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# US Supreme Court Lanham Act case will hopefully return US trademark law to more stable foundations

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*The US Supreme Court recently granted certiorari in a case that will hopefully settle conflicting Court of Appeals decisions on the cross-border reach of the Lanham Act, notes this week's opinion.*

Even intellectual property beginners know that IP rights are territorial, so what happens outside our borders doesn't impact what happens inside our borders, right? Well, given the arguably conflicting Court of Appeals decisions on the cross-border reach of the Lanham Act, maybe not. The US Supreme Court recently granted certiorari in a case that will hopefully clarify this issue for trademark and trade dress registrations (*Abitron Austria GmbH v Hetronic International Inc.*, No. 21-1043 (US cert granted 4 November 2022)).

The *Abitron* case raises the question of whether the US Court of Appeals for the Tenth Circuit erred in applying the Lanham Act extraterritorially to reach Abitron's foreign sales. The lower court awarded Hetronic $90 million in damages, even though 97% of Abitron's sales were purely foreign and did not involve US consumers. How could this be? Quite simply, the Tenth Circuit adopted the view, now held by a minority of US Circuit Courts, that the Lanham Act may have an expansive extraterritorial reach when a foreign defendant's conduct diverts foreign sales from a US plaintiff. In other words, even when a foreign defendant makes a sale to a foreign customer abroad, it may infringe a US trademark holder's rights if the US company lost the sale from the US to the foreign customer.

The US Supreme Court has addressed the extra-territorial effect of the Lanham Act only once before, in the 1952 case *Steele v Bulova Watch Co (*344 U.S. 280 (1952)). Back then, a Mr Steele, who lived in San Antonio, Texas, calculated that he could buy materials in the US, manufacture ersatz BULOVA watches across the border in Mexico, allow resellers to purchase the watches there and bring them back over the border, and thus take a penalty-free ride on the good reputation of the Bulova Watch Company. Perhaps proving the maxim that bad facts make bad law, the *Steele* Court held that the Lanham Act could apply to "acts of trademark infringement and unfair competition consummated in a foreign country by a citizen and resident of the United States". However, the *Steele* decision did not clarify *how much* of an impact on US commerce a foreign infringement would need to have to fall within the scope of the Lanham Act.

Of course, the US Circuit Courts have been called many times to address the contours of the rule of law laid out by the Supreme Court in the 70 years since *Steele* was decided, and several different tests have been developed to assess the Lanham Act's extraterritorial reach. Most of these multiprong tests are directed towards ascertaining whether an accused defendant is a US

citizen whose foreign actions substantially impact US or foreign commerce. But some tests, like the one applied in the Ninth Circuit and one now applied in the Tenth Circuit, are more permissive and require much less than a "substantial" impact, or water down what a "substantial" impact may be.

The *Abitron* case is particularly interesting because the appellant has a persuasive argument that the Tenth Circuit's ruling, and new test, go too far. The Tenth Circuit did not find that the purely foreign sales at issue reached the US or confused US consumers. Instead, the Tenth Circuit reasoned that the Lanham Act applies because a foreign company allegedly diverted purely foreign sales from a US company, whose revenues may otherwise have flowed into the US economy. On that basis, the Tenth Circuit upheld $90 million in damages, encompassing Abitron's total worldwide sales, and approved an injunction barring Abitron's sales anywhere in the world where it sells competing products.

In its petition for *certiorari*, Abitron argued that the Lanham Act's language seeks to prevent a likelihood of confusion among US consumers, not consumers in foreign countries. To allow the Lanham Act to apply extraterritorially when a US plaintiff claims substantial lost sales abroad would be to unmoor the act from one of its fundamental purposes – protecting US consumers from confusion. It would also give the act an unprecedented reach, far beyond that authorised by *Steele*. In *Steele*, the defendant was a US citizen, who purchased supplies in the US, and whose scheme was premised on the infringing products filtering back across the Mexican border to the US. These facts are not particularly analogous to *Abitron* and suggest that the Tenth Circuit's efforts to use the *Abitron* facts to extend the Lanham Act's reach is unwarranted.

Also here, unlike *Steele*, it is unclear whether Abitron is a bad actor, even though Hetronic does allege bad faith acts by Abitron. This dispute is rooted in a disagreement over the interpretation of conflicting agreements regarding ownership of the underlying trademarks. Hetronic argues that its rights to the underlying trademarks stem from a 2010 licensing agreement to Abitron. Abitron argues that its rights stem from an earlier 2000 research and development agreement between the parties' predecessors. That said, the trial court relied on an EUIPO ruling to preclude Abitron from arguing that it had rights to any of the underlying trademarks under US law. Accordingly, the trial focused on damages issues, resulting in a $90 million dollar ruling against Abitron based on sales that were overwhelmingly foreign. The Tenth Circuit upheld the trial court's preclusion ruling and adopted its permissive test of the Lanham Act's cross-border reach.

Reading the tea leaves, we think the court granted *certiorari* here in part because it agrees, as did the Solicitor General in the Brief of the United States, that the Tenth Circuit should have at least considered whether the use of the underlying marks caused confusion among US consumers and permitted damages only for those uses. We hope that the court will take this opportunity to clarify the issue left open by the *Steele* Court 70 years ago, namely, *how much* of an impact on US commerce a foreign infringement would need to have to fall within the scope of the Lanham Act.

A definitive ruling on this issue could bring clarity and unity to the current landscape, with its several separate tests. It would decrease forum shopping and rein in some Circuits' overly broad interpretations of the Lanham Act's extraterritorial scope, returning US trademark law to more stable foundations. Our bet is that the court will adopt a new test relying upon various factors selected from the current Circuit Court tests, and perhaps some new factors, to determine whether the Lanham Act may be applied to conduct outside the US.

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