

## **Alert** | Trademark & Brand Management



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### **SCOTUS Limits Extraterritorial Reach of Lanham Act**

On June 29, 2023, the U.S. Supreme Court issued its **decision** in *Abitron Austria GmbH v. Hetronic International, Inc.*, a case that presented the Court with an opportunity to clarify whether, under the federal Lanham Act, U.S. courts are ever permitted to issue “worldwide injunctions” related to trademark use.

#### **Background**

German engineer Max Heckl formed two companies, one based in Germany and the other based in the United States. The U.S.-based company, Hetronic International, manufactures and sells industrial equipment remote controls worldwide under the HETRONIC brand and, since 2008, has not been associated with Heckl.

Beginning in 2006, Hetronic engaged various companies owned by German entrepreneur Albert Fuchs to distribute Hetronic’s products in various European countries. In September 2011, an employee of one of the Fuchs companies discovered an old agreement between Heckl’s U.S. and German companies, and after conferring with legal counsel, Fuchs’ Hetronic Germany claimed ownership of all intellectual property in the industrial remote-control technology it was distributing under its agreement with Hetronic. Hetronic Germany then found new suppliers to source its materials, and the Fuchs companies began selling their own HETRONIC-branded products in competition with U.S.-based Hetronic.

Hetronic noticed the infringement in 2014, when a whistleblower from Hetronic Germany informed Hetronic about the new developments. In June 2014, Hetronic terminated its licensing and distribution

agreements with the Fuchs companies, though both foreign distributors continued to sell HETRONIC-branded products.

In June 2014, Hetronic sued two of the Fuchs companies in the U.S. District Court for the Western District of Oklahoma on a breach of contract claim, trademark infringement claim, claims under Oklahoma tort law, and further sought injunctive relief for all HETRONIC-branded products sold by the Fuchs companies. The complaint was amended to include additional Fuchs companies following consolidation of operations between four Fuchs companies (altogether, Abitron).

The jury trial in the U.S. District Court for the Western District of Oklahoma returned a verdict for Hetronic on all counts and found that Abitron had willfully infringed Hetronic's trademarks. The jury awarded Hetronic over \$96 million of Lanham Act-related damages. The District Court also found Hetronic's evidence of Abitron's diversion of sales in foreign countries sufficiently adequate to show a substantial effect on U.S. commerce and granted Hetronic worldwide injunctive relief.

Abitron appealed to the U.S. Court of Appeals for the Tenth Circuit. On appeal, the Tenth Circuit reviewed the Lanham Act's global reach. The Tenth Circuit found that once personal jurisdiction is established over a foreign defendant, the Lanham Act applies if (1) the infringement has a substantial effect on U.S. commerce and (2) the action would not create a conflict with trademark rights established under relevant foreign law.

With respect to damages, the Tenth Circuit found that Abitron's actions had a substantial effect on U.S. commerce both because millions of euros worth of infringing products eventually entered the United States after initially being sold abroad and because Abitron's foreign sales diverted tens of millions of dollars sales from Hetronic, affecting Hetronic's U.S. cash flows. The Tenth Circuit also noted evidence of U.S. consumer confusion between Hetronic's and Abitron's respective products.

With respect to injunctive relief, the Court of Appeals found the geographic scope of the injunction overly broad because it was not limited to where Hetronic was conducting its business and selling its products. The Tenth Circuit found that a trademark right extends geographically only to markets where goods have become known and identified by a trader's use of its mark; however, in and of itself, the trademark cannot travel to markets where there is no article to wear the badge and no trader to offer the article. Therefore, Hetronic was not entitled to U.S.-court-issued injunctive relief in markets where it did not offer products for sale (potentially even where Hetronic registered but did not use the mark). The Tenth Circuit reasoned there would not be any market confusion – the hallmark of a trademark claim – in territories where both products were not simultaneously sold, when there were no confusingly similar products being marketed. Accordingly, the Tenth Circuit narrowed the geographic scope of the injunction to the countries where Hetronic made and/or sold its products, essentially allowing Abitron to sell its products in countries where Hetronic had no presence.

