

SECOND CIRCUIT REVIEW

Expert Analysis

Distinguishing Between Standing And Merits in Lanham Act Claims

This month, we discuss *Federal Treasury Enterprise Sojuzplodoimport v. Spirits Int'l B.V.F.*, in which the U.S. Court of Appeals for the Second Circuit sought to clarify the extent to which the doctrines of comity and act of state preclude a U.S. court from determining whether the actions of a foreign sovereign validly confer standing for the purposes of a claim under section 32(1) of the Lanham Act.¹

The dispute arose out of rival claims to exploit the American trademarks related to Stolichnaya vodka. At issue was whether Federal Treasury Enterprise Sojuzplodoimport (FTE), an agency of the Russian Federation, was an “assign” of the Russian Federation within the meaning of the Lanham Act such that it had standing to bring claims under section 32(1). The District Court had inquired whether as a matter of Russian law the purported assignment of its rights in the trademarks to FTE was valid and, concluding it was not, dismissed FTE’s claim for lack of standing.

The Second Circuit vacated the District Court’s dismissal of FTE’s section 32(1) claims for lack of standing. In an opinion by Judge Dennis Jacobs, joined by Judges Jon O. Newman and John Walker, the Second Circuit ruled that the related doctrines of comity and act of state prohibited the court from adjudging the validity of an assignment of the Russian Federation. The court held the District Court must accept the validity of the Russian Federation’s assignment, and remanded for determination by the District Court which party owns the underlying trademarks.

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Background

In the 1990s, as the Soviet Union began to collapse, the directors and managers of the state enterprise then holding the Stolichnaya trademarks purported to privatize the state enterprise and asserted ownership over its assets. In 2000, a Russian court held

The Second Circuit ruled that the related doctrines of comity and act of state prohibited the court from adjudging the validity of an assignment of the Russian Federation.

the privatization invalid under Russian law. Ownership of the marks therefore remained with the Soviet Union, and by extension with its successor in interest, the Russian Federation. In a series of decrees subsequent to the ruling of the Russian court, as discussed in a previous Second Circuit decision, the Russian Federation entrusted FTE with authority to “export and import...all types of strong and soft drinks” and “us[e] in accordance with established procedure the trademarks or strong drinks, alcoholic products and other

foodstuffs,” but did not explicitly mention Stolichnaya, or the Stolichnaya trademarks.²

FTE concluded these decrees were sufficient to make it the holder of the Stolichnaya trademark in Russia and other countries, including the United States. FTE then entered an exclusive licensing agreement with co-plaintiff Cristall to distribute vodka bearing the marks in the United States, which led to litigation with the various defendants in the suit, the entities and individuals who, purporting to be successors in interest to the Soviet-state enterprise that preceded FTE, exercised control over the trademarks in the United States.

Prior Proceedings

Before these proceedings, the case had already been before the Second Circuit twice.³ In *FTE IV*, the case that came before the Second Circuit on the last occasion, the Second Circuit dismissed FTE’s section 32(1) claims on the ground that “the Russian Federation itself retained too great an interest in the Marks for FTE to qualify as an ‘assign’ with standing to sue.”⁴

In determining whether FTE qualified as an “assign” under the Lanham Act, the Second Circuit found that the 2002 decrees of the Russian Federation assigned nothing to FTE, but merely conferred rights to use and dispose of the marks, without mentioning a transfer of ownership.⁵ In so finding, the Second Circuit looked closely at the terms of the relevant decrees. It found dispositive that the Russian Federation retained ownership of the marks, which were transferred to FTE only for “operative administration,” and that FTE was expressly prohibited from alienating or otherwise disposing of any property assigned to it by right of operative administration. The Second Circuit also found, albeit “without

purporting to tender a definitive reading,” that Russian law is consistent with the rights it ascribed to FTE.⁶ Had “the Russian Federation effected a valid assignment here, FTE could sue under Section 32(1) as an ‘assign.’”⁷ The Second Circuit found the Russian Federation had not done so.

Following the Second Circuit’s ruling in *FTE IV*, the Russian Federation issued a further decree that transferred to FTE all rights and interests of the Russian Federation in the mark, including the trademarks for “Stolichnaya” and “Stoli” as “used on the territory of the United States.” FTE and Cristall then commenced a new lawsuit in which they again asserted section 32(1) claims. Defendants again moved to dismiss. After conducting a thorough investigation of the relevant law, the District Court ruled that the assignment to FTE was invalid under Russian law, and that FTE lacked statutory standing.⁸ The District Court neatly sidestepped the act of state doctrine, which prohibits U.S. courts from inquiring into the validity of the public acts of a recognized foreign sovereign power committed within its own territory. According to the District Court, because the situs of the trademarks is in the United States, the decrees of the Russian Federation concerned property outside its territory, so the act of state doctrine did not apply.⁹ The parties cross-appealed.

