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Conduct Over Confusion: Supreme Court Holds Lanham Act to the Presumption Against Extraterritoriality

Minding Your Business on **August 3, 2023**

In April, we discussed oral arguments at the Supreme Court for *Abitron Austria GmbH et al. v. Hetronic International, Inc.*, a case in which the Supreme Court considered the extraterritorial reach of the Lanham Act ("Act") for the first time since 1952. Last month, the Court ruled that the Lanham Act only reaches claims of infringement where the infringing use in commerce is domestic.

District Court and Tenth Circuit Rulings

As discussed in our previous post, this case began in the Western District of Oklahoma when Hetronic sued Abitron for selling identical competing products that used the same product names and distinctive black-and-yellow designs. At trial, the jury found willful infringement under Sections 1114(1)(a) and 1125(a)(1) of the Lanham Act and awarded Hetronic approximately $96 million in damages. The district court also permanently enjoined Abitron from using the marks *worldwide*. Abitron argued, both before the district court and on appeal to the Tenth Circuit, that the Act did not reach its foreign sales, which made up nearly 97% of its total sales. However, the district court held that the 3% of sales (€1.7 million worth of products) that represented goods in the hands of U.S. consumers though resale was enough to support a substantial effect on U.S. commerce. The Tenth Circuit narrowed the district court's worldwide injunction to cover only certain countries but otherwise affirmed the judgment.

Supreme Court Opinions

The Supreme Court unanimously vacated and remanded the Tenth Circuit's ruling, finding the Lanham Act is subject to a presumption against extraterritoriality. To overcome that presumption, a court must perform a two-step analysis by determining (1) whether Congress has affirmatively and unmistakably instructed that a statute apply to foreign conduct, and, if not, (2) whether the lawsuit seeks a (permissible) domestic or (impermissible) foreign application of the statute. At step one, Hetronic argued that the definition of "commerce" as used in both Sections 1114(1)(a) and 1125(a)(1) of the Lanham Act indicated extraterritorial application. However, the Court found the definition alone was not affirmative or unmistakable enough to satisfy step one. The statutes must expressly refer to "*foreign* commerce," and these did not. On this, all justices agreed.

The justices also agreed that at step two, a court must look at the "focus" of the statute—what it seeks to regulate, protect, or vindicate—to determine what constitutes a domestic application of a statute. However, the Court split on the importance of the focus. Justice Sotomayor, joined by Chief Justice Roberts, Justice Kagan, and Justice Barrett, wrote a concurrence that took the view that a domestic application of the Lanham Act can implicate foreign conduct at step two "so long as the plaintiff proves a *likelihood of consumer confusion domestically*." She pointed to *Steele v. Bulova Watch Co.*, which applied the Lanham Act to an American defendant making and selling knockoff Bulova watches in Mexico that filtered into the U.S. market and caused domestic confusion. Although it was decided in 1952 and thus did not apply the more recently developed two-step framework, *Steele* instructed that the Lanham Act's focus is the effects of defendant's foreign conduct, and consumer confusion is determinative.

However, the majority disagreed that likelihood of domestic confusion was the right measure under step two. The majority noted that *Steele* was a limited holding that does not prescribe likelihood of domestic confusion as the determinant for all Lanham Act cases. Instead, the majority looked to the more recent *RJR Nabisco, Inc. v. European Community*—a case finding certain Racketeer Influenced and Corrupt Organizations Act provisions to rebut the presumption of extraterritoriality—and found that the determinative factor is "the *location of the conduct relevant to the focus*." The majority found that since Congress premised trademark infringement liability on "use in commerce," in Lanham Act cases, use in commerce is the "conduct relevant to the focus." Thus, the location of the infringing use in commerce determines whether the case is a domestic or foreign application the statute.

Justice Jackson also wrote a concurrence in which she agreed that "use in commerce" should be used to distinguish between foreign and domestic applications, but looked to a mark's role as a source designator as a more determinant factor. Justice Jackson took the view that, given the source-designation purpose of trademarks, a marked good that is used domestically and serves as a source designator in that capacity can "reach" domestic persons in a way that supports a domestic application of the Lanham Act. According to Justice Jackson, the infringing use is wherever the mark is being used as a source designator, and that can be in the U.S. even if the product sale is not. However, if the mark does not serve as a source designator domestically, it does not "reach" domestic persons in the way the Lanham Act intended and is not a domestic application. Justice Jackson returned to her hypothetical during oral argument of German-made replicas of Coach handbags purchased by United States tourists and brought back to the States. Even if a replica bag was never sold in the United States, the Coach mark could serve a source-identifying function in the U.S. that causes confusion between replica and authentic Coach bags and supports a domestic application of a Lanham Act claim against the German company's foreign sale.

Effects on Future Trademark Cases

Though the majority centers the analysis on the location of infringing uses in commerce, there is still room to argue over where that use in commerce is occurring. For example, Hetronic may still argue that resale in the U.S. constitutes a domestic use in commerce. And some litigants in future cases may rely on Justice Jackson's analysis and argue that the use is occurring in the U.S. whenever the mark serves as a source-identifier in the U.S. As international commerce becomes ever more prevalent, we expect courts will continue to grapple with this question of what exactly constitutes domestic versus international use in commerce.

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