Supreme Court Holds Lanham Act Attaches Only to Liability for Domestic Uses in Commerce

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On June 29, 2023, the U.S. Supreme Court ruled unanimously in favor of the petitioner in *Abitron Austria GmbH v. Hetronic International Inc*. However, the justices were divided 5-4 as to the precise reasoning and what facts courts should consider when determining whether the Lanham Act applies to allegedly infringing conduct with a foreign component. A five-justice majority held that the Lanham Act provisions at issue are not extraterritorial and extend only to potential infringement conduct claims where the "claimed infringing use in commerce is domestic."

Background

In the absence of an explicit statement from Congress that a law applies to conduct occurring outside of the United States, courts generally presume that federal statutes do *not* apply "extraterritorially." Notwithstanding this presumption, courts often have been posed with difficult questions about what constitutes "extraterritorial" conduct, including in the specific context of analyzing trademark infringement and unfair competition claims under the Lanham Act.

Prior to this term, the Supreme Court last considered the extraterritorial application of the Lanham Act more than seven decades ago in *Steele v. Bulova Watch Company*.[1] In that case — which involved a U.S. citizen who sold counterfeit watches in Mexico, some of which were subsequently sold in Texas — the Court concluded that the Lanham Act applied to the manufacturer's foreign conduct because "[h]is operations and their effects were not confined within the territorial limits of a foreign nation."

Steele, however, left open questions about how to address conduct of foreign parties that implicates the Lanham Act, leaving the various circuits to devise their own differing approaches to the analysis. For example:

- In the U.S. Court of Appeals for the First Circuit, Lanham Act plaintiffs must show that a foreign defendant's overseas conduct has a substantial effect on U.S. commerce.[2]
- The U.S. Court of Appeals for the Fourth Circuit more narrowly considers whether foreign defendants have "a pervasive system of domestic operations."[3]

Yet even these approaches presented their own questions. For example:

- What constitutes a "substantial" effect?
- Can the diversion of foreign sales constitute an effect on U.S. commerce?
- Are there volume or other thresholds that must be met?

The circuit split was put before the Supreme Court in *Hetronic*. The plaintiff, U.S.-based Hetronic International, Inc., sued its former European partners for trademark infringement when those partners sold Hetronic-branded remote controls for industrial equipment in Europe after their licenses to do so had lapsed. A federal jury in Oklahoma awarded Hetronic damages of nearly $96 million for Lanham Act violations relating to Abitron's global use of the Hetronic marks, even though the vast majority of infringing sales were made abroad.

[1] *Steele v. Bulova Watch Co.*, 344 U.S. 280, 73 S. Ct. 252, 97 L. Ed. 319 (1952).

[2] *See McBee v. Delica Co.*, 417 F.3d 107 (1st Cir. 2005).

[3] *See Tire Eng'g & Distribution, LLC v. Shandong Linglong Rubber Co.*, 682 F.3d 292 (4th Cir. 2012).

Supreme Court Holds Lanham Act Attaches Only to Liability for Domestic Uses in Commerce

On appeal, the defendants argued that the approximately $2 million of sales reaching the U.S. could not sweep any exclusively foreign sales within the scope of the Lanham Act. The U.S. Court of Appeals for the Tenth Circuit, however, upheld the verdict, finding that the Lanham Act applied to all of the defendants' foreign infringing conduct because the U.S. had a substantial interest in the litigation due to both the sales that ended up in the U.S. and the diversion of foreign sales Hetronic could have made absent the defendants' activities.

The defendants argued to the Supreme Court that it was improper to apply the Lanham Act to sales "in foreign countries, by foreign sellers, to foreign customers, for use in foreign countries, that never reached the United States or confused U.S. consumers." Hetronic, for its part, argued that the Tenth Circuit applied an appropriately stringent test for extraterritoriality and that in an increasingly globalized economy, the Lanham Act would have little meaning if defendants could willfully infringe abroad even when "their products ultimately reach and confuse U.S. consumers."

In light of the opportunity to clarify the extraterritorial scope of the Lanham Act, *Hetronic* attracted widespread attention and numerous *amicus* submissions. For example, the U.S. solicitor general, as *amicus curiae*, emphasized that the focus of the Lanham Act is consumer confusion, arguing that "[s]ales of trademarked goods abroad … can violate [the Lanham Act] if, but only if, those sales are likely to cause confusion within the United States."

The Supreme Court's Ruling

The Court ruled unanimously for the petitioner, vacating the Tenth Circuit's judgment and remanding for further proceedings. While all nine justices agreed that the Lanham Act's statutory language does not overcome the presumption against extraterritoriality, they divided 5-4 as to the precise reasoning and what facts courts should consider when determining whether the Act applies to allegedly infringing conduct with a foreign component.

