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Marketa Trimble

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TRADEMARK LAW

What Is the Territorial Scope of the Lanham Act?

CASE AT A GLANCE

Since *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952), the Supreme Court has not addressed the territorial scope of the Lanham Act. *Abitron Austria GmbH v. Hetronic International, Inc.* is an opportunity for the Court to clarify how its *RJR Nabisco* extraterritoriality framework applies to the Lanham Act, whether and how current circuit court tests fit into the framework, and whether any of the tests should apply in the second step of the framework.

Abitron Austria GmbH v. Hetronic Int’l, Inc.
Docket No. 21-1043

Argument Date: **March 21, 2023** From: **The Tenth Circuit**

by **Marketa Trimble**

William S. Boyd School of Law, University of Nevada, Las Vegas

Introduction

In *RJR Nabisco, Inc. v. European Community*, 579 U.S. 325 (2016), the Supreme Court, building on its earlier opinions in *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247 (2010), and *Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. 108 (2013), formulated a two-step framework for analyzing the territorial scope of U.S. statutes. Since *RJR Nabisco*, the Court has applied the framework to several statutes, including two sections of the Patent Act in *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018). Lower courts have applied the framework to additional statutes, including provisions of the Copyright Act and the Lanham Act. In this case, the Supreme Court has an opportunity to clarify how the *RJR Nabisco* framework applies to the Lanham Act.

A clarification of the territorial scope of the Lanham Act is urgently needed. The Court’s opinion in *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952), generated much confusion and left many questions unanswered. Circuit courts grappled with the legacy of *Steele* and developed various tests based on *Steele*, resulting not only in differing legal standards but also in disparate outcomes among the

circuits. These results are being perpetuated as courts continue to apply the circuit court tests, sometimes as the second step of the *RJR Nabisco* framework. Developments over the past seven decades, not least in trademark law (discussed in the amicus brief from the International Trademark Association [INTA]) and prescriptive jurisdiction, deserve to be reflected in a new examination of the territorial reach of the Lanham Act. The Supreme Court’s opinion in *Abitron Austria GmbH v. Hetronic International, Inc. (Abitron)* could provide additional guidance to lower courts for their analyses of the territorial reach of Lanham Act provisions and other federal statutes.

Issues

Does the Lanham Act apply extraterritorially and permit an award of profits for sales made outside the United States, including sales made to non-U.S. customers and for use outside the United States?

Facts

Abitron concerns a dispute between a group of related foreign companies, including Hetronic Germany and

Abitron (petitioners), and a U.S. company, Hetronic Int'l (respondent). The two Hetronic companies were originally owned by a common founder, who later sold the companies, each to a different owner. Before the sales, the companies entered into agreements that set between them the ownership of intellectual property stemming from research and development. After the sales, a Hetronic Germany employee in 2011 discovered an early research and development agreement, which Hetronic Germany interpreted as an assignment from Hetronic Int'l to Hetronic Germany of all of Hetronic Int'l's trademarks and trade names and other intellectual property. Based on this interpretation, Hetronic Germany stopped paying royalties to Hetronic Int'l, reverse engineered Hetronic Int'l's products, and sold products based on the reverse engineering. Abitron later purchased Hetronic Germany, and Hetronic Germany continued to operate almost exclusively outside the United States.

In 2014, Hetronic Int'l sued Abitron, et al. in the U.S. District Court for the District of Oklahoma, alleging breach of contract and later additional claims, including infringement under the Lanham Act of registered U.S. trademarks, unregistered trademarks, and trade dress. Abitron argued that almost all the sales of the accused products were made outside the United States, to non-U.S. customers, and for use outside the United States.

Following a trial, a jury awarded Hetronic Int'l approximately \$115 million in damages, over \$90 million of which arose from Abitron's Lanham Act violations; the \$90 million was Abitron's total worldwide sales of the accused products, about 97 percent of which (\$88 million) were sold outside the United States to non-U.S. customers for use outside the United States. The district court concluded that the Lanham Act reached Abitron's foreign conduct, and the court entered a permanent injunction, enjoining Abitron's infringement activities worldwide.

