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CLIENT ALERT

A Brand Too Far: SCOTUS Declines to Extend Lanham Act to Infringements Abroad

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Key Takeaways:

- While the Supreme Court made clear that federal trademark laws only apply when a trademark is "use[d] in commerce" domestically, the Court failed to provide any guidance on what types of conduct constitute a "use in commerce."
- Infringing conduct occurring outside of the United States will be more difficult to challenge, even if there is actual consumer confusion within the United States.
- Curtailing U.S. mark owners' ability to seek redress under U.S. trademark law for infringing conduct occurring outside of the United States will likely result in U.S. companies spending more money on filing foreign trademark applications and infringement lawsuits in foreign courts in order to protect their trademark rights and brand value.

On June 29, 2023, the Supreme Court vacated the Tenth Circuit's ruling that federal trademark law applies extraterritorially to unauthorized foreign sales of products bearing U.S. trademarks. While all nine justices concurred in the holding that the Lanham Act does not expressly allow extraterritorial application, there was a 5–4 split on the reasoning, with the majority adopting a two-part test to determine whether the provisions at issue overcome the "presumption against extraterritoriality." That test requires inquiry into the focus of the provisions at issue, as well as the location of the conduct relevant to that focus, when there is no express instruction that the provision should apply to foreign conduct.

Hetronic International, Inc., a U.S. company, manufactures radio remote controls to operate heavy equipment. Abitron (a collection of several Austrian and German entities) sold Hetronic's products in Europe pursuant to a distribution agreement between the parties. After termination of this agreement, Abitron began manufacturing and selling identical products under Hetronic's brand in Europe, generating tens of millions of dollars in revenues. While most of the Abitron products were sold in Europe, a small portion were sold directly into the United States, and there was evidence of actual consumer confusion among U.S. customers. Hetronic sued Abitron in the Western District of Oklahoma for trademark infringement under two provisions of the Lanham Act, asserting that the Act's prohibition against trademark infringement applied extraterritorially to Abitron's overseas conduct.

In the district court, Abitron moved for summary judgment, arguing that the Lanham Act did not reach foreign defendants making sales to foreign consumers. While both parties agreed that the Lanham Act could be applied extraterritorially, they disagreed on how extraterritorial application was triggered. Hetronic argued for application of the Ninth Circuit's more lenient *Timberlane* test, which requires that the infringing conduct have *some* effect on U.S. foreign commerce. Abitron, on the other hand, argued for application of the Second Circuit's more stringent *Vanity Fair* test, which would require Hetronic to prove, among other things, that Abitron's conduct had a *substantial* effect on U.S. commerce.

The district court denied summary judgment, finding that the Lanham Act applied to Hetronic's overseas conduct under either the *Vanity Fair* or the *Timberlane* test. The court found there was a substantial impact on U.S. commerce and a cognizable injury to Hetronic because Abitron's sales diverted sales from a U.S. company and caused customer confusion, reputational harm, and a significant drop in Hetronic's revenue. The judge also noted that although Abitron is not a U.S. citizen, it had many ties to the United States that warranted extraterritorial application, such as entering into distribution and licensing agreements with U.S. parties, registering the "Abitron" trademark in the United States, and selling products in the United States. After an extensive trial, a jury awarded Hetronic over $100 million in damages, representing all of Abitron's foreign sales.

On appeal, the Tenth Circuit affirmed, though it rejected both the *Vanity Fair* test and the *Timberlane* test, and instead applied the First Circuit's *McBee* test. Under *McBee*, if the defendant is not a U.S. citizen, the plaintiff must show that the defendant's conduct has a substantial effect on U.S. commerce. Applying the *McBee* test, the Tenth Circuit found that Abitron's actions cost Hetronic tens of millions of dollars in lost sales that would have otherwise flowed into the U.S. economy. This, along with confusion and reputational harm to Hetronic, fulfilled *McBee*'s "substantial effect" requirement.

The Supreme Court, however, disagreed with the Tenth Circuit, vacating its ruling and declining to apply any of the circuit court tests. The Supreme Court opted for a more straightforward two-step framework to determine whether federal statutes such as the Lanham Act will overcome the presumption against extraterritoriality. Under this test, courts must first determine whether the statute "affirmatively and unmistakably" instructs that the provision at issue applies to foreign conduct. If it does not, then courts must determine whether the action seeks to apply the statutory provision domestically or extraterritorially. This second step itself asks two questions: (1) what the provision's focus is (e.g., the conduct it seeks to regulate, or the parties or interests it seeks to vindicate) and (2) whether conduct relevant to that focus occurred domestically. If the conduct relevant to the statutory focus occurred in the United States, the federal statute is applicable to the case, even if other conduct occurred abroad. Conversely, if the relevant conduct occurred outside of the United States, the federal statute is inapplicable to the case, regardless of any other unrelated conduct occurring in U.S. territory.

Using this framework, the Court determined that the Lanham Act did not "affirmatively and unmistakably" instruct that the provisions at issue apply to foreign conduct. Moving to the second step, the Court considered the focus of the Act's provisions and the location of the relevant conduct. Abitron argued that the provisions focus on preventing infringing use of trademarks (which infringing use arguably occurred outside of the United States), while Hetronic argued that they focus both on protecting the goodwill of mark owners and on preventing consumer confusion (both of which, not surprisingly, are within the United States). The Court stated that both parties' arguments missed the critical and ultimate point of the inquiry: establishing whether the *conduct* relevant to that focus occurred in the United States. Since both provisions prohibit unauthorized "use in commerce" of a trademark, the conduct related to that focus is "use in commerce." Therefore, if such use in commerce occurs domestically, the Lanham Act will apply. The Court remanded the case to the trial court to determine the extent—and the location—of Abitron's "use in commerce."

WHAT THIS MEANS FOR BRAND OWNERS

The Supreme Court's decision has significant implications for brand owners.

By adopting this two-step framework for determining the extraterritorial reach of the Lanham Act, the Court provides a clear test for evaluating whether federal trademark law can be applied to conduct that occurs overseas. However, the Court's failure to address what conduct constitutes "use in commerce" and whether *any* activities that occur

outside of the United States may be considered “use in commerce” still leaves brand owners with questions about how broadly the Lanham Act can be applied.

The Court’s decision will likely make it easier for foreign companies to infringe U.S. trademarks and escape liability as long as their conduct takes place outside of the United States. To combat this, it is now more important than ever for U.S. brand owners to ensure they have trademark protection in all countries where they sell their goods and services, and to take action in such countries when infringement is present. This also means that brand owners will have to increase their brand protection budgets in order to maintain their brand’s value.

Winston & Strawn summer associate Kelly Perreault contributed to this briefing.
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