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Cert. Granted in Abitron to Clarify Boundaries for Extraterritorial Application of Lanham Act

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In *Abitron Austria GmbH v. Hetronic International, Inc.*, Oklahoma-based Hetronic, maker of radio remote controls for heavy-duty construction equipment, sued its former distributor Abitron (from Austria) for selling copycat products, as illustrated below.

The district court found that Abitron had willfully infringed the Hetronic mark. Despite the fact that 97 percent of the infringing sales were made in Europe, the court awarded Hetronic $90 million in damages. *Abitron* appealed to the Tenth Circuit. While the Tenth Circuit recognized that there were as many as six tests for extraterritorial application of U.S. statutes in other circuits, it held that the Lanham Act could be applied to foreign defendants' foreign sales and upheld, in part, the district court's decision.

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Abitron filed a petition for a writ of certiorari (the Petition), arguing that the Tenth Circuit erred in applying the Lanham Act extraterritorially to Abitron's purely foreign sales that never reached the United States or confused U.S. consumers. Abitron explained that since the Lanham Act does not state that it applies in foreign countries, federal courts have been inconsistent in applying the statute. Abitron further explained that the Supreme Court in *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952), held that a federal district court had "jurisdiction" over a suit alleging trademark infringement "consummated in a foreign country by a citizen and resident of the U.S." However, it did not provide any guidance on the extent of the Lanham Act's extraterritorial reach and how it applied to foreign defendants.

Consequently, Abitron argued, courts have adopted at least six tests to determine when the Lanham Act applies extraterritorially. For example, Abitron noted that the Second and Eleventh Circuits apply the *Vanity Fair* test. Under that test, courts look to, among other factors, whether the defendant's conduct had "a substantial effect" on U.S. commerce. The Fourth and Fifth Circuits apply a less stringent version of the *Vanity Fair* test: the Fourth Circuit asks only whether there is a "significant effect" on U.S. commerce," and the Fifth Circuit requires only

"some effect" on U.S. commerce. The Ninth Circuit requires only "some effect on American foreign commerce," while the First Circuit considers citizenship a threshold consideration, and the Tenth Circuit further modifies the citizenship approach and evaluates whether the extraterritorial application of the Lanham Act would conflict with foreign trademark rights. *Abitron* concluded that these disparate approaches produce disparate outcomes across the country.

Abitron also argued that while the Tenth Circuit affirmed a $90 million Lanham Act damages judgment, reflecting Abitron's total worldwide sales of accused products, it never suggested that those purely foreign sales somehow confused U.S. customers. Instead, Abitron asserted that the Tenth Circuit relied on a diversion of sales theory.

Abitron further claimed that *Steele* nowhere suggests that the Lanham Act reaches foreign conduct by foreign defendants that does not confuse U.S. consumers. Abitron also noted that *Steele* is a 70-year-old-decision and, thus, does not address the realities of modern commerce.

Finally, Abitron argued that the Tenth Circuit's expansive construction of the Lanham Act raises serious constitutional concerns because no plausible reading of the Foreign Commerce Clause grants Congress "virtually plenary power over global economic activity" and, as such, the Tenth Circuit's decision has significant international implications.

Hetronic opposed the Petition. Hetronic argued that the Tenth Circuit decision did not implicate any circuit split. Hetronic reasoned that the Tenth Circuit chose the most restrictive test for allowing extraterritorial application of the Lanham Act and still found that it reached the infringement at issue. Hetronic explained that Abitron's foreign conduct had a substantial effect on U.S. commerce because Abitron's foreign sales included products that ended up in the United States, and Abitron's conduct

diverted millions of dollars of sales and profits from Hetronic. Hetronic concluded that every circuit to address the Lanham Act's extraterritorial reach has held that the statute reaches such conduct.

Further, Hetronic argued that it is well established that the Lanham Act covers extraterritorial conduct that harms U.S. commerce, as set forth in *Steele*, which is still good law. Moreover, Hetronic noted that there was overwhelming evidence at the trial of U.S. consumer confusion. Additionally, Hetronic claimed that the sales Abitron diverted from it independently justified the extraterritorial application of the Lanham Act.

Lastly, Hetronic reasoned that rejecting the extraterritorial application of the Lanham Act in circumstances like these would vitiate its fundamental purpose and have disastrous consequences for U.S. companies, like Hetronic, that conduct business worldwide.

Multiple amici also filed briefs. The Solicitor General argued that the Petition should be granted because the Lanham Act provides a remedy for a foreign defendant's use of a plaintiff's U.S. trademark abroad only if that use is likely to cause confusion in the United States, which was not the case here. The Solicitor General argued that the Tenth Circuit's rationale for holding that Hetronic could recover even for sales that were not likely to result in consumer confusion within the United States lacked any merit. The Solicitor General concluded that the Tenth Circuit's decision risks globalizing U.S. trademark law, allowing U.S. trademark protection to serve as a springboard for regulating foreign conduct that is unlikely to affect consumer perceptions in the United States and, thus, warrants review.

The Federal Circuit Bar Association (FCBA) also filed an amicus brief and argued that the Tenth Circuit's decision could impact International Trade Commission law, which addresses extraterritorial

violations of U.S. trademarks and unfair competition laws. Further, FCBA noted that how the Supreme Court resolves the present case may bear on the Patent Act's remedy provision and whether patentees can recover lost foreign profits caused by domestic infringement.

Similarly, the American Intellectual Property Law Association (AIPLA) filed an amicus brief and argued that the Lanham Act applies to some, but not all, foreign commerce. Specifically, AIPLA argued that the Lanham Act applies only to foreign commerce that substantially affects U.S. commerce and does not depend on the defendant's U.S. citizenship. Nonetheless, AIPLA argued that infringement remedies should be separately assessed because monetary relief under the Lanham Act is not unlimited. AIPLA further argued with the Supreme Court whether there was a substantial effect on U.S. commerce and to reassess any remedy.

Finally, the European Commission (EU) also filed an amicus brief. It argued that a robust international system, including the Paris Convention, the Madrid Protocol, and the Agreement on Trade in Counterfeit Good, protects the rights of U.S. trademark holders abroad based on the principle of territoriality. The EU further argued that EU and German law implement the international system and provide relief for U.S. rightsholders for infringement in Germany, as happened here. The EU concluded that under this international system, the courts of the United States might not adjudicate an alleged infringement outside the territory of the United States

The Supreme Court heard the oral arguments in this case on March 21, 2023, which we shall also blog.

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