Writing for the five-justice majority, Justice Samuel Alito articulated a "conduct"-focused approach to the extraterritoriality analysis. Applying the well-established two-step framework for evaluating extraterritoriality, Justice Alito first looked to the statutory text and determined that Congress did not provide a "clear, affirmative indication" that the relevant Lanham Act provisions would apply to foreign conduct, meaning that the presumption against extraterritoriality would apply. In so finding, the Court rejected Hetronic's argument that the Lanham Act's broad definition of "commerce" constituted such a "clear, affirmative indication."

Turning to the second step of the framework, Justice Alito found that the Court must then "identif[y] 'the statute's 'focus" and as[k] whether the *conduct relevant to that focus* occurred in United States territory." To that end, the Court identified "use in commerce" as the conduct relevant to the focus and, consequently, the "dividing line between foreign and domestic applications" of the Act's provisions. Per Justice Alito, this is because Congress specified that a violation such as infringement occurs when a mark is unlawfully "used in commerce," elsewhere defined by the Lanham Act as "'the bona fide use of the mark in the ordinary course of trade' where the mark serves to 'identify and distinguish [the mark user's] goods … and to indicate the source of the goods.'"[4] Notably, the majority limited *Steele* to its facts and found it was of "little assistance" in this case, as it concerned "both domestic conduct and a likelihood of domestic confusion."

A four-justice concurrence authored by Justice Sonia Sotomayor agreed that the relevant Lanham Act provisions do not apply extraterritorially, but espoused a different and somewhat more expansive approach to determine what conduct is potentially actionable under the statute. Justice Sotomayor criticized the majority's emphasis solely on the location of a defendant's conduct because — similar to the solicitor general's reasoning — the Lanham Act should extend to foreign activities when they create a likelihood of consumer confusion in the United States. As such, Justice Sotomayor expressed concern that the majority's extraterritoriality framework establishes a "myopic conduct-only test" that absolves defendants of liability for foreign conduct that nevertheless injures U.S. consumers and frustrates the Lanham Act's purpose of protecting the U.S. consuming public, particularly given the realities of modern, globalized commerce.[5]

Looking Ahead

By holding that the Lanham Act's provisions creating liability for trademark infringement and unfair competition are not extraterritorial, and that only *domestic* infringing "uses in commerce" can give rise to such liability, the Supreme Court appears to have simplified how lower courts will approach Lanham Act cases that may implicate foreign conduct. The *Steele* decision and the various circuit tests for analyzing foreign conduct impacting U.S. trademark rights (*e.g.*, whether there is a "substantial effect on U.S. commerce") have been replaced by a more straightforward inquiry.

[4] In a brief individual concurrence, Justice Ketanji Brown Jackson sought to provide additional clarification regarding "use in commerce" — namely that it occurs when goods in question are sold because the mark is serving a source-identifying function.

[5] Justice Alito countered that the concurrence's approach would potentially bring U.S. trademark law into conflict with foreign trademark laws, as well as create "headaches" for lower courts attempting to sort out foreign vs. domestic conduct.

Supreme Court Holds Lanham Act Attaches Only to Liability for Domestic Uses in Commerce

However, lower courts and litigants may continue to grapple with questions left open by the Court's opinion, including the precise nature of "use in commerce."

The majority's emphasis on the locus of a defendant's conduct may create greater obstacles for trademark infringement to secure relief for marketing or sales of infringing products that take place abroad, even if the overseas conduct creates significant confusion among U.S. consumers. Given the prevalence of digital commerce, in many cases a key battlefront for Lanham Act cases involving foreign actors will shift from the now-defunct *Steele*-progeny tests to more exclusive analyses of whether those actors' internet conduct constitutes "use in commerce" within the United States (thus sweeping it within the Lanham Act's ambit). Those analyses may overlap in part with questions of due process and personal jurisdiction over foreign actors in U.S. courts.

In the absence of such domestic "use in commerce," U.S. companies taking issue with foreign companies using their trademarks abroad will more likely have to resort to the local courts of the jurisdiction where the activity is taking place. Alternatively, such companies may turn to international organizations such as the World Trade Organization or the World Intellectual Property Organization. U.S. rightsholders may be further incentivized to acquire trademark rights and registrations in foreign jurisdictions and to coordinate with trademark counsel abroad.

Finally, insofar as the Supreme Court's ruling was based on statutory interpretation, Congress always retains the option to amend the Lanham Act and expressly create liability for foreign conduct that causes injury within the United States. It remains to be seen whether there will be any significant interest or momentum in doing so.

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