

Insights: Alerts

***Abitron Austria GmbH v. Hetronic Int'l, Inc.*: The Supreme Court Restricts Extraterritorial Applications of the Lanham Act**

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I. Introduction

In *Abitron Austria GmbH v. Hetronic Int'l, Inc.*,¹ the Supreme Court adopted a restrictive rule governing extraterritorial applications of the federal Lanham Act. In doing so, the Court rejected the prevailing view among the federal circuit courts of appeals that the Act's text rebuts the general presumption against extraterritorial applications of federal law. Instead, it applied a two-step test consistent with the one it has applied in other contexts to hold that: (1) Congress did not affirmatively and unmistakably provide that the Act applies to foreign conduct; and (2) the focus of at least some of the alleged infringement in the case may not have been in the United States. On a going-forward basis, therefore, the Lanham Act's private causes of action will apply only to claims with such a focus, which likely means as a practical matter that a defendant outside the United States accused of infringement under the Act must have used its mark in commerce domestically for a finding of liability to attach to that use.

II. Background to the Decision

A. The Split in the Circuits

Abitron arises from litigation in which a prevailing plaintiff successfully secured an accounting of profits arising from the defendants' sales in Europe of goods bearing infringing marks and trade dress.² In that decision, the Supreme Court addressed and resolved some business left unfinished after its opinion seventy-one years ago in *Steele v. Bulova Watch Co.*³ In *Steele*, the Court recognized a general presumption against extraterritorial applications of United States law.⁴ At the same time, however, it affirmed a holding that a United States citizen and domiciliary who operated a business in Mexico selling watches bearing spurious copies of the plaintiff's BULOVA mark that made their way into the United States and were presented to the plaintiff's agents for repairs could be found liable for infringement. According to the Court in that case:

In the light of the broad jurisdictional grant in the Lanham Act, we deem its scope to encompass petitioner's activities here. His operations and their effects were not confined within the territorial limits of a foreign nation. He bought component parts of his wares in the United States, and spurious 'Bulovas'

filtered through the Mexican border into this country; his competing goods could well reflect adversely on Bulova Watch Company's trade reputation in markets cultivated by advertising here as well as abroad.⁵

The Court's failure to articulate a doctrinal test for evaluating the extraterritorial reach of the Act led the Second, Eleventh, and Federal Circuits to adopt the so-called *Vanity Fair* standard, which considers (1) whether the defendant's conduct had a substantial effect on U.S. commerce; (2) whether the defendant was a United States citizen; and (3) whether there was a conflict with trademark rights established under the relevant foreign law.⁶ The Fourth and Fifth Circuits gravitated toward *Vanity Fair* as well, although the former modified the first factor to require a "significant" (as opposed to a "substantial") effect,⁷ and the latter required only a demonstration that a defendant's conduct have "some" effect on United States commerce.⁸ The Ninth Circuit adopted its own tripartite test, which allowed liability for extraterritorial activities if: (1) those activities had "some" effect on "American foreign commerce"; (2) that effect was sufficiently cognizable to injure the plaintiff; and (3) "the interests of and links to American foreign commerce were sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority."⁹ Finally, the First Circuit applied the antitrust-based *McBee* test, pursuant to which: (1) the Lanham Act would usually extend extraterritorially when the defendant is an American citizen because "a separate constitutional basis for jurisdiction exists for control of activities, even foreign activities, of an American citizen,"¹⁰ but (2) when the defendant is not a United States citizen, the Lanham Act applied "only if the complained-of activities have a substantial effect on [U.S.] commerce, viewed in light of the purposes of the Lanham Act."¹¹

B. The Underlying Facts of, and Disposition Below in, *Abitron*

Choosing between the competing approaches extant in other circuits, the Tenth Circuit picked that of the First Circuit, but with what it described as "one caveat."¹² That caveat was in reality the court's engrafting of a third prerequisite for extraterritoriality, namely, that "if a plaintiff successfully shows that a foreign defendant's conduct has had a substantial effect on U.S. commerce, courts should also consider whether extraterritorial application of the Lanham Act would create a conflict with trademark rights established under the relevant foreign law."¹³ "Though the *McBee* court eschewed such an analysis," the court explained, "every other circuit court considers potential conflicts with foreign law in assessing the Lanham Act's extraterritorial reach."¹⁴ It then summarized its holding in the following manner:

To recap, in deciding whether the Lanham Act applies extraterritorially, courts should consider three factors. First, courts should determine whether the defendant is a U.S. citizen. Second, when the defendant is not a U.S. citizen, courts should assess whether the defendant's conduct had a substantial effect on U.S. commerce. Third, only if the plaintiff has satisfied the substantial-effects test, courts should consider whether extraterritorial application of the Lanham Act would create a conflict with trademark rights established under foreign law.¹⁵

The court then applied its new test to hold that the Act indeed reached the conduct of the defendants before it. Those defendants, none of which was a United States citizen or domiciliary, had manufactured radio remote controls for heavy-duty construction equipment bearing the plaintiff's marks and trade dress for nearly a decade. The parties' amicable relationship abruptly ended, however, when the defendants decided on the basis of "an old research-and-development agreement between the parties" that they, rather than the plaintiff, owned the marks in question. They then continued to manufacture and sell goods bearing the marks outside the United States, even when found liable for infringement by a jury and having been permanently enjoined on a worldwide

basis from doing so. Some of those goods wound up in United States markets, and the defendants apparently sold at least some of them directly to United States consumers.

