

What To Know About High Court Fight Over TM Law's Reach

By **Tiffany Hu**

Law360 (March 16, 2023, 3:10 PM EDT) -- The U.S. Supreme Court has a new opportunity to clarify the foreign reach of federal trademark law as it weighs in on an appeal of a \$113 million award based in part on "purely foreign" sales that never reached the U.S. Ahead of oral arguments on Tuesday, Law360 provides a quick guide to get you up to speed on the latest case involving extraterritoriality in trademark law.

What are the key arguments from the parties?

The Supreme Court in November agreed to consider an appeal of a Tenth Circuit decision upholding a \$113 million verdict won by Oklahoma-based remote control maker Hetric International Inc. against its former partners in Europe, in a case that asks whether trademark law extends beyond U.S. borders.

In their petition to the high court, Hetric Germany and its affiliates, including Abitron Austria GmbH, said the appeals court wrongly upheld the damages award to Hetric International based on a finding that the Lanham Act extended to sales of their products to mostly European customers.

Hetric Germany argued that since 97% of the sales attached to the verdict were connected to foreign sales — including "purely foreign" sales that never reached the U.S. — the decision to award damages for all of the petitioners' worldwide sales on the grounds that 3% substantially affects U.S. commerce "would allow a very small tail to wag a very large dog."

U.S.-based Hetric International, for its part, said the Tenth Circuit's ruling in its favor was consistent with Supreme Court precedent, which it said has "repeatedly confirmed that the Lanham Act has extraterritorial reach," as well as other circuit courts' decisions.

Matthew Hellman of Jenner & Block LLP, one of the attorneys representing Hetric International, told Law360 that a decision that the Lanham Act applies extraterritoriality "ensures that trademark holders and consumers are protected from knockoffs marketed by overseas infringers."

"The petitioners' primary argument is that giving the Lanham Act extraterritorial application will create international tension," Hellman said by email. "Yet this theoretical 'parade of horrors' — including purported conflict of laws — has been disproven by 70 years of experience in applying the Lanham Act extraterritorially. This argument plays on false fears."

Both sides have interesting arguments, and it's hard to predict a clear winner at this point, attorneys

told Law360. While Hetronic International cites high court precedent reaffirming that the Lanham Act rebuts a presumption against extraterritoriality, Hetronic Germany emphasizes that the majority of the \$90 million trademark damages award was based on "purely foreign" sales — which it describes as "sales in foreign countries, by foreign sellers, to foreign customers, for use in foreign countries, that never reached the United States or confused U.S. consumers."

"As one might expect, some think that the appellant's argument is strongest as to this ... category of damages [involving goods sold abroad that never reached the U.S.], and appears to be the court's focus," said Brian A. Coleman, a partner at Faegre Drinker Biddle & Reath LLP.

With regard to Hetronic International's stance, however, even if the presumption against extraterritoriality is not rebutted, the Lanham Act "captures foreign activity when the conduct occurs in the U.S. or the effect is felt in the U.S.," according to Jeff Joyner, a partner at Glaser Weil LLP.

"Here, the focus of the trademark statute is to prevent consumer confusion and protect mark owners from those who trade on and harm their goodwill, both of which are implicated by petitioners' conduct," Joyner told Law360.

Counsel for Hetronic Germany did not immediately return a request for comment.

What are the other precedents in this space?

The U.S. Supreme Court previously weighed in on the extraterritorial scope of trademark law a little over 70 years ago, when the high court in its 1952 *Steele v. Bulova Watch Co.* ruling held that a U.S. citizen's foreign conduct that has a substantial impact on U.S. commerce "fall[s] within the jurisdictional scope of the Lanham Act."

The high court's holding underscored that "Congress's broad definition of 'commerce' was a clear, affirmative indication that the Lanham Act rebutted the presumption against extraterritoriality," Joyner said.

Since then, circuits have been split as to how the trademark statute applies extraterritorially. As a result, there are a number of tests that the Supreme Court will be reviewing in the present appeal, according to Jennifer Mikulina, a partner at McDermott Will & Emery LLP.

One test is the Second Circuit's 1956 *Vanity Fair Mills Inc. v. T. Eaton Co.* ruling, which requires judges to juggle the citizenship of those accused, whether the conduct affects U.S. commerce, and whether there are any conflicts between trademark rights in the different countries.