The U.S. Court of Appeals for the Tenth Circuit ruled on several issues on appeal. *Hetronic Int'l, Inc. v. Hetronic Germany GmbH*, 10 F.4th 1016 (2021). Importantly for the Lanham Act question, the court of appeals held that the Lanham Act applied extraterritorially in the case and remanded to the district court to narrow its injunction. Having reviewed several circuit court tests for the territorial reach of the Lanham Act, the court of appeals applied the First Circuit's test, while adding its own modification. Under the court of appeal's new test, a court should first determine "whether the defendant is a U.S. citizen." If so, the Lanham Act applies to foreign

activities without further inquiry. If "the defendant is not a U.S. citizen," the court should ask "whether the defendant's conduct had a substantial effect on U.S. commerce." If so, the court should consider "whether extraterritorial application of the Lanham Act would create a conflict with trademark rights established under foreign law." In this case, the court of appeals held that the foreign defendants' sales had a "substantial effect on U.S. commerce" and that the application of the Lanham Act did not conflict with foreign trademark rights.

Case Analysis

The question presented to the Supreme Court is narrow: Does the Lanham Act apply extraterritorially to allow the award of profits for Abitron's foreign sales, including sales that neither reached the United States nor confused consumers in the United States? The question is formulated much like the question posed in the petition in *WesternGeco*, and it is therefore possible that the Court will again limit its analysis and holding to the question of the extraterritorial application of the statute—though many other issues in *Abitron* would deserve to be addressed, even if only *in dicta*.

The Supreme Court has analyzed territorial reach at the level of individual statutory provisions; in *WesternGeco* the provisions were Sections 271(f)(2) and 284 of the Patent Act on infringement and damages, respectively, and the analysis in *Abitron* will likely also proceed at the level of specific statutory provisions—Sections 32(1)(a), 43(a)(1) (A), and 35(a) of the Lanham Act. Even if the Court were to uphold—in the first step of the *RJR Nabisco* framework—*Steele's* conclusion that the presumption against extraterritoriality has been rebutted for the entire Lanham Act (the *Steele* Court referred to the Lanham Act's express intent to regulate "all commerce which may lawfully be regulated by Congress"), step two of the framework should focus on the specific statutory provisions.

The question is whether the rebuttal of the presumption, if accepted by the Court, should be extended to the entire Lanham Act. In *WesternGeco*, the Court chose not to analyze the presumption and bypassed the first step of the *RJR Nabisco* framework to avoid a difficult question, the resolution of which would not have affected the outcome of that case: Should the presumption against extraterritoriality ever apply to general remedy statutes, such as Section 284 of the Patent Act? The Court was concerned that "[r]esolving that question could implicate many other statutes besides the Patent Act." Had the

Court confirmed that the presumption applied to remedy statutes, the result might have been a significant limitation on the scope of remedies available under any remedy statute for which the presumption would not be rebutted (this argument is discussed by the Federal Circuit Bar Association in its amicus briefs). This concern will not exist in *Abitron* if the Court extends the rebuttal of the presumption to the entire Lanham Act. Alternatively, the Court could again avoid answering the question by proceeding directly to the second step of the *RJR Nabisco* analysis, as it did in *WesternGeco*.

In the second step of the *RJR Nabisco* framework, the Court has assessed whether the case falls within “the limits [that] Congress has (or has not) imposed on the statute’s foreign application” (if the presumption has been rebutted), or “whether the case involves a domestic application of the statute,” given the statute’s “focus” (if the presumption has not been rebutted). In either case, the Court at this step could decide the fate of the tests that the circuit courts developed after *Steele* to determine the territorial reach of the Lanham Act. If the presumption has *not* been rebutted (the position of *Abitron*, the United States, three intellectual property law professors, and Professor Dodge), the Court could proceed to identifying the statute’s focus, and possibly endorse or modify one of the circuit tests to be used to determine whether the case involves a domestic application of the statute. If the presumption *has* been rebutted, one of the tests (or its modification) could delineate the limits of the statute’s foreign application (the position of *Hetric Int’l*, the INTA, the American Intellectual Property Law Association [AIPLA], the Intellectual Property Owners Association, and the American Bar Association [ABA]).