The Second Circuit’s Decision

On appeal the Second Circuit considered whether the doctrines of comity and act of state permit a federal court to inquire into the validity of a foreign sovereign’s assignment of a right to sue. The Second Circuit concluded the doctrines of comity and act of state preclude a federal court from making such an inquiry. The Second Circuit held that a federal court is prohibited from inquiring into the validity of an act of a foreign sovereign, despite having previously held in *FTE IV* that a federal court could inquire as to whether the decrees of the Russian Federation qualified as an assignment for the purposes of the Lanham Act.

The distinction between the Second Circuit’s two rulings appears to be twofold: first, whereas in *FTE IV* the Second Circuit had to determine whether the writings executed by the Russian Federation qualified as an assignment, it was now clear, given the Russian Federation’s further decree, that the Russian Federation intended to assign its rights to FTE.¹⁰ Second,

the Second Circuit held that the Russian Federation’s assignment did not purport to assign the underlying rights to the mark, but merely transferred the right to sue. As transferring the right to sue did not affect property outside Russian territory, the exception to the act of state doctrine did not apply, and the District Court did not have jurisdiction to consider the assignment’s validity. The assignment, held the court, did not impinge on the jurisdiction of American courts to decide competing claims to ownership of the marks.¹¹

In sum, the courts of the United States may not challenge an act of the Russian Federation purporting to assign the right to sue, but whether the assignee has any right to the underlying property remains a question over which the courts of the United States have jurisdiction.

The reasoning of the Second Circuit hinged principally on its analysis of the nature of the rights the assignment purported to confer. The court characterized the sovereign act of the Russian Federation as a “wholly intra-governmental transfer of rights” that implicated neither commercial property rights nor property outside the Russian Federation. The court held that the Russian Federation’s governmental decrees allocating the rights of the Russian Federation and designating a government entity with power to assert or defend those rights, were internal acts that do not “augment” any party’s commercial interests. As the so-called “transfer” did not concern property outside the Russian Federation, the act of state doctrine plainly applied, and any exception thought to exist in respect of commercial property did not. The court so concluded even though the subject matter of the transferred rights is the ability to exploit trademarks for commercial gain.¹²

As a result, the court concluded that FTE, as the transferee of the Russian Federation’s rights, had standing to assert claims to the ownership of the marks. The court did not decide the merits question of whether FTE was the owner of the right to exploit the trademarks in the United States. According to the Second Circuit, “whether those rights prevail as against alleged infringers remains an issue confided to American courts; the distinct question whether the government of

a foreign sovereign has effectively and legally allocated its rights and powers among its agencies and instrumentalities under that foreign sovereign’s law, is not.”¹³ In sum, the courts of the United States may not challenge an act of the Russian Federation purporting to assign the right to sue, but whether the assignee has any right to the underlying property remains a question over which the courts of the United States have jurisdiction. The Second Circuit thus remanded for determination by the District Court which party owns the underlying trademarks.

Conclusion

In addition to clarifying the contours of the act of state doctrine and the reach of principles of international comity, the Second Circuit’s decision provides helpful guidance on the distinction between, on the one hand, the assignment of legal rights sufficient to constitute standing and, on the other, rights to the property that form the subject matter of the claim. Although it is logical that a party may have standing under the Lanham Act absent any property rights in the contested mark, it is perhaps less obvious that a purported transfer of rights sufficient to grant standing does not amount to an act that affects claims to the property in question. The broad lesson of the Second Circuit’s ruling is that standing and merits are distinct questions of law.

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1. __ F.3d __, No. 14-4721-cv, 2016 WL 51248 (2d. Cir. Jan. 5, 2016).

2. 726 F.3d 62, 68-9 (2d Cir. 2013).

3. 623 F.3d 61, 71 (2010) and 726 F.3d 62 (2d Cir. 2013).

4. 726 F.3d 62, 66 (2d Cir. 2013).

5. Id. at 74.

6. Id. at 76-7.

7. Id. at 79.

8. 61 F.Supp.3d 372, 388-91 (2014).

9. Id. at 381-2.

10. See 2016 WL 51248 at *4.

11. Id. at *5.

12. 2016 WL 51248 at *6.

13. Id. at *4.