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Trademark Law Alert: The U.S. Supreme Court Clarifies that the Lanham Trademark Act only applies to U.S. Domestic Conduct

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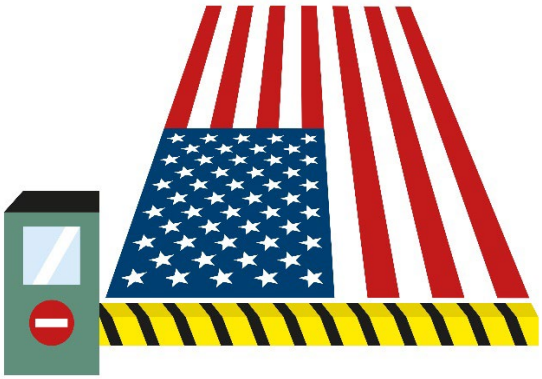

According to the U.S. Supreme Court, if you are located outside of the U.S., a U.S. court cannot enjoin your sales in other countries, or impose damages for them, on the ground that you used a trademark likely to cause confusion in the U.S.

Facts

Five foreign companies based in Germany and Austria and one German individual (collectively "Abitron") were former licensed distributors of a U.S. company ("Hetronic"), which sold in more than 45 countries radio remote controls for construction equipment having a distinctive black-and-yellow trade dress. Abitron reverse-engineered these Hetronic products, started sourcing parts from third parties, and then sold Hetronic-branded products with these parts mostly in Europe. It also made a small percentage of sales directly to the U.S.

Hetronic sued Abitron in an Oklahoma federal District Court, claiming violations of the Lanham Trademark Act's prohibitions against causing a likelihood of confusion with registered or unregistered marks.

The District Court rejected Abitron's argument that Hetronic sought an impermissible extraterritorial application of the Lanham Act. A jury awarded about $96 million in damages based on total sales worldwide, and the court permanently enjoined Abitron from using Hetronic's marks anywhere in the world.

On appeal, Tenth Circuit Court of Appeals affirmed the judgment, after narrowing the injunction to certain countries, on the basis that the U.S. had a reasonably strong interest due to impacts within its borders.

The U.S. Supreme Court agreed to hear this case to resolve a split in the Circuit Courts over the extraterritorial reach of the Lanham Act.

Supreme Court Decision

In ***Abitron Austria GmbH v. Hetronic International, Inc.*****,** Justice Alito wrote the majority opinion reversing and remanding the lower courts' decisions. There were concurring opinions supporting the conclusion but expressing contrasting views.

The Court cited a longstanding principle of American law, known as "the presumption against extraterritoriality," that Congress normally means its legislation to apply only within the territorial jurisdiction of the U.S. Applying this presumption involves a two-step process: Step One: determine whether Congress has affirmatively and unmistakably instructed that the provision applies to foreign conduct. If not, then Step Two: identify the "focus" of congressional concern ***and*** ask whether the relevant conduct occurred in the U.S.

The Court determined that the Lanham Act lacked language providing "a clear, affirmative indication" that the Lanham Act be applied extraterritorially. Furthermore, the "focus" of the Lanham Act is on where the infringing conduct occurred—not where likelihood of confusion might occur.

The Court stated that the location of the conduct provides a clear signal as to the Lanham Act's application, and that to decide otherwise would allow almost any claim involving exclusively foreign conduct to be repackaged as a domestic application. The Court cited the doctrine of international law—followed by the U.S.--that trademarks are territorial. It said that, deciding "what form of abstract consumer confusion is sufficient" would insert the judicial branch into foreign policy disputes. If multiple countries took this approach, "the trademark system would collapse." The Court reminded that "United States law governs domestically but does not rule the world."

The case was remanded because some activities had been conducted by Abitron, directly or indirectly, in the U.S.

Justice Jackson concurred in the result, but she posited that a German company might be subject to liability for domestic U.S. conduct under certain circumstances, especially in the internet age, even absent the domestic physical presence of the items in question.

Justice Sotomayor, joined by Justices Roberts, Kagan, and Barrett, also concurred in the result as to Step One, but expressed the view that in Step Two the Lanham Act should extend to activities carried out abroad when there is a likelihood of confusion in the U.S. Justice Sotomayor believed the majority was requiring a third step—whether the conduct relevant to the focus occurred domestically—even when, in her view, the focus of the statute is on likelihood of consumer confusion, not conduct.

Takeaway

Non-U.S. parties who do not directly or indirectly sell their products in the U.S. can rest assured that they will not be liable for trademark infringement under the U.S. Lanham Trademark Act. This is so even if their activities abroad create a likelihood of confusion in the U.S.

However, such sellers should take care not to sell their products under a U.S. company's trademarks to buyers outside the U.S. if the sellers know or should know that the buyers intend to resell these products to customers in the U.S.

Equally importantly, to address trademark infringement originating from outside the U.S., a U.S.-based business should consider pursuing a brand protection strategy that includes registration of its trademarks in the foreign countries where its own goods are made or distributed.

For further information, please contact William M. Borchard or your CLL attorney.

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