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SCOTUS Oral Arguments in Abitron v. Hetronic: Extraterritorial Reach of Lanham Act

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On March 31, 2023, the Supreme Court heard arguments in *Abitron Austria GmbH v. Hetronic International, Inc.,* where at issue *is* whether the Tenth Circuit erred in applying the Lanham Act extraterritorially to Abitron's foreign sales, including purely foreign sales that never reached the United States, as more fully described in our previous blog.

Abitron argued that the Lanham Act does not apply to trademark infringement outside the United States, especially to foreign defendants like Abitron. Abitron asserted that it is a foundational principle of both U.S. and international trademark law that trademark protections are inherently territorial and do not extend beyond the borders of the country granting protection. Thus, Abitron reasoned that because its foreign sales involved only uses outside the United States, they fall outside the Act's scope. Abitron also explained that *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952), the current controlling case, addressed only the Act's application to U.S. citizens acting abroad, but it did not address how the Act applies to foreign defendants. According to Abitron, the reason for that is the longstanding principle that a country can govern its citizens anywhere in the world, but that principle simply does not apply to foreign defendants, as that would create a risk of conflict with foreign laws and result in international friction.

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The Justices pushed back, especially Justice Sotomayor, observing that "[Abitron's] position in this world of the internet makes very little sense. Foreign buyers today ... advertise their goods on the internet, and they purposely target American customers in America. The fact that they choose to deliver those goods at the border, outside the United States, or into the U.S., to me, should make no difference. They are competing with the trademark owner in the U.S. to secure U.S. customers." Justice Sotomayor further reasoned that the issue should not be the citizenship of the defendant but rather "whether or not these acts are intended to cause confusion in the U.S. and that internet sale to me is clearly intended to violate the Act."

Justice Jackson asked several hypothetical questions about an extraterritorial application of the Lanham Act to knockoff Coach bags. In the first hypothetical, a German manufacturer of knockoffs of Coach handbags sold those bags in Germany only. Under those facts, Abitron argued that the use of the mark was entirely outside of the United States and, thus, Coach could not sue the German manufacturer under the Act. In the second hypothetical, American college students purchased the knockoff bags in Germany and brought them back to the United States, where people who saw them became confused. There, Abitron explained that, even though the damage to Coach's goodwill is in the United States, Coach could still not sue the German manufacturer. Instead, Abitron reasoned, the remedy would be to obtain European Union trademark protection and enforce their rights there. Under the third hypothetical, the students bought $100,000 worth of the bags in Germany and put them into commerce in the United States, selling them on the street. In that case, Abitron said Coach could sue the students but still not the German manufacturer.

The U.S. Solicitor General ("SG") argued that the Tenth Circuit was mistaken in giving the Lanham Act sweeping extraterritorial reach. The SG reasoned

that the provisions of the Act contain no clear affirmative indication of extraterritorial application. Further, the SG asserted that the focus of each provision of the Lanham Act is consumer confusion, which is the touchstone of trademark infringement. The SG further noted that the use of a trademark that causes a likelihood of confusion in the United States is actionable, and thus, "a defendant is not liable for transactions that confuse only foreign customers but one who causes confusion in the United States, misappropriating U.S. goodwill, is liable."

Concerning Justice Jackson's hypothetical, the SG said that the liability would depend on whether the maker of the bags could foresee that the students intended to sell the bags in the United States.

Finally, with respect to *Steele*, the SG argued that its interpretation focused on consumer confusion, allowing the Court to embrace *Steele* and make sense of it. However, the SG also noted that it disagrees with the aspect of *Steele* that is focused on U.S. citizenship of the defendants.

Hetronic argued thatthe Supreme Court hasrepeatedly reaffirmed that the Lanham Act reaches extraterritorial infringement of U.S. marks. Hetronic further claimed that although Congress has amended the Act 36 times during the last 70 years, it has never pulled back on the Lanham Act's extraterritorial reach. Hetronic argued that personal jurisdiction and "substantial effect" on U.S. commerce limits the Act's reach, and nothing more is required.

In response to Justice Alito's questions about the territorial nature of trademark law, Hetronic responded that "each nation is the ultimate arbiter of its own trademark laws", but can also decide where foreign conduct is harmful and actionable under the Act.

In response to Justice Jackson's question about infringing goods made abroad that never come to the

United States, Hetronic argued that the "substantial effect" on U.S. commerce would be diverted sales, *i.e.*, sales that would otherwise go from the United States to the foreign country, as it was in this case. Counsel reasoned that even if the goods stay in Europe because you have confusion and diverted sales within Europe, there will be fewer legitimate U.S. goods sold to Europe, thus having an effect on U.S. commerce.

We shall continue to follow this case and blog the decision when it is reached.