Those facts were enough for the court to hold in the plaintiffs' favor on the issue of whether the defendants' conduct had had the required substantial effect on United States commerce, especially in light of the plaintiff's evidence that United States consumers encountering the defendants' goods were actually confused about the goods' origin:

Viewing the evidence as a whole, [the plaintiff] has presented more than enough evidence to show that Defendants' foreign infringing conduct had a substantial effect on U.S. commerce. Besides the millions of euros worth of infringing products that made their way into the United States after initially being sold abroad, Defendants also diverted tens of millions of dollars of foreign sales from [the plaintiff] that otherwise would have ultimately flowed into the United States. Moreover, though much of [the plaintiff's] evidence focused on consumer confusion abroad, it also documented numerous incidents of confusion among U.S. consumers. We thus conclude that [the plaintiff] has presented evidence of impacts within the United States of a sufficient character and magnitude as would give the United States a reasonably strong interest in the litigation. Accordingly, the Lanham Act applies extraterritorially here to reach all of Defendants' foreign infringing conduct.¹⁶

The court therefore affirmed an accounting of profits decided upon by a jury, which included those made on the entirety of the defendants' sales. It did so despite evidence and testimony in the trial record that ninety-seven percent of those sales were to European customers, with only three percent of sales going directly to the United States.

The Supreme Court then granted the defendants' petition for a writ of certiorari, which presented a single question. That question was “[w]hether the court of appeals erred in applying the Lanham Act extraterritorially to petitioners' foreign sales, including purely foreign sales that never reached the United States or confused U.S. consumers.”¹⁷

III. The Supreme Court's Opinion and its Significance

A. The Court's Two-Step Test for Extraterritoriality

The Court first took on the general consensus among the federal courts of appeals that Congress had rebutted the presumption against territoriality when passing the Lanham Act by referring to its post-*Steele* decisions in *Morrison v. National Australia Bank Ltd.*,¹⁸ *RJR Nabisco, Inc. v. European Community*,¹⁹ *WesternGeco LLC v. ION Geophysical Corp.*,²⁰ and *Nestlé USA, Inc. v. Doe*,²¹ Those decisions, it held, established a two-step test for the liability of foreign actors under federal law, the first of which was to determine “whether ‘Congress has affirmatively and unmistakably instructed that’ the provision at issue should ‘apply to foreign conduct.’”²² The second step was more complex:

If a provision is not extraterritorial, we move to step two, which resolves whether the suit seeks a (permissible) domestic or (impermissible) foreign application of the provision. To make that determination, courts must start by identifying the “focus of congressional concern” underlying the provision at issue. . . .

Step Two does not end with identifying statutory focus [T]o prove that a claim involves a domestic application of a statute, “plaintiffs must establish that the *conduct relevant to the statute’s* focus occurred in

the United States.”²³

“Step two,” it continued, “is designed to apply the presumption against extraterritoriality to claims that involve both domestic and foreign activity, separating the activity that matters from the activity that does not.”²⁴ “After all,” it concluded, “we have long recognized that the presumption would be meaningless if any domestic conduct could defeat it.”²⁵

B. Application of the Test

In applying step one of the two-part test to the Lanham Act, the Court noted that “[i]t is a ‘rare statute that clearly evidences extraterritorial effect despite lacking an express statement of extraterritoriality.’”²⁶ It then concluded with respect to the plaintiff’s causes of action under Sections 32(1) and 43(a) of the Lanham Act²⁷ that:

[N]either provision at issue provides an express statement of extraterritorial application or any other clear indication that it is one of the “rare” provisions that nonetheless applies abroad. Both simply prohibit the use “in commerce,” under congressionally prescribed conditions, of protected trademarks when that use “is likely to cause confusion.”²⁸

In so concluding, the Court rejected the argument that the unique definition of “commerce” found in Section 45 of the Act—“‘commerce’ means all commerce which may be lawfully regulated by Congress”²⁹—necessarily entailed that the defendants’ conduct was actionable because of the effect of that conduct on the plaintiff in the United States. Instead, the Court held, not only had it in the past restricted the extraterritorial effect of statutes expressly referring to “foreign commerce” when defining “commerce,”³⁰ but “the mere fact that the Lanham Act contains a . . . definition that departs from the so-called ‘boilerplate’ definitions used in other statutes cannot justify a different conclusion”³¹