The most significant difference among the existing circuit tests is the level of effect on U.S. commerce that they require; the level of effect ranges from “substantial effect” to no effect (for U.S. infringers under some of the tests). Some of the tests treat U.S. citizens and non-U.S. citizens differently, a difference that may or may not be justifiable. Although citizenship can be a ground for prescriptive jurisdiction, the conclusion does not follow that Congress necessarily intended to use this ground for the Lanham Act, and nothing in the Lanham Act suggests such Congressional intent (the AIPLA and three intellectual property law professors detail this argument in their amicus briefs). Some of the circuit court tests include considerations of comity—potential conflicts with foreign rights and laws; the *Steele* opinion alluded to such

concerns, though the *Steele* Court discussed the concerns in the context of adjudicatory jurisdiction, not as a limit on prescriptive jurisdiction.

Circumstances are ripe for the Court to formulate a new test for the territorial reach of the Lanham Act—a test that would be within the *RJR Nabisco* framework, would take into account any limits imposed by Congress on the extraterritorial application of the Lanham Act, and would depart from the influences of the subject matter jurisdiction analyses that have affected the circuit court tests. The Court should indicate where and how questions of comity, potential conflict with foreign rights and laws, and citizenship of parties are or should be reflected.

Abitron’s *certiorari* question also states that “the court of appeals...appl[ied] the Lanham Act...to petitioners’ foreign sales, including purely foreign sales that never reached the United States or confused U.S. consumers.” (The United States suggested an alternative wording, but *Abitron* disagrees with that reformulation.) But the court of appeals stated that “the district court properly applied the Lanham Act to Defendants’ conduct” because the court concluded that defendants’ foreign conduct—sales to non-U.S. customers outside the United States—did cause consumer confusion in the United States. *Hetric Int’l*, joined by the United States, the INTA, and Professor Dodge, argue that under the second step of the *RJR Nabisco* framework, *Abitron* involves a domestic application of the Lanham Act, with consumer confusion in the United States being the “focus” of the statute. The INTA further urges the Court to expand significantly the formulation of the focus of the Lanham Act because the INTA is analyzing the focus of the Lanham Act as a whole, and not concentrating solely on the particular Lanham Act provisions at issue in *Abitron*. Not surprisingly, *Abitron* argues that the focus of the statute should be limited to conduct and should not include the effects of conduct.

The court of appeals also localized as domestic the effects of the foreign sales included in remedies based on the diversion-of-sales theory, and accepted the “lost revenues [that] would have flowed into the U.S. economy but for Defendants’ conduct infringing a U.S. trademark” as evidence of “substantial effects on U.S. commerce.” A localization of infringement in the place of the rights holder is problematic in other contexts in intellectual property law cases and should also be avoided here. The analysis of this point by the court of appeals eventually circled back to the confusion caused to U.S. consumers as the key factor in indicating “substantial effects” on U.S. commerce.

The territorial scope of Section 35(a), the Lanham Act remedy provision at issue in *Abitron*, will likely be analyzed in the context of “the type of infringement that occurred,” as clearly stated by the Supreme Court in *WesternGeco*. Based on the reasoning of *WesternGeco*, it seems that if the focus of Sections 32(1)(a) and 43(a)(1)(A) is likelihood of consumer confusion in the United States, and if the confusion caused by *Abitron*’s acts did occur in the United States, the award of lost profits to *Hetronic Int’l* would be a domestic application of the remedies statute.