Abitron then appealed to the U.S. Supreme Court, arguing that the Tenth Circuit's decision defied basic territoriality principles, contradicted U.S. treaty commitments, threatened international friction with regard to trademark laws, and invited other countries to respond in kind. Abitron further contended that the U.S. circuit courts were "badly splintered" on the question of when U.S. trademark law applied to foreign conduct, with six different controlling standards. The Supreme Court granted certiorari to resolve the circuit split over the extraterritorial reach, if any, of the Lanham Act.

In oral arguments, Abitron argued that the Lanham Act should not apply to Abitron's use of trademarks on non-U.S. soil, because the Lanham Act did not contain language from Congress necessary to overcome

the presumption against extraterritoriality, and because trademark protections are inherently territorial. Foreshadowing her concurring opinion, Justice Sotomayor disagreed with this argument, instead focusing the case on whether Abitron's acts on non-U.S. soil were intended to eventually cause confusion on U.S. soil. She further highlighted that by selling its products on the Internet, which reaches U.S. consumers, Abitron had in fact created confusion on U.S. soil, which was unquestionably within the Lanham Act's geographic reach.

The Solicitor General's argument focused on the errors in granting the Lanham Act too broad an extraterritorial reach. Assistant Solicitor General Hansford emphasized that a defendant should not be held liable for transactions that confuse only foreign customers, and which therefore do not cause confusion domestically or misappropriate U.S. goodwill.

Hetronic's counsel argued that the Court has held and repeatedly reaffirmed the Lanham Act's uniquely broad language applies overseas. Hetronic's counsel further noted that Congress has amended the Lanham Act 36 times but has never pulled back on its extraterritorial reach, and therefore argued to maintain the *status quo*.

### **The Majority Opinion**

Justice Alito delivered the opinion of the Court reversing both the District Court and Tenth Circuit's decisions. The Court held that the Lanham Act provisions are not extraterritorial, and they therefore only extend to claims where the claimed infringing use is domestic. This presumption against extraterritoriality governs both §1114(1)(a) and §1125(a)(1) of the Lanham Act.

The majority laid out a two-step test to eventually apply its presumption against extraterritorial application of the Lanham Act: Step one, has Congress affirmatively and unmistakably instructed that the provision at issue should apply to foreign conduct? If Congress has made it abundantly clear through an *unmistakable instruction* that the provision is extraterritorial, then claims alleging exclusively foreign conduct may proceed, subject to the limits Congress has or has not imposed on the statute's foreign application. If Congress has not made it abundantly clear, the Court must move onto step two, which asks whether the suit seeks a "(permissible) domestic or (impermissible) foreign application of the provision." Under step two, what is the "focus" of the Congressional concern addressed by the provision(s) at issue, and what types of claims involve "domestic" applications of the provision(s)?

Under step one, the Supreme Court concluded that the relevant provisions of the Lanham Act do not provide a clear, affirmative indication that they apply extraterritorially, notwithstanding the Lanham Act Section 45's broad definition of "commerce": "*all commerce which may lawfully be regulated by Congress.*" The majority reasoned that a definition of commerce implicating Congress's authority to regulate foreign commerce was insufficient to serve as a "clear, affirmative indication" that Congress intended to apply the Lanham Act extraterritorially.

Finding that the extraterritoriality provision was not met, the Supreme Court moved to step two, where it evaluated the Lanham Act infringement provisions' focus and whether the subject conduct relevant to that focus occurred in the United States.

