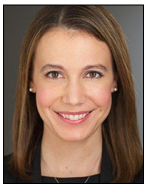
New York Law Journal
SERVING THE BENCH AND BAR SINCE 1888
ALM.
WWW.NYLJ.COM
VOLUME 269—NO. 7
WEDNESDAY, JANUARY 11, 2023

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Supreme Court To Address Extraterritorial Scope of the Lanham Act



By **Catherine Nyarady**

And **Crystal Parker**

The Lanham Act provides federal protection to, and private rights of enforcement for, both registered and unregistered trademarks in the United States. In 2023, the Supreme Court is set to address the extraterritorial application of the protections provided by the Lanham Act. In particular, the court is positioned, in granting certiorari in *Abitron Austria GmbH et al. v. Hetronic International*, to resolve a circuit split regarding whether, and to what extent, the Lanham Act may be applied to a foreign entity's foreign sales that neither reached the United States nor were likely to cause consumer confusion in the United States. Given the historically limited application of the Lanham Act to hold entities liable for infringement of U.S. trademarks due to the sale of infringing products outside of the United States, the court's decision may profoundly impact the scope of future Lanham Act litigation.

> In 2023, the Supreme Court is set to address the extraterritorial application of the protections provided by the Lanham Act.

The Lanham Act

The Lanham Act imposes civil liability upon any person who "use[s] in commerce" a "reproduction, counterfeit, copy, or colorable imitation" of a mark registered with the U.S. Patent and Trademark Office if "such use is likely to cause confusion, or to cause mistake, or to deceive." 15 U.S.C. 1114(1)(a). It also provides a private cause of action against any person who "uses in commerce" a mark, whether registered or unregistered, that is "likely to cause confusion, or to cause mistake, or to deceive …" 15 U.S.C. 1125(a)(1).

The Lanham Act defines "commerce" as including "all commerce which may lawfully be regulated by Congress." 15 U.S.C. 1127.

The District Court Proceedings

Hetronic International is a U.S. company that manufactures radio remote controls used to remotely operate construction equipment such as cranes. 10

CATHERINE NYARADY *and* CRYSTAL PARKER *are litigation partners at Paul, Weiss, Rifkind, Wharton & Garrison.*

F.4th 1016, 1023 (10th Cir. 2021). The controls have "a distinctive black-and-yellow color scheme to distinguish them from" competitors' products. Id. at 1024. Hetronic sells its products worldwide through a network of subsidiaries and distributors. Id.

Appellants, none of which are U.S. citizens, distributed Hetronic's products, including in Europe. Id. After several years of working with Hetronic, appellants began manufacturing their own products, identical to those manufactured by Hetronic, and selling them under Hetronic's name. Id. at 1024-26. While some sales were made in the United States, the bulk of appellant's $90 million in sales were made by foreign entities to foreign customers outside of the United States. Id. at 1043-44.

As a result of these sales, Hetronic sued appellants in the Western District of Oklahoma alleging breach of contract as well as violations of the Lanham Act and state tort laws. Id. at 1026.

Following an 11-day jury trial, the jury found for Hetronic on all counts, awarding more than $115 million in damages. Id. at 1027. The majority of the damages awarded were for violations of the Lanham Act. Id. Following trial, the district court entered a permanent injunction prohibiting further trademark infringement worldwide.

The Tenth Circuit Decision

The Tenth Circuit affirmed in relevant part, finding that while the Tenth Circuit had yet to explore the extraterritorial reach of the Lanham Act, the district court properly applied the Lanham Act to appellants' conduct.

In reaching its decision, the court relied on the Supreme Court's 1952 decision in *Steele v. Bulova Watch Co*., 344 U.S. 280 (1952), which "held that the Lanham Act could apply abroad in at least some circumstances." *Hetronic*, 10 F.4th at 1033. However, the Tenth Circuit recognized that *Steele*, which addressed application of the Lanham Act to the actions of a U.S. citizen who made counterfeit watches in Mexico, some of which came back into the United States, "leaves much unanswered about the extent of the Lanham Act's extraterritorial reach—particularly, as [here], as it relates to foreign defendants." Id. at 1034-35.