In this case, *Hetronic Int’l* raises a similar question to that raised by Justice Neil Gorsuch, joined by Justice Breyer, in dissent in *WesternGeco*: whether *Abitron* is really even a case about extraterritorial application of the Lanham Act. Remedies in intellectual property cases do not necessarily coincide with the territorial scope of rights infringed or infringing activities, and courts award such remedies in intellectual property cases, albeit with limitations, when a related infringing activity can be localized in the United States. According to the U.S. Court of Appeals for the Federal Circuit, “[a]n injunction [...] can reach extraterritorial activities [...], even if these activities do not themselves constitute infringement,” as long as the injunction is designed to “prevent infringement of a United States patent.” *Johns Hopkins Univ. v. CellPro, Inc.*, 152 F.3d 1342 (Fed. Cir. 1998) (denying an extraterritorial injunction in the case but discussing the court’s issuance of such an injunction in *Spindelfabrik Suessen-Schurr v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 903 F.2d 1568 (Fed. Cir. 1990)). Since 1939, courts deciding copyright cases have used the predicate act doctrine to award foreign profits based on an infringer’s predicate act in the United States. *L.A. News Serv. v. Reuters Television Int’l Ltd.*, 340 F.3d 926 (9th Cir. 2003). Similarly, though on a different basis, the *WesternGeco* Court held that the supply of components was a “domestic act” and therefore “the lost-profit damages that were awarded to [the rights owner] were a domestic application of” the U.S. Patent Act’s damages provision, and the “overseas events were merely incidental to the infringement.”

Because *Abitron* presents the opposite scenario, the predicate act doctrine was of no use to *Hetronic Int’l* in the case, which is why *Hetronic Int’l* relied on the diversion-of-sales theory. By definition, the diversion-of-sales theory can include noninfringing sales, which can be sales outside the United States. Whether a trademark owner can show a diversion of sales is an evidentiary matter. *Abitron* argues

that only 3 percent of its foreign sales might have caused consumer confusion in the United States.

Awards of extraterritorial remedies, particularly awards of foreign profits based on the diversion-of-sales theory, raise grave concerns. The United States warns that the Tenth Circuit’s *Abitron* decision threatens to make U.S. trademark law the global norm, making the law “a springboard for regulating foreign conduct that has no likelihood of affecting consumer perceptions in the United States.” Justice Gorsuch, joined by Justice Breyer, cautioned in *WesternGeco* that “the Court end[ed] up assuming that patent damages run (literally) to the ends of the earth” and the interpretation will now “allow U.S. patent owners to extend their patent monopolies far beyond anything Congress has authorized.” The AIPLA and three intellectual property law professors call for comity considerations in decisions on remedies.

It is essential that the limits of extraterritorial remedies be delineated, and the Supreme Court has already formulated a framework for protecting infringers from overbroad profit awards:

If it can be shown that the infringement had no relation to profits made by the defendant, that some purchasers bought goods bearing the infringing mark because of the defendant’s recommendation or his reputation or for any reason other than a response to the diffused appeal of the plaintiff’s symbol, the burden of showing this is upon the poacher. The plaintiff of course is not entitled to profits demonstrably not attributable to the unlawful use of his mark.

Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203 (1942).

Concerns about extraterritorial remedies are heightened when non-U.S. parties are subject to these remedies. But an important backstop on extraterritorial remedies granted against foreign parties exists: recognition and enforcement in foreign courts (see also the amicus brief by *Stussy, Inc.*). If the foreign party has limited or no assets in the United States, and if it does not voluntarily comply with a U.S. judgment, the prevailing party must seek the recognition and enforcement of the U.S. judgment in a foreign court that has the power to effectuate the judgment against the foreign party. The foreign court’s willingness to enforce the U.S. judgment confines U.S. prescriptive and adjudicatory jurisdiction; although the U.S. judgment

may have some informal effect outside the United States, without recognition and enforcement of the judgment, the intended territorial scope of any U.S. statute and any remedy based on the statute are illusory.

