? Are the actual ''Uber drivers'' solely responsible, or should liability also extend to the branded (and heavily publicized) platform through which the services are being rendered?

The response to such injuries from Uber and similar platforms has (not surprisingly) been mixed. When it first launched, Uber disclaimed any liability, and maintained that its drivers (as independent contractors) were solely responsible for any injuries caused while providing rides. The Uber app, it argued, merely facilitated private transactions among private individuals, and Uber itself was too far removed from those transactions to justify liability. Since then, similar services have continued to use contracts, terms of service, disclaimers, etc., designed to either avoid or limit liability, or to confine said liability to the users/licensees.[12]

While the platforms argue that their involvement is not sufficient to warrant extension of liability, we believe this situation demonstrates why courts should do away with a wide range of legal technicalities and factual inquiries. Courts should not split hairs over a trademark licensor's level of involvement. Rather, *the inquiry should focus on the ''source'' of the services. Who is understood to be providing and standing behind those services, and who is in the best position to provide compensation for injuries?* Such a view comports with the basic theories of honoring justifiable reliance, preventing preventable losses, and spreading liability for unpreventable losses. It also would ensure consistency and predictability with regard to distribution of risks, costs, and liabilities.

D. But Why Do Trademarks Affect Tort Liability?

It is worth remembering that one critical function of a trademark is to ''guarantee'' the quality of the products or services offered under the mark. As postulated by one group of authors:

> [F]ew trademarks today function primarily as indicia of origin. Even where the maker is still known, a strong brand, today, is more a set of strong, favorable and unique associations, assuring an experience, than it is a reflection of a producer. A strong brand is a promise, an invisible contract with consumers, and a modern trademark is foremost a *trustmark*, not as to source but as to sensation.[13]

To put this view in context, when a consumer hears about the wonderful service called ''Uber'' that is touted as more convenient and user-friendly than traditional taxi cabs, the consumer then will download and install the slick *Uber* app on his or her smartphone. The consumer then submits credit or debit card information to Uber, opens the app to see cartoon ''uberX'' cars circling the block in real time, and can request an uberX car (a privately owned car operated by a licensee of Uber). Upon its arrival (often within just a few minutes), the consumer enters the car and is driven to the desired destination. *From this series of interactions and transactions, the consumer will associate the services being rendered (including the source and quality of those services) with Uber, not just with a private individual who happened to be driving the car and who is, in strict legal parlance, merely a licensee of Uber.*[14] While individual drivers can be rated by customers, the source-identifying function of the licensed trademark means that Uber, not the drivers, is ultimately reaping the primary benefits of that good will.

Accordingly, tort liability *should* extend to Uber without much legal ambivalence. Claims that these sharing platforms are too far removed to suffer liability seem to ignore the functions of the platforms' marks and result in an inequitable distribution of risk and resources. One should ''follow the money'' and extend liability to the service licensor (Uber, etc.), which should then be ready, willing, and able to provide adequate compensation (directly or indirectly) for those harmed as a result of conduct of individuals providing its trademark-bearing services. While this may increase the cost of doing business for the platforms/licensors, they are in the best position (financially, administratively, etc.) to sustain liability and provide compensation in an efficient manner. And in a competitive environment, the good will of being a good corporate citizen will inure to the benefit of the platforms/licensors. This would have the added benefit to the licensors of helping to improve their reputation and good will for being responsible corporate citizens who will stand behind their services.

E. How Have Sharing Economy Businesses Reacted?

As injuries have mounted from use of such services, Uber, Airbnb, etc., have been forced to modify their practices somewhat, if for no other reason than good public relations. For example, after reports of homes being vandalized by renters, Airbnb began offering a $50,000 ''guarantee'' to reimburse homeowners for intentional property damage. In the face of mounting claims of injuries from renters when staying in properties, Airbnb recently began providing U.S. homeowners with complementary insurance of up to $1 million in coverage for negligence claims filed by renters against homeowners.

However, the efficacy of such insurance policies has varied when one considers whether injured parties are being properly compensated (and by whom) because such policies are, almost uniformly, limited in scope and secondary to insurance held by the actual providers of the services (i.e., the drivers, the renters), whose insurance can vary widely.[15] Automobile, GCL, etc. insurance is typically regulated at the state level, with some

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[12] Uber Terms and Conditions, April 8, 2015, https://www.uber.com/legal/usa/terms.

[13] J. Swann, Sr., D. Aaker, and M. Reback, *Trademarks and Marketing*, 91 T.M.R. 787, 807 (2001) (emphasis in the original) (among the key attributes of modern marks discussed in this article are ''brand equity'' (which is generated by ''brand loyalty, awareness, perceived quality, and brand associations), ''authenticity'' (defined as ''a measure of the brand's credibility and legitimacy within the context of the product class''), and ''resilience'' (which is common among strong brands due to loyalty and trust, allowing the brand to ''weather occasional crises'')).

