



SECOND CIRCUIT REVIEW

BY MARTIN FLUMENBAUM AND BRAD S. KARP

Famous Marks Doctrine Is Rejected

In this month's column, we report on the U.S. Court of Appeals for the Second Circuit's recent decision in *ITC Limited v. Punchgini, Inc.*,¹ which created a circuit split with the U.S. Court of Appeals for the Ninth Circuit regarding the applicability of the "famous marks" exception to the territorial scope of trademark protection under federal law.

In an opinion written by Judge Reena Raggi, joined by Judge Chester J. Straub,² the Second Circuit affirmed the district court's finding that the famous marks exception does not apply to federal trademark claims under the Lanham Act §43(a). At the same time, the court certified to the New York Court of Appeals the questions of whether New York recognizes the famous marks exception under state law and, if so, what standard of fame was required to qualify for the exception. The court also held that plaintiffs had abandoned their mark because they stopped using their mark in the United States for a period of three years.

The court noted that to avoid a claim of abandonment, plaintiffs would need to demonstrate that, during their three years of non-use, they nonetheless formulated an intent to resume use in the reasonably foreseeable future. Because plaintiffs adduced no such evidence, the court upheld the district court's summary judgment ruling in favor of defendants.

Finally, the court affirmed the district court's ruling that plaintiffs did not have standing to bring a false advertising claim because they could not demonstrate any direct competition and confusion or likelihood of injury and because their intent to engage in additional competing uses was too speculative to confer standing.

Background and Procedural History

Plaintiff, ITC Ltd. and its subsidiary ITC Hotels Ltd. (ITC), owns and operates a restaurant called the Bukhara in a five-star hotel in New Delhi, India.

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This restaurant has an international reputation and was named one of the world's 50 best restaurants by London-based "Restaurant" magazine. ITC also operates Bukhara restaurants in Singapore, Kathmandu, and Ajman. In 1986, ITC owned and operated a restaurant called the Bukhara in Manhattan and opened another Bukhara restaurant in Chicago the following year. The restaurant in Manhattan closed in 1991 and the restaurant in Chicago closed in 1997. After that restaurant closed, ITC did not use the Bukhara trademark anywhere in the United States until, over three years later, ITC considered using the Bukhara mark on certain packaged foods and actually sold certain foods under the Bukhara mark during 2003.

Meanwhile, in 1999, defendants opened a restaurant in Manhattan called the Bukhara Grill. They also later opened the Bukhara Grill II. The Manhattan restaurants had numerous similarities to plaintiffs' restaurants, which the court found to be "suggestive of deliberate copying," including similar logos, décor, staff uniforms, wood-slab menus, and red-checked customer bibs.

Soon after defendants' first restaurant opened, plaintiffs sent a cease and desist letter. Defendants responded that they believed that ITC had abandoned the mark by not using it in the United States for several years. Defendants sent a second letter noting that if they did not receive a response by June 28, 2000, they would assume that ITC Ltd. has abandoned rights in the mark. Plaintiffs never responded. On Feb. 26, 2003, ITC sued in the U.S. District Court for the Southern District of New York, alleging trademark infringement under §32(1)(a) of the Lanham Act, as well as unfair competition and false advertising under §§43(a) and 44(h) of the Lanham Act.³ ITC also brought

parallel claims under New York common law.

Southern District Judge Gerald E. Lynch granted summary judgment to defendants on all claims.⁴ The district court ruled that ITC could not pursue an infringement claim because the record conclusively demonstrated its abandonment of the Bukhara mark as applied to restaurants in the United States. To the extent ITC asserted that its continued operation of Bukhara restaurants outside the United States allowed it to sue defendants for unfair competition under the famous marks doctrine, the district court held that ITC failed to adduce sufficient evidence to permit a reasonable jury to conclude that the name or trade dress of its foreign restaurants had attained the requisite level of U.S. recognition to trigger the doctrine. Finally, the district court found that ITC lacked standing to pursue its false advertising claim.