Significance

The Supreme Court has an opportunity in *Abitron* to provide much-needed clarification of the territorial scope of the Lanham Act and define an analytical framework for determining that scope. The decision can eliminate the multitude of tests developed by the circuit courts and establish a single test to analyze the territorial reach of Lanham Act provisions. As it stands now, the circuit court tests vary to such a degree that they can encourage forum shopping and generate legal uncertainty that might hinder cross-border economic activities. The Supreme Court's decision in *Abitron* could also improve the understanding of the territorial scope of other statutes, and could, as the Federal Circuit Bar Association suggests, indirectly resolve a split among the district courts concerning the effects of *WesternGeco* on potential recovery of lost foreign profits in infringement cases based on provisions of the Patent Act other than 35 U.S.C. § 271(f)(2) that the Court analyzed in *WesternGeco*.

Countries have begun viewing recent developments in U.S. trademark law with concern about the increasing expansion of the territorial scope of the Lanham Act. Opinions from outside the United States have warned that U.S. law is violating the principle of territoriality of trademarks and endangering the harmony with other national trademark laws that the international trademark system seeks to maintain (this argument is raised by *Abitron* and by Professor Westkamp, Professor Pahlow, three German law professors, and the European Union as amici). The European Union warns that “extraterritorial application of the Lanham Act risks disrupting the international trademark regime, and violating the United States’ obligations under international law.” The Intellectual Property Owners Association expresses the concern of its members that “an overly expansive approach to extraterritoriality could expose United States citizens and companies to retaliation by the courts of other countries.”

Provided that the Supreme Court sets appropriate safeguards, the following could be the outcome of the case: (a) Foreign sales that do not reach the United States (meaning sales of products that never appear in the United States) and do not cause confusion to consumers in the United States are not infringing under the Lanham

Act; however, profits from such sales may be included in remedies based on a diversion-of-sales theory if there is other conduct that is infringing under the Lanham Act and (if and to the extent that) a rights holder can prove diversion. (b) Foreign sales that do not reach the United States (meaning sales of products that never appear in the United States) but cause confusion to consumers in the United States are infringing under the Lanham Act and are subject to remedies for such infringement, possibly including remedies based on a diversion-of-sales theory, if and to the extent that a rights holder can prove diversion. (c) The territorial scope of an injunction should coincide with the territorial scope of the infringed right unless effective protection of the right requires a broader injunction, in which case a court, when designing the injunction, should take into account the existence of any competing foreign rights.

Marketa Trimble is the Samuel S. Lionel Professor of Intellectual Property Law at the William S. Boyd School of Law at the University of Nevada, Las Vegas, an expert in transnational intellectual property law, and the coauthor of a leading casebook on international intellectual property law. She cosigned an amicus brief in this case. She can be reached at marketa.trimble@unlv.edu.

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ATTORNEYS FOR THE PARTIES

For Petitioners *Abitron Austria GmbH, et al.* (Jeffrey Alan Lamken, 202.556.2010)

For Respondent *Hetric International, Inc.* (Matthew S. Hellman, 202.639.6000)

AMICUS BRIEFS

In Support of *Abitron Austria GmbH, et al.*

German Law Professors (John Lee Shepherd Jr., 202.955.1500)

Professor Dr. Louis Pahlow (Paul F. Enzinna, 202.753.5553)

Professor Guido Westkamp (William James Cooper, 415.343.7100)

In Support of Respondent *Hetric International, Inc.*

American Bar Association (Deborah Delores Enix-Ross, 312.988.5000)

Stussy, Inc. (John R. Sommer, 949.752.5344)

In Support of Neither Party

American Intellectual Property Law Association
(Richard S. Stockton, 312.463.5000)

European Commission on Behalf of the European
Union (Neil Anthony Friedman Popovic, 415.434.9100)

Federal Circuit Bar Association (Michael Robert
Franzinger, 202.736.8583)

Intellectual Property Owners Association (Theodore H.
Davis Jr., 404.815.6534)

International Trademark Association (Lawrence K.
Nodine, 678.420.9300)

Professor William S. Dodge (Michael R. Dreeben,
202.661.6609)

Three Intellectual Property Law Professors (Timothy R.
Holbrook, 404.712.0353)

United States (Elizabeth B. Prelogar, Solicitor General,
202.514.2217)