The most contentious part of the decision was found under step two; specifically in defining the focus of the Lanham Act. The Court noted that the parties also disagreed on this point: Abitron contended that the focus should be on preventing infringing *use* of trademarks; Hetronic argued that the focus should be *both* on protecting goodwill and on preventing consumer confusion; and the U.S. government as *amicus curiae* contended that the focus should be likely U.S. consumer confusion *only*. The Supreme Court offered a

new direction, however, which is that the focus of the Lanham Act is “use in commerce” conduct that is infringing, making the specific location of the “use [in commerce]” the dividing line between foreign and domestic applications of Lanham Act Sections 32 and 43, not where the effects of the alleged infringement, whether confusion or loss of goodwill, are felt. In this case, because Hetrico could not establish that the offending conduct – infringing use in commerce – had occurred within the United States, the Lanham Act did not apply to the defendants’ non-U.S. conduct. Accordingly, the judgment of the Court of Appeals was vacated, and the case remanded for further proceedings.

### **The Concurring Opinions**

There were two concurring opinions, one by Justice Jackson and one by Justice Sotomayor, joined by Chief Justice Roberts, Justice Kagan, and Justice Barrett.

While Justice Jackson agreed with the majority’s overall ruling, she offered her viewpoint in response to the majority’s comment that the Court has no need to elaborate what it means to “use a trademark in commerce.” Justice Jackson opined (and clarified that her joining in the majority opinion was based on her understanding) that “use in commerce” occurs “wherever [a] mark serves its source-identifying function,” comparing someone purchasing abroad and personally using in the United States a German “COACHE” handbag (no source-identifying occurring in the United States) versus someone purchasing abroad and selling that same handbag in the United States. In the second scenario, a marked good is “in” domestic commerce, and the mark is serving (to a potential buyer) a source-identifying function in the way that Congress described, so the Lanham Act provisions may then reach the German “COACHE” handbag maker.

Justice Sotomayor focused her concurring opinion on her disagreement with the majority’s focus being an “[infringing] use in commerce,” and instead proposed that the focus has been and should continue to be conduct that has the effect of likelihood of U.S. consumer confusion.

By focusing the test on “conduct-only,” Justice Sotomayor suggested that the majority’s opinion conflated focus and conduct, even though a statute’s focus can be conduct, parties, or interests. As a result of the majority’s position, “no statute can reach relevant conduct abroad, no matter the true object of the statute’s solicitude” – essentially thwarting Congress’ ability to regulate important interests or parties that Congress has the power to regulate. Justice Sotomayor agreed in judgment only because she felt the lower courts did not adequately evaluate whether the defendants’ activities abroad caused confusion, mistake, or deception in the United States, but, along with three other Justices, essentially disagreed with the majority’s test for determining the extraterritoriality of the Lanham Act, leaving the long-term effects of the opinion somewhat in flux.

### **Takeaways**

The holding makes clear that, for the time being, U.S. plaintiffs cannot enforce the Lanham Act against non-U.S. defendants who transact exclusively outside of U.S. borders. This upsets the status quo at least in the circuits where courts historically could apply the Lanham Act extraterritorially against foreign defendants, namely in the First, Second, Fourth, Fifth, Ninth, Tenth, Eleventh, and Federal Circuits – each of which had their own test. While Justice Jackson’s concurring opinion implies that non-U.S. conduct may lead to follow-up U.S. conduct that is actionable, it is unclear whether a third party’s resale of an item purchased outside the United States would be a sufficient basis to haul the original seller into a U.S. court under the Lanham Act.

It is important to remember that this dispute arose because of transactional documents and distribution agreements. It is critical for intellectual property specialists to examine the details of any transaction, whether a sale or license, implicating intellectual property assets. This decision also emphasizes that, in a global economy, U.S.-based brand owners should secure trademark rights early and often by obtaining registrations in at least their key jurisdictions of manufacturing, distribution, licensing, and of course sales. And since most of the world is “first to file,” meaning that trademark priority is established by registration rather than use, trademark owners should proactively and strategically shore up their global trademark portfolios, particularly where registration can be paired with active or imminent use.

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