The Ninth Circuit's 1976 *Timberlane Lumber Co. v. Bank of America NT & SA* ruling established a different test to decide whether to apply U.S. antitrust laws extraterritorially that considers several factors, including the effect on American foreign commerce.

And in 2016, the First Circuit came up with a different framework in its *McBee v. Delica Co. Ltd.* ruling, which looks at whether the "foreign activities of foreign defendants" have a substantial effect on U.S. commerce. If a substantial effect is found, then the court has the discretion to consider issues relating to comity, including potential conflicts with foreign trademark law.

Other circuit courts also have mostly adopted the Second Circuit's *Vanity Fair* test, though the Fourth

and Fifth circuits have their own slightly tweaked standard on what qualifies as "substantial effect on United States commerce."

"The Fourth Circuit asks whether the conduct had a 'significant effect,' while the Fifth Circuit requires only 'some effect' on U.S. commerce," Mikulina noted.

As the law currently stands, a defendant accused of trademark infringement due to its foreign activity "could face widely different damages consequences based on which jurisdiction [they are] sued in," said Preetha Chakrabarti, a partner at Crowell & Moring LLP.

"The confusing circuit split on the extraterritorial reach of the Lanham Act no doubt impacted the court's decision to hear this case," Chakrabarti said.

Why is this case important?

In addition to the circuit split over the foreign scope of trademark law, there is a "separate line of [Supreme Court] precedent" that has developed in recent years with regard to when a federal statute should be applied extraterritorially, according to Coleman of Faegre Drinker.

Some of those cases include the high court's 2010 *Morrison v. National Australia Bank Ltd.* ruling as well as its 2016 *RJR Nabisco Inc. v. European Community* ruling, which "have clarified and constrained the extraterritorial application of U.S. statutes" involving securities and racketeering laws, respectively, according to Coleman.

The *Hetric* case "presents an opportunity to both resolve the circuit split and potentially reconcile *Steele* [in 1952] with the Supreme Court's more modern framework for determining the territorial reach of federal laws," Coleman told Law360.

The case itself also presents a number of important questions, including whether the standard for determining liability based on global sales should be a percentage or an absolute number, according to Joyner of Glaser Weil.

Hetric Germany had argued that only 3% of its foreign sales were accounted for in the U.S., and therefore, that low percentage didn't "affect commerce." But Joyner said he believes that the standard should be the absolute number of sales, not the percentage of sales in the U.S.

"If the Supreme Court were to agree with petitioner[s], a billion-dollar-revenue company could escape Lanham Act liability by claiming that millions of dollars of infringing products entering the U.S. represents only a fraction of total sales," Joyner said.

What's the government's position in the case?

The Supreme Court on Feb. 27 granted the solicitor general's request to present its views in oral arguments. In its brief, the solicitor general said *Hetric* Germany was "wrong in arguing that the act is limited to domestic uses of trademarks" — but that the Tenth Circuit also erred in extending liability to all of the petitioners' foreign uses of the trademark without determining whether they would cause consumer confusion in the U.S.

The office also took issue with *Hetric* International's argument that some additional uses of

trademarks abroad could cause U.S. confusion. The office has asked the justices to vacate the appellate court's ruling and remand the case to address those arguments.

The solicitor general's participation may make the present appeal more challenging for Hetronic International on the question of whether the Tenth Circuit erred in applying the Lanham Act extraterritorially to petitioners' foreign sales, said Joyce Liou, a partner at Morrison Foerster LLP.

However, there is a possibility that the application of the law — even if clarified by the high court — might not change the outcome of the case, according to Liou, who noted that U.S.-based Hetronic presented evidence at trial that actual U.S. consumers were confused about the relationship between the companies' products.

"Whether or not these instances of confusion arose from a particular trademark use by [Hetronic Germany] in the U.S., instead of abroad, may be impossible to parse, and may not ultimately matter in Hetronic's case so long as a U.S. consumer was confused," Liou said.

The extraterritorial reach of any U.S. statute is tough — and the government's position in this case makes that clear, Crowell's Chakrabarti said.

"If there's no impact on U.S. consumers or commerce by this type of conduct abroad, is it fair to have the U.S. statute apply?" Chakrabarti asked. "That's what the court is tackling — and such a decision, though it will be limited to the specific statute and circumstances, could still have an impact on how one views the reach of other U.S. statutes."

--Editing by Marygrace Anderson.