Second Circuit Decision

The Second Circuit first held that any trademark infringement claim would be defeated by a showing that plaintiffs had abandoned their mark. Defendants argued that plaintiffs had abandoned their mark by not using it in the United States for more than three consecutive years. Plaintiffs admitted that they had not used the mark, but argued that they maintained an intent to use the mark in the reasonably foreseeable future. The district court held that plaintiffs needed to adduce "objective, hard evidence of actual concrete plans to resume use in the reasonably foreseeable future when the conditions requiring suspension abate."⁵ The Second Circuit noted that it has "criticized the particular language quoted by the district court, observing that such a 'heavy burden' is not required by [its] precedent." Instead, the court held that ITC need "come forward only with such contrary evidence as, when viewed in the light most favorable to ITC, would permit a reasonable jury to infer that it had not abandoned the mark. Specifically, it needed to adduce sufficient evidence to permit a reasonable jury to conclude that, in the three-year period of non-use...ITC nevertheless maintained an intent to resume use of its registered mark in the reasonably foreseeable future."⁶ Nonetheless, the court found that ITC adduced no evidence that, during the relevant three-year period, it intended to resume

use. The court rejected plaintiffs' argument that ongoing foreign use of a mark supports an inference that the owner intends to re-employ a presumptively abandoned mark in the United States.

The court next turned to the issue of unfair competition under the Lanham Act. To succeed on this claim, plaintiffs must demonstrate their own right to use the mark at issue. The court noted that the principle of territoriality is basic to American trademark law. Thus, "ITC confronts a high hurdle" in light of the decision that the mark had been abandoned. In other words, because the ownership of a mark in one country does not confer upon the owner the exclusive right to use that mark in another country, if the foreign owner is not using the mark in the United States, it likely does not have enforcement rights here.

Territoriality Principle

One exception to the territoriality principle is the famous marks doctrine. The court noted that the famous marks doctrine first appeared in the 1925 edition of Article 6bis to the Paris Convention.⁷ This doctrine allows owners of marks that have achieved a sufficient level of fame in the United States to protect their marks even if those marks are not being used in the United States. The famous marks doctrine had been recognized by two state court decisions in New York, but neither of these decisions was based on the Paris Convention or federal law—both relied entirely on New York common law.⁸ The court also listed several Trademark Trial and Appeal Board decisions that recognized the famous marks doctrine.

The court identified a "significant concern" in these decisions: "nowhere in its rulings does the Trademark Board state that its recognition of the famous marks doctrine derives from any provision of the Lanham Act or other federal law."⁹ Furthermore, the court noted that the Ninth Circuit is the only federal appeals court to have recognized the famous marks doctrine as a matter of federal law.¹⁰

Here again, the Second Circuit expressed concern that the Ninth Circuit did not reference either the language of the Lanham Act nor Article 6bis of the Paris Convention. "Thus, it appears that the Ninth Circuit recognized the famous marks doctrine as a matter of sound policy."¹¹ Furthermore, the Second Circuit stressed that the Paris Convention "creates no substantive United States rights beyond those independently provided in the Lanham Act."¹² Two courts in the Southern District had also considered the famous marks doctrine and reached opposite conclusions.¹³

Indeed, the Lanham Act has specific provisions under which holders of foreign registered marks can claim priority rights in the United States. The court noted that "Congress' specificity in dealing with registered marks cautions against reading a famous marks exception into sections 44(b) and (h), which nowhere reference the doctrine...[and] Congress has not hesitated to amend the Lanham Act to effect its intent with respect to trademark protection." Thus, the court decided to "wait for Congress to express its intent more clearly." While

acknowledging "that a persuasive policy argument can be advanced in support of the famous marks doctrine," the court concluded that "any policy arguments in favor of the famous marks doctrine must be submitted to Congress."¹⁴

Finally, the court addressed plaintiffs' state law unfair competition claims. Indeed, at least two New York Supreme Court cases indicate a recognition of the famous marks doctrine under New York common law. The Second Circuit noted, however, that neither the New York Court of Appeals nor any intermediate New York appellate court has ever specifically adopted the views expressed in those cases. Moreover, recognition of the famous marks doctrine is plainly an important policy issue for a state that plays a pivotal role in international commerce. Thus, the court certified to the New York Court of Appeals the question of New York's common-law recognition of the famous marks doctrine.

Possible Tests

The court also asked the New York Court of Appeals to clarify how famous a mark needs to be to fall within the famous marks doctrine. The Second Circuit suggested several possible tests: (1) secondary meaning, (2) secondary meaning plus, (3) the anti-dilution statute standard, or (4) the recommendation of the World Intellectual Property Organization.

"Secondary meaning" is a term of art referencing a trademark's ability to "identify the source of the product rather than the product itself."¹⁵ The court noted that this standard was rejected by the Ninth Circuit because such a standard went "too far" and would effectively eliminate the territoriality principle. Thus, the court suggested that the New York Court of Appeals might choose an intermediate standard of "secondary meaning plus"—the standard adopted by the Ninth Circuit. Under this test, the court must be satisfied that "a substantial percentage of consumers in the relevant American market is familiar with the foreign mark." Alternatively, a higher standard is imposed in the anti-dilution statute, Lanham Act §43(c). Under this high standard, a court considers the extent, advertising, geographical reach, volume of sales, amount of actual recognition, and whether the mark is registered.