[14] The California Labor Commissioner also recently ruled that Uber drivers qualify as employees rather than independent contractors. This ruling is currently on appeal in California state court. S. McBride, *In California, Uber driver is employee, not contractor: agency*, (June 18, 2015) http://www.reuters.com/article/2015/06/18/us-uber-california-idUSKBN0OX1TE20150618.

[15] R. Lieber, *A Liability Risk for Airbnb Hosts*, The New York Times, Dec. 5, 2014, http://www.nytimes.com/2014/12/06/

states requiring a minimum level of specific types of insurance (for example, automobile liability insurance). However, these requirements vary significantly from state to state, meaning a motorist in State A may not possess insurance considered adequate in State B. Even in the face of state regulations, many motorists (for example) remain uninsured or underinsured in their own states (and different sharing economy platforms will have different standards for confirming the adequacy of their licensee's policies). Further, even when insured at apparently sufficient coverage maximums, typical automobile or homeowners' policies expressly exclude coverage for commercial activities, which would almost certainly exclude coverage for renting out one's home for Airbnb or acting as a hired driver for Uber.[16] Notably, at least one major insurance provider already has started offering a special policy for ridesharing.[17]

So even when these services have provided insurance coverage, claims typically must first be processed (and possibly paid) by the drivers' (or other service providers') personal insurance. The platform's insurance will only then be implicated if primary coverage proves inadequate. And even then, limitations on when the secondary insurance applies can leave victims out in the cold. In one example, an Uber driver was charged with vehicular manslaughter after striking and killing a child, but Uber disclaimed civil liability and coverage because the driver did not have a passenger in the car at the time of the accident (the matter ultimately settled on confidential terms).[18]

F. Let's Share Responsibility Responsibly

Ultimately, sharing economy platforms demonstrate precisely why inquiries into the degree of the licensor's involvement should be done away with when considering tort liability for licensed products and services. Under some courts' hypertechnical inquiries into the licensors' involvement, platforms such as Uber would likely escape liability for the actions of their licensees because of how ''removed'' the platforms are from the actual provision of services. Such a result ignores consumer perception as to the source and quality (including safety and responsibility) of the services, and which entity is deriving the benefit and good will from that perception. Instead, the analysis should be simplified thusly: *a trademark licensor, including sharing economy platforms, should be liable for injuries stemming from products and services bearing the licensor's mark.*

A trademark *is* a trustmark, and if the good will that inures through licensed use of a mark flows to the licensor, so too should the risk and liability. While categorically extending such liability would likely increase the cost of doing business (costs that would likely go towards more robust insurance policies), Uber, Airbnb, and similar platforms would appear to be in the best position to not only provide coverage that extends to individuals injured as a result of their services, but to also absorb those costs in exchange for the benefits derived through licensing of their marks.

Considering the additional costs that the entire system is currently bearing as a result of the litigation, claims, and disputes arising from injuries caused by these platforms, streamlining and simplifying the liability analysis would potentially result in a net benefit. Responsibly and openly standing behind the quality of their services (and providing compensation for when things go wrong) would also benefit the licensors from a marketing perspective, and would only increase consumer good will.

So, in our opinion, to answer the question originally posed: *Trademarks Über Torts!*

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your-money/airbnb-offers-homeowner-liability-coverage-but-hosts-still-have-risks.html?_r=0.

[16] For example, ''ISO's current Personal Auto Policy excludes coverage with respect to ''liability arising out of the ownership or operation of a vehicle while it is being used as a public or livery conveyance.'' http://www.verisk.com/verisk/visualize/q4-2013/what-do-ride-sharing-and-car-sharing-mean-for-personal-auto-insurance.html.

[17] Geico Ridesharing Insurance Quote, 2015, http://www.geico.com/getaquote/ridesharing/.

[18] H. Koslowska, *Uber settles a lawsuit over an accident in San Francisco that killed a little girl*, Quartz, July 15, 2015, http://qz.com/454668/uber-settles-a-lawsuit-over-an-accident-in-san-francisco-that-killed-a-little-girl/.

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APPENDIX A*

I. TORT/TRADEMARK LAW TUNE-UP

A. *Tort Law/Consumer Protection Theory*

1. Unregulated ''Free Enterprise''

2. The Judicial ''Assault Upon the Citadel''

3. The Legislative Follow-Up

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2. Prevention of Loss

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B. *Put in Perspective*

1. The Licensor Must Control Its Trademark –

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2. But Not Too Closely

C. *Classified by Theories of Liability*

1. Direct Liability (via ''Products Liability'' Concepts)

2. Vicarious Liability (via Agency Concepts)

III. DIRECT LIABILITY (VIA ''PRODUCTS LIABILITY'')

Available Legal Theories

1. Negligence

a. Re supervision

b. Re usability

2. Warranty

a. Express (advertising)

b. Implied (merchantability)

3. Strict Liability in Tort – *Restatement (Second) of Torts* – § 402A (1965)

* K. Germain, Look Out, Licensors – Likely Liability for Licensees' Louse-Ups, outline used during the ''Avoiding Liability: Trademark And Advertising Issues'' segment of the 117th Annual Meeting of the INTA (Orlando, FL; May 1995).