That left the second part of the inquiry, namely, whether the defendants’ conduct relevant to the Lanham Act’s focus had occurred in the United States. Although the Court remanded the action for a resolution of that question in the first instance, it offered the lower courts some guidance while doing so. As a threshold matter, it held, “the conduct relevant to any focus the parties have proffered is infringing use in commerce, as the Act defines it.”³² Then, referencing the definition of use in commerce set forth in Section 45 of the Act, it held that “the ‘term ‘use in commerce’ means the bona fide use of a mark in the ordinary course of trade,’ where the mark serves to ‘identify and distinguish [the mark user’s] goods . . . and to indicate the source of the goods.’”³³ In doing so, the Court did not acknowledge or discuss the (possibly now-resolved) split in the lower courts on the question of whether Section 45 has any applicability to evaluations of whether defendants have engaged in actionable uses in commerce.³⁴

IV. Conclusion

In holding that Congress did not rebut the presumption against extraterritoriality when enacting the Lanham Act, the Supreme Court in *Abitron* abrogated the contrary conclusion of many federal courts of appeals in the seventy-one years since the Court’s opinion in *Steele*. Moreover, the Court similarly turned its back on the varying tests for extraterritoriality adopted by the same courts during the same period. Finally, the Court’s conclusion that evaluations of whether a *defendant* has engaged in an actionable use in commerce should turn on the statutory definition of use in commerce historically applicable to inquiries into the adequacy of *plaintiffs’* uses in commerce under Section 45 of the Lanham Act also is potentially significant. Whether considered

individually or in the aggregate, the long-term consequences of these developments are not immediately apparent. What is apparent, however, is that plaintiffs challenging alleged violations of the Lanham Act by defendants outside the United States should plan to establish that the locus of those violations lies within the United States, instead of merely relying on their alleged domestic effects.

¹No. 21-1043, 2023 WL 4239255 (U.S. June 29, 2023).

²See *Hetronic Int'l, Inc. v. Hetronic Germany GmbH*, 10 F.4th 1016 (10th Cir. 2021), *vacated and remanded*, No. 21-1043, 2023 WL 4239255 (U.S. June 29, 2023).

³344 U.S. 280 (1952).

⁴See *id.* at 285 (“This Court has often stated that the legislation of Congress will not extend beyond the boundaries of the United States unless a contrary legislative intent appears.”).

⁵*Id.* at 286.

⁶See *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 642 (2d Cir. 1956); see also *Int'l Cafe, S.A.L. v. Hard Rock Cafe Int'l, (U.S.A.), Inc.*, 252 F.3d 1274, 1278 (11th Cir. 2001); *Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd.*, 152 F.3d 948, 1998 WL 169251, at *2 (Fed. Cir. 1998) (per curiam) (unpublished).

⁷See *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 250 (4th Cir. 1994).

⁸See *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass'n*, 701 F.2d 408, 414 n.8 (5th Cir. 1983).

⁹*Trader Joe's Co. v. Hallatt*, 835 F.3d 960, 969 (9th Cir. 2016) (alteration in original).

¹⁰*McBee v. Delica Co.*, 417 F.3d 107, 111 (1st Cir. 2005).

¹¹*Id.*

¹²*Hetronic*, 10 F.4th at 1036.

¹³*Id.* at 1037.

¹⁴*Id.* at 1030.

¹⁵*Id.* at 1038.

¹⁶*Id.* at 1045–46.

¹⁷Petition for Writ of Certiorari at (I), *Abitron Austria GmbH v. Hetronic Int'l, Inc.*, No. 21-1043, 2023 WL 4239255 (U.S. Jan. 2, 2022), 2022 WL 253018, at *(I).

¹⁸561 U.S. 247 (2010).

¹⁹79 U.S. 325 (2016)

²⁰138 S. Ct. 2129 (2018).

²¹141 S. Ct. 1931 (2021).

²²*Abitron*, 2023 WL 4239255, at *4 (quoting *RJR Nabisco*, 579 U.S. at 335, 337).

²³*Id.* (first quoting *RJR Nabisco*, 579 U.S. at 336; then quoting *Nestlé*, 141 S. Ct. at 1936).

²⁴*Id.*

²⁵*Id.*

²⁶*Id.* at *5 (quoting *RJR Nabisco*, 579 U.S. at 337).

²⁷15 U.S.C. §§ 1114, 1125(a) (2018).

²⁸*Abitron*, 2023 WL 4239255, at *4 (quoting 15 U.S.C. §§ 1115(1)(a), 1125(a)).

²⁹15 U.S.C. § 1127.

³⁰*Abitron*, 2023 WL 4239255, at *5 (first citing *Morrison*, 561 U. S., at 262–263; then citing *RJR Nabisco*, 579

U.S. at 344). The Court elaborated on this point with the observation that “[i]f an express statutory reference to ‘foreign commerce’ is not enough to rebut the presumption, the same must be true of a definition of ‘commerce’ that refers to Congress’s authority to regulate foreign commerce. That result does not change simply because the provision refers to ‘all’ commerce Congress can regulate.” *Id.*

³¹*Id.*

³²*Id.* at *6.

³³*Id.* at *9 (quoting 15 U.S.C. § 1127).

³⁴That split is summarized in 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 23:11.50 (5th ed.).

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