

High Court Makes It Harder To Stop Foreign Counterfeit Goods

By Ryan Davis

Law360 (June 29, 2023, 10:47 PM EDT) -- The U.S. Supreme Court's decision Thursday that federal trademark law cannot be applied to foreign conduct creates new hurdles for American brand owners seeking to curtail infringement and counterfeiting and leaves many open questions for lower courts to address, attorneys say.

The decision penned by Justice Samuel Alito held that the provisions of the Lanham Act prohibiting trademark infringement do not apply outside the U.S. and "extend only to claims where the claimed infringing use in commerce is domestic."

The court vacated a \$96 million trademark damages award that Oklahoma-based Hetric International won against companies including Abitron Austria GmbH for sales of infringing radio control products to mostly European customers.

"This new opinion, I think, is going to make it more difficult for U.S. brand owners to enforce their trademarks and stop counterfeiting abroad," said Timothy Getzoff of Holland & Hart LLP. "As we know, most counterfeiting occurs abroad, and it migrates to the U.S. in one form or another."

By holding that the Lanham Act's infringement provisions are not extraterritorial, the justices have narrowed their application to a defendant's use of a trademark in domestic commerce, said Joyce Liou of Morrison Foerster LLP.

"Until now, many courts have viewed the Lanham Act as an extraterritorial statute, allowing litigants to bring U.S. claims and obtain injunctions against defendants over infringing acts abroad," she said. "The Supreme Court's unanimous decision changes the landscape for cross-border cases entirely."

While all the justices concurred in the decision to vacate the lower court's damages award, the court split 5-4 on the rationale, with sharp divisions between the holding by Justice Alito, which was joined by four other justices, and a concurring opinion by Justice Sonia Sotomayor, joined by three others.

Justice Alito said the "focus" of the Lanham Act is the use of the trademark in commerce in the U.S., "with no need for any actual confusion." Since the infringing sales in the case were in Europe, the Tenth Circuit's affirmance of Hetric's damages award could not stand, he wrote.

Justice Sotomayor took the view that the Lanham Act's focus is consumer confusion. She said it "covers foreign infringement activities if there is a likelihood of consumer confusion in the United States," and

that the Tenth Circuit's decision should be vacated for not applying that test.

She argued that Justice Alito's "myopic conduct-only test" would wrongly absolve defendants that sell products abroad that reach the U.S. and confuse American consumers. Justice Alito responded that if every country held that foreign acts could violate domestic trademark law, "the trademark system would collapse."

Open Questions

Attorneys said Justice Alito's controlling holding that the key issue is where the trademark is used in commerce provides little guidance for courts and litigants going forward.

"When the rubber hits the road, this decision leaves a lot of uncertainty and a lot of open questions," said Jonah Knobler of Patterson Belknap Webb & Tyler LLP.

Rather than explaining what it means for a trademark to be used in commerce, and the types of conduct involving foreign countries that could or could not lead to a Lanham Act claim, the decision "doesn't really answer the question, beyond giving sort of a partial answer and saying, 'Go argue over what this vague phrase "use in commerce" means,'" Knobler said.

The majority opinion expressly declined to define the term, writing that "we have no occasion to address the precise contours of that phrase here." But attorneys foresee heated legal battles over what constitutes a use in commerce and over whose actions can give rise to liability.

Justice Alito "tries to create this bright-line test that he thinks is nice and simple, and I think is anything but," said Getzoff of Holland & Hart. "Trademark law is all about avoiding confusion, and I think this opinion is ironically going to create a lot of confusion by practitioners and courts, as they try to apply this new test and figure out what the contours are."

If "use in commerce" solely constitutes manufacturing a product abroad and putting a fraudulent trademark on it, there would be no way to sue if those goods entered the U.S. to be sold or resold, Getzoff said.

"What about the real world? A lot of commerce is done on the internet and a lot of brand use is global," said William Manske of Robins Kaplan LLP.

Since the decision seems to require a specific commercial act in the U.S. to bring a claim under the Lanham Act, he said, "I think the most practical, useful and likely to be significant part of the decision in litigation going forward" is a solo concurrence by Justice Ketanji Brown Jackson.

Possible Road Map

Justice Jackson joined the majority opinion, but wrote separately to offer a definition of "use in commerce," which she said "does not cease at the place the mark is first affixed, or where the item to which it is affixed is first sold. Rather, it can occur wherever the mark serves its source-identifying function."

Justice Jackson used a hypothetical example of "Coache" handbags sold in Germany. If American tourists purchase them there and bring them home for their own use, the U.S. company Coach would not have a

Lanham Act claim against the German manufacturer, she said, because the mark was not used in commerce in the U.S.

However, if the tourists resold the bags in the U.S., confusing American consumers, there would be a use in commerce that would allow Coach to sue the German company, she said. She added in a footnote that "in the internet age," trademarks could identify the source of a product "even absent the domestic physical presence of the items."

"That's significant because that I think gives a road map" of foreign actions with some domestic connection that "would then still have a viable claim under the Lanham Act," Manske of Robins Kaplan said.

Lower courts have a range of options for addressing what constitutes a use in commerce, Patterson Belknap's Knobler said. For instance, they could find that it includes only direct actions by a foreign defendant like selling in the U.S. or adopt Justice Jackson's approach that a later domestic commercial act by anyone, even a third-party online sale, can establish a cause of action.

Knobler said that in his view, the former approach could be easily circumvented by selling infringing products in the U.S. through an intermediary, while the latter could expose foreign companies to U.S. law in ways that are completely unpredictable to them.

"So I would think maybe the courts would ultimately settle on some intermediate test," such as that only domestic actions that are foreseeable or abetted by the defendant constitute a use in commerce, he said. "But who knows? This is all totally open."

Raffi Zerounian of Hanson Bridgett LLP said, "I don't believe this case completely forecloses bringing foreign defendants into cases in the United States for manufacturing and producing goods and only selling them abroad."

"There's still going to be situations where that's possible. I just think it's not going to be as easy as it was before," he said.

Foreign Protection

The decision "does significantly narrow the Lanham Act and its application" when U.S. companies "are pursuing foreign defendants, where all or part of the activity may be taking place in foreign countries," said Britt Anderson of Perkins Coie LLP.

However, he said it also illustrates that brand owners can avoid having to confront that issue by securing foreign trademark protection, "protecting their assets where they're doing business or where they have customers, and enforcing and maintaining those rights vigorously."

"As a practical matter, what this means for U.S. trademark owners is that they will need to use and register their marks outside of the U.S. in order to enforce those rights in other countries," said Monica Riva Talley of Sterne Kessler Goldstein & Fox PLLC.

Coordinating with trademark counsel in the countries where the company does business "will be money well spent for many brands in this global economy," said Fara Sunderji of Dorsey & Whitney LLP.

"The bottom line for trademark owners is that obtaining rights in foreign jurisdictions remains an important part of any intellectual property protection strategy. Domestic rights only go so far, specifically to the borders," she said.

Justice Alito's opinion was joined by Justices Jackson, Clarence Thomas, Neil Gorsuch and Brett Kavanaugh. Justice Sotomayor's concurrence was joined by Chief Justice John Roberts and Justices Elena Kagan and Amy Coney Barrett.

The case is Abitron Austria GmbH et al. v. Hetronic International Inc., case number 21-1043, in the Supreme Court of the United States.

--Editing by Jill Coffey and Emily Kokoll.

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