Although ITC is not suing for dilution, the court suggested that the antidilution factors might "provide a useful guide for defining famous marks generally." Finally, the court suggested that the New York Court of Appeals could consider the nonbinding recommendations of the World Intellectual Property Organization, which, in addition to the factors in the anti-dilution statute, also take into account registrations in other locations, the record of successful enforcement actions in other locations, and the value associated with the mark. The court took no position on what standard the Court of Appeals should adopt if it chose to recognize the famous marks exception under state common law.

In closing, the Second Circuit also affirmed the district court's ruling that ITC does not have standing to bring a false advertising claim under the Lanham Act §43(a). In particular, the court did

not believe there would be injury caused to ITC's packaged foods business by any possible confusion in consumer's minds with the Manhattan restaurant. Furthermore, the court found that it was too speculative to suggest that ITC's foreign restaurants would lose customers because those customers had negative experiences at the Manhattan restaurants. Finally, the court rejected ITC's argument that the United States represents an area of natural expansion of its operations and that it is "considering" opening Bukhara restaurants here.

Conclusion

The Second Circuit's ruling in ITC provides the first conclusive statement of the applicability of the foreign marks doctrine to federal trademark claims in this circuit. This ruling resolves the conflicting district court decisions on this issue, and creates a split with the Ninth Circuit. Indeed, as the Second Circuit acknowledged, there is a compelling policy argument in support of the doctrine in the modern "world where international travel is commonplace and where the Internet and other media facilitate the rapid creation of business goodwill that transcends borders."¹⁶ The court clearly invited Congress to amend the Lanham Act to include provisions for the foreign marks doctrine, but refused to craft a judicial solution.

By certifying the question of whether New York recognizes the famous marks doctrine and, if so, what standard of fame is required to qualify, the Second Circuit has provided an opportunity to clarify the level of protection for foreign trademarks in New York. The decades-old New York cases are routinely cited as the standard for New York law and this case will provide an excellent opportunity for the Court of Appeals to revisit—and modernize—trademark law.

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1. ___F3d___, 2007 WL 914742 (2d Cir. March 28, 2007).
2. Judge James L. Oakes was a member of the panel, but retired following oral argument. The remaining two panel members decided the appeal pursuant to Local Rule §0.14(b).
3. 15 USC §§1114(1)(a), 1125(a), 1126(h).
4. *ITC Ltd. v. Punchgini, Inc.*, 373 FSupp2d 275 (SDNY 2005).
5. *ITC*, 2007 WL 914742 at *6, quoting *ITC, Inc. v. Punchgini, Inc.*, 373 FSupp2d at 280.
6. *ITC*, 2007 WL 914742 at *7.
7. The Paris Convention for the Protection of Industrial Property, March 20, 1883, as rev. at Stockholm, July 14, 1967, 21 UST 1583, 828 UNTS 305.
8. See *Vaudable v. Montmartre, Inc.*, 20 Misc. 2d 757 (N.Y. Sup. Ct. 1959); *Maison Prunier v. Prunier's Rest. & Café*, 159 Misc. 551 (N.Y. Sup. Ct. 1936).
9. *ITC*, 2007 WL 914742 at *16.
10. See *Grupo Gigante S.A. de C.V. v. Dallo & Co.*, 391 F3d 1088 (9th Cir. 2004).
11. *ITC*, 2007 WL 914742 at *17.
12. *ITC*, 2007 WL 914742, at *19 (quoting *Epresa Cubana del Tabaco v. Cullbro Corp.*, 399 F3d 462 (2d Cir. 2005)).
13. Compare *De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate, Inc.*, 2005 U.S. Dist. LEXIS 9307 (SDNY May 18, 2005) with *Almacenes Exito S.A. v. El Gallo Meat Market, Inc.*, 381 FSupp2d 324 (SDNY 2005).
14. *ITC*, 2007 WL 914742 at *21.
15. *ITC*, 2007 WL 914742, at *23 (quoting *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 US 763, 766 n.4 (1992)).
16. *ITC*, 2007 WL 914742, at *21 (quoting *De Beers LV Trademark Ltd.*, 2005 U.S. Dist. LEXIS 9307, at *25).