Supreme Court Claws Back Trademark Rights by Removing Lanham Act's Extraterritorial Scope

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PRACTICES Intellectual Property, Trademark and Advertising

Today, the U.S. Supreme Court limited the rights of U.S. brand owners to protect their consumers from buying infringing products. In a case regarding the extraterritorial application of the federal trademark Lanham Act, the Court ruled that the Lanham Act is NOT extraterritorial, in opposition to decades of caselaw, and only extends "to claims where the claimed infringing use in commerce is domestic." Infringing conduct that occurs solely in foreign countries is no longer actionable, even though U.S. consumers are later confused. In an effort to create certainty and prevent perceived international discord, Justice Alito, joined by four other justices, ruled that the trademark use being evaluated must be a domestic use of mark in the ordinary course of trade for potential liability to attach. The Majority decision loses sight of the core focus and impetus behind the Lanham Act—protecting against consumer confusion in the U.S.—in that, under the Majority decision, solely foreign uses that cause domestic consumer confusion are no longer actionable. As a result, brand owners are now limited in their ability to rely on U.S. trademark rights to protect their consumers from a likelihood of confusion caused by bad actors in foreign countries.

Background

In 2014, Hetronic International, Inc. ("Respondent"), an Oklahoma-based company that manufactures radio remote controls for operating heavy-duty construction equipment, sued its former international distribution partners, Abitron Austria GmbH, et al. ("Petitioners") alleging infringement of its trademark and trade dress rights. After nearly a decade of assembling and selling products under agreements with Respondent, Petitioner began manufacturing and selling copycat remote controls under the HETRONIC brand. Roughly 97% of the Petitioner's sales were "purely foreign"—made in foreign countries, sold to foreign customers, and for use in foreign countries. Nonetheless, a jury in the Western District of Oklahoma found Petitioner, a foreign corporation, liable for willful infringement in violation of the Lanham Act, awarding Respondent over $90 million in damages and issuing a worldwide injunction against Petitioner for the sale of its infringing products.

Petitioner appealed to the Tenth Circuit, arguing that the Lanham Act does not apply extraterritorially to purely foreign sales that never reach the U.S. or confuse U.S. consumers. The Tenth Circuit disagreed and affirmed the jury's decision because the infringing conduct substantially affected U.S. commerce in that it diverted sales from a U.S. plaintiff. Its unanimous decision was rooted in the Supreme Court's 1952 precedent, *Steele v. Bulova Watch Co.*, 344 U.S. 280, 281 (1952), which laid the foundation for the Lanham Act's extraterritorial reach. That foundation has since cracked as circuits have split over when the Lanham Act applies extraterritorially and how far it reaches. The Supreme Court granted a writ of certiorari in this case to resolve the split.

The Court's Decision

In a majority opinion by Justice Alito, the Court held that the Lanham Act does not apply extraterritorially and thus the provisions of the Lanham Act that prohibit trademark infringement

"extend only to claims where the claimed infringing use in commerce is domestic" and cannot be applied to conduct occurring solely in foreign countries. *Abitron Austria GmbH v. Hetronic International, Inc.*, U.S., No. 21-1043 (2023).

In looking at congressional intent as to whether the Lanham Act should apply extraterritorially, the Majority quickly found no affirmative and unmistakable instruction that the Lanham Act should apply to foreign conduct, which would be required to apply the Act extraterritorially. As a next step, the Majority then turned its focus to whether the suit sought a (permissible) domestic or (impermissible) foreign application of the Lanham Act.

To prove that the claim involves a permissible domestic application of the Lanham Act, the Majority reasoned a plaintiff must show that the infringing conduct in question amounts to an infringing "use in commerce," as defined by the Lanham Act—purely foreign conduct is not actionable regardless of whether consumer confusion occurs in the U.S.

Justice Sotomayor was joined by three other justices in a concurring opinion that gives due weight to the focus of the Lanham Act on protecting consumer confusion. Though concurring in the judgement, Justice Sotomayor pushes back on the extraterritoriality framework that the Majority adopts and argues that "because the [Lanham Act's] focus is protection against consumer confusion, the statute covers foreign infringement activities if there is a likelihood of consumer confusion in the United States…." The determining element under Justice Sotomayor's framework is the location of the consumer confusion, rather than the location of the infringing conduct.

The Majority's decision expressly discussed and refuted Sotomayor's location of confusion focused framework in favor of its location of conduct focused test. One of its stated concerns was that Sotomayor's approach could threaten "international discord" and could cause "the trademark system [to] collapse," if enough countries took the approach of creating liability for acts within the borders of other nations.

Justice Jackson filed her own concurring opinion in an apparent attempt to provide hope to U.S. brand owners that not all ability to sue foreign bad actors under the Lanham Act has been taken away by the Majority. She describes hypotheticals where a foreign sold infringing product might still provide a U.S. brand owner the right to sue the foreign infringer for subsequent conduct related to the products that occurs in the U.S.

Takeaways

Today's decision makes clear that U.S. trademark rights are territorial. It resolves a growing circuit split and draws a clear line in the sand – right at the U.S. border. While Justice Alito's opinion adopts a seemingly clear test, this strict line raises more questions than answers for many international brand owners. U.S. trademark law no longer serves as a vehicle for enforcement related solely to foreign acts – even if domestic confusion occurs. This departure from the long-understood extraterritorial application of the Lanham Act leaves brand owners more vulnerable than ever to exploitation by bad actors abroad. In a global economy marked by the expanse of e-commerce and the internet, it is quite unclear how application of this "conduct only within U.S. borders" test will play out. Are foreign manufacturers still liable for re-sale of any goods within the United States as Justice Jackson's concurrence suggests? What should a company do if they don't have strong existing international trademark rights in all jurisdictions in which they operate?

To combat the uncertainty stemming from *Abitron v. Hetronic*, it is vital that brand owners quickly reconsider their current global IP protection game plan. Key strategies to consider include:

- *Global Filing Strategy*: Filing trademark applications and securing registrations in all jurisdictions where sales or manufacturing occur or will occur within the next 3-5 years;
- *Global Enforcement Strategy*: Implementing monitoring and watch services to identify infringement at an earlier stage and proactively policing against international actors through enforcement efforts which rely on local trademark laws;
- *Strong IP Contractual Rights Abroad*: Ensuring all foreign contractual rights and obligations clearly and sufficiently address ownership and use of relevant intellectual property rights to provide a contractual basis for liability related to extraterritorial conduct.

Today's decision takes away legal rights that brand owners have relied on for decades as they are now limited in their ability to rely on U.S. trademark rights to protect consumers from confusion by foreign bad actors. By taking the swift action outlined above however, brand owners still can keep bad actors at bay while navigating the new reality ahead.