The Tenth Circuit acknowledged that in the face of this lack of guidance, circuit courts have developed various tests for determining when exterritorial application of the Lanham Act is appropriate.

In particular, the court found that the Second, Eleventh and Federal Circuits have adopted a test that asks "(1) whether the defendant's conduct had a substantial effect on U.S. commerce; (2) whether the defendant was a United States citizen; and (3) whether there was a conflict with the trademark rights established under the relevant foreign law." Id. at 1035. The court further found that the Fourth and Fifth Circuits have adopted similar tests but have modified the first prong to ask whether the defendant's conduct had a "significant effect" or "*some* effect" on U.S. commerce, respectively. Id. (emphasis in original) (internal quotations and citations omitted).

Meanwhile, the court found that the Ninth Circuit has adopted a "similar but distinct tripartite test" that asks whether (1) there is "some effect on American foreign commerce," (2) the effect is "sufficiently great to present a cognizable injury" under the Lanham Act, and (3) "sufficiently strong" interests and links exist to American foreign commerce. Id. at 1036 (internal quotations and citations omitted).

The court noted that yet an additional framework was adopted by the First Circuit which depends on whether or not the accused infringer is an American

citizen. Id. Where the defendant is not a citizen, the Lanham Act will apply only where there is a "substantial effect on [U.S.] commerce, viewed in light of the purposes of the Lanham Act." Id. (internal quotations and citations omitted).

With "one caveat," the court went on to adopt the First Circuit's test. Id. The Tenth Circuit found that "when the defendant is not a U.S. citizen, courts should assess whether the defendant's conduct had a substantial effect on U.S. commerce." Id. at 1038. "[O]nly if the plaintiff has satisfied the substantial-effects test, courts should consider whether extraterritorial application of the Lanham Act would create a conflict with trademark rights established under foreign law." Id.

Having formulated and adopted yet another test for assessing extraterritorial application of the Lanham Act, the Tenth Circuit held that the extraterritorial reach of the Lanham Act should normally be decided by a court as a matter of law and went on to assess the trial record de novo to make such a legal determination. Id. at 1042.

In affirming liability under the Lanham Act, the court found that some foreign sales ended up in the United States (approximately 3%). Id. at 1043-44. The court found it irrelevant that only a fraction of appellants' sales entered the United States, reasoning that "once a court determines that a statute applies extraterritorially to a defendant's conduct, as we do here, that statute captures all the defendant's illicit conduct." Id. at 1044. In addition, the court found that liability existed for the purely foreign sales under a "diversion-of-sales theory" explicitly rejected by the Fourth Circuit. Id. at 1045-46. The court reasoned that in making these foreign sales, appellants "diverted tens of millions of dollars of foreign sales from Hetronic that otherwise would have ultimately flowed into the United States." Id. at 1046.

The court did, however, limit the district court's "worldwide" permanent injunction to those countries in which Hetronic "currently markets and sells its products." Id. at 1047.

The Supreme Court Appeal

The Supreme Court granted certiorari. In their merits brief, appellants argue that in affirming the jury's $90 million Lanham Act verdict, which represented appellants' total worldwide sales including foreign sales by foreign sellers to foreign buyers that did not reach the United States, the Tenth Circuit gave the Lanham Act "sweeping extraterritorial effect." 2022 WL 17852442, at *2. Appellants argue that "[n]othing in the Act's text, structure, or history warrants giving the statute *any* extraterritorial application—much less the extreme global reach the Tenth Circuit approved." Id. (emphasis in original).

While Hetronic has yet to file its merits brief, it argued in opposing certiorari that circuit courts have consistently held that the Lanham Act may apply to foreign sales by foreign defendants when those sales result in domestic consumer confusion, and that sufficient evidence of such confusion existed to support the Tenth Circuit's decision. 2022 WL 953119, at *3-4.

To date, nearly a dozen amicus briefs have been submitted. Of note, the United States has argued that consumer confusion is the "sine qua non of trademark law" and, as a result, foreign sales of trademarked goods "can violate those provisions if, but only if, those sales are likely to cause consumer confusion within the United States." 2022 WL 18023391, at *8.

Oral argument is currently scheduled for March 1, 2023.