WESTERN NEW YORK
THE DAILY RECORD
Part of the BRIDGETOWER MEDIA network
DEC. 12, 2022

IP Frontiers: Supreme Court to determine extraterritorial reach of Lanham Act

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Business is becoming an increasingly global venture. With that, American businesses with trademarks in the global marketplace would be adept to enforce their intellectual property rights against infringement around the world. In recent years, many foreign companies have been taking American-owned trademarks and using, or even registering, them on similar or identical products or services in foreign countries. American businesses might readily look to the Lanham Act, and to American courts, to protect them from these foreign infringers.

But to what extent does the Lanham Act apply to infringement of American trademarks in foreign countries by foreign entities?

On Nov. 4, 2022, the Supreme Court granted certiorari in a case to answer this question. The case is Abitron Austria GmbH v. Hetronic International, Inc., appealed from the Tenth Circuit Court of Appeals case of Hetronic Int'l, Inc. v. Hetronic Germany GmbH, 10 F.4th 1016 (10th Cir. 2021). This case began in the Western District of Oklahoma where Hetronic, an American company, sued Abitron, a company based in Europe, for trademark infringement. Abitron initially acted as a contractual distributor in Europe for Hetronic's radio remote control products. After the contractual relationship ended, Abitron continued to sell reverse-engineered products under Hetronic's trademarks in Europe. Approximately 97% of Abitron's sales under the infringing marks were in foreign countries, yet Hetronic sued them under the Lanham Act in the United States. The District Court in the Western District of Oklahoma found Abitron liable to a damages award of $90 million, accounting for Abitron's global sales, and a worldwide injunction against using Hetronic's trademarks. On appeal to the Tenth Circuit, the Court affirmed the damages award, but narrowed the injunction to apply only in countries where Hetronic actually markets or sells its products. Abitron then petitioned to the Supreme Court.

The Supreme Court previously considered the extraterritorial reach of the Lanham Act back in 1952 in the case of Steele v. Bulova Watch Co., 344 U.S. 280, 73 S. Ct. 252, 97 L. Ed. 319 (1952). In that case, Steele, an American citizen unrelated to the Bulova Watch Co., began selling "Bulova" branded watches in Mexico after having noticed that the Bulova company had not secured trademark rights to the name in Mexico. The Supreme Court in

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Steele found that Steele's operations and its effects were not confined within the territorial limits of Mexico and that it had affected United States commerce enough for the Lanham Act to apply to Steele's conduct. Notably, the defendant in Steele was an American citizen and thus the Court did not determine the reach of the Lanham Act as it applied to foreign entities. Thus, while the Supreme Court in Steele established that the Lanham Act could have an extraterritorial reach, it did not answer how far such reach could extend.

After Steele, American circuit courts were split as to how they applied the Lanham Act extraterritorially in cases of infringement. Different courts came up with different analyses. The Tenth Circuit in Hetronic came up with the following test: "First, courts should determine whether the defendant is a U.S. citizen. Second, 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. Third, only 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." This test is similar to the one adopted by the First Circuit, and is the one at which the Supreme Court will be taking a close look. However, most circuits, including the Fourth, Fifth, Eleventh and Federal, have adopted a test propagated by the Second Circuit in Vanity Fair Mills, Inc. v. T. Eaton Co., 234 F.2d 633 (2d Cir. 1956). That test has the same factors as the one adopted in Hetronic, but, unlike that test, no one factor is determinative (i.e. American citizenship of the defendant will not automatically trigger Lanham Act protection). Furthermore, the Ninth Circuit also adopted an entirely different test which did not require that the effects on American commerce be substantial.

The Supreme Court has stepped in, and perhaps this circuit split will be resolved. Specifically, the Court has been presented with the following question in Abitron: "Whether the court of appeals erred in applying the Lanham Act extraterritorially to petitioners' foreign sales, including purely foreign sales that never reached the United States or confused U.S. consumers."

Here, the Supreme Court faces a difficult decision. On the one hand, as the Lanham Act specifically applies to United States commerce, it makes sense that the Lanham Act would not apply where there are no sales or confusion within the United States. And such extraterritorial reach runs the risk of conflicting with foreign trademark laws. On the other hand, foreign infringement still affects United States commerce in the sense that it harms an American business. And an adverse ruling would put an extra strain on those harmed American businesses by having to enforce their rights in every other country where the infringement occurred, incurring more expenses.

The Supreme Court has not yet set a date for argument in this case, but has placed it in the 2022-23 Term. The eyes of American trademark owners and practitioners will anxiously await the Court's decision.

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