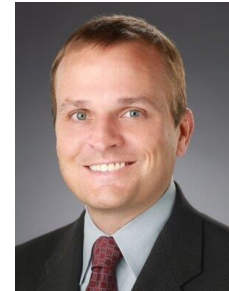


Justices Complicate TM Enforcement, But Options Remain

By **Richard Stockton** (July 6, 2023)

Last week, the U.S. Supreme Court in *Abitron Austria GmbH v. Hetronic International Inc.* ruled that only a domestic application of the Lanham Act creates liability. But the contours of a domestic application remain uncertain and do not automatically exclude all conduct outside the United States.

While Abitron may make trademark enforcement in U.S. courts against foreign infringers more complicated, many options remain.



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Background of Abitron

Oklahoma-based Hetronic International Inc. manufactures remote controls for heavy equipment. The Abitron defendants contracted to distribute Hetronic's products in their European home markets. But then Abitron began selling products with identical trademarks — e.g., NOVA — to European customers in alleged breach of its contract.

Hetronic sued in the U.S. District Court for the Western District of Oklahoma. Abitron unsuccessfully challenged personal jurisdiction. In 2020, a jury awarded \$90 million for trademark infringement based on Abitron's worldwide sales, despite Abitron's claim that only 3% of these sales reached the U.S.

On appeal, the U.S. Court of Appeals for the Tenth Circuit ruled that the Lanham Act may apply extraterritorially. In doing so, the Tenth Circuit refused to limit an earlier Supreme Court case about trademark extraterritoriality, the 1952 *Steele v. Bulova Watch Co.* decision, to U.S. citizen infringers. Abitron is a foreign company.

As to the \$90 million award, the Tenth Circuit concluded that the Lanham Act applies extraterritorially "only if the complained-of activities have a substantial effect on [U.S.] commerce."

The Tenth Circuit agreed that such an effect was established under two theories. First, Abitron acknowledged that \$2 million of its foreign-to-foreign sales ended up in the U.S.

Second, the Tenth Circuit sustained Hetronic's diversion of sales theory, i.e., that but for the infringement, Hetronic would have made tens of millions of dollars in additional sales.

Writing for a five-justice majority, Justice Samuel Alito disagreed that the Lanham Act causes of action for trademark infringement rebutted a canon of statutory interpretation, the presumption against extraterritoriality.

Ultimately, the court concluded that only a domestic application of the Lanham Act creates liability, and held that the relevant triggering conduct is "infringing 'use in commerce'" in the United States.

Trademark Enforcement in U.S. Courts Against Foreign Infringers in a Post-Abitron World

Abitron complicates trademark enforcement in U.S. courts against foreign infringers. But

especially with a 5-4 split and Justice Ketanji Brown Jackson's concurring opinion that teeters on siding with the minority, many options remain, and many questions still need to be answered.

The Liability Trigger And Use In Commerce

The majority held that the liability trigger must be an "infringing 'use in commerce'" in the United States. The minority instead argued that the standard should be "a likelihood of consumer confusion in the United States." The minority's market-focused standard is likely to make more foreign conduct actionable.

A 5-4 decision might be determinative. But in Justice Jackson's concurring opinion, she hypothesized that an infringing use in commerce could occur online "even absent the domestic physical presence of the items whose source it identifies." As stated in a footnote in the majority opinion, "Justice Jackson has proposed a further elaboration of 'use in commerce,' ... but we have no occasion to address the precise contours of that phrase here."

But one read of Justice Jackson's "virtual" U.S. use in commerce standard is that it is tantamount to the minority's likelihood of confusion standard.

Accordingly, and assuming prerequisites such as personal jurisdiction are satisfied, the door to Lanham Act liability against a foreign entity remains ajar even if the foreign entity is only offering to sell products online into the United States.

Use in Commerce: A Low Threshold

But even if the Lanham Act requires actual sales into the United States to trigger liability, "use in commerce" has a low empirical threshold. For example, in the 2016 *Christian Faith Fellowship Church v. Adidas AG* decision in the U.S. Court of Appeals for the Federal Circuit, the sale of just two hats bearing a trademark sufficed as "use in commerce" for the purpose of maintaining a trademark registration.

Moreover, in Justice Jackson's concurring opinion, she stated that "a 'use in commerce' does not cease at a place the mark is first affixed." Echoing a hypothetical raised at oral argument, Justice Jackson continued that a consumer's resale in the U.S. of a noninfringing product purchased abroad may create liability for the product's manufacturer.

This sounds like vicarious liability, but it was not at issue and vicarious liability typically includes an intent requirement that the hypothetical lacks. In a sense, Justice Jackson may be suggesting that foreign manufacturers are strictly liable for any products that end up as infringing uses in commerce in the United States, regardless of provenance or the manufacturer's intent.

Furthermore, while all justices agreed that only a "domestic application" of the Lanham Act creates liability, all foreign conduct is not automatically immune. In discussing *Steele*, the majority acknowledged that merely committing "essential steps" in the United States toward infringement — e.g., ordering parts from the United States for assembly abroad — could trigger liability.

Given wide-ranging empirical and temporal parameters to establish "use in commerce," post-*Abitron* multijurisdictional gamesmanship remains perilous for infringers.

The Lanham Act may still protect trademark owners in common situations, such as websites offering goods for sale directly into the United States, border stores selling goods that consumers personally import but then resell, and using "essential" U.S.-based materials or other resources to further sales abroad.

Remedies Can Still Exceed Liability

Abitron did not address remedies directly. On remand, Hetronic will likely revert to Abitron's alleged infringing uses in commerce in the United States, such as exhibiting products in at least one U.S. trade show and offering products online. Whether these uses will justify the \$90 million award remains unclear.

But a 2018 U.S. Supreme Court case about the extraterritoriality of patent remedies offers some clues. In *WesternGeco v. ION Geophysical Corp.*, a seven-justice majority held that a "domestic application" of a contributory patent infringement statute under Title 35 of the U.S. Code, Section 271(f)(2), may lead to the recovery of "lost foreign profits" under the Patent Act's damages statute, Title 35 of the U.S. Code, Section 284.

The lost foreign profits comprised \$90 million in lost business for ocean floor surveys in international waters because ION Geophysical sold components of the survey equipment from the U.S. to WesternGeco's foreign customers.

In ruling for *WesternGeco*, the majority relied on the "plain text" of Section 284 and held that it required "damages adequate to compensate for infringement." The majority believed this amount was what was needed to fully restore the patentee's pecuniary condition.

Justice Neil Gorsuch and then-Justice Stephen Breyer dissented, arguing that "for infringement" in Section 284 limits damages to infringing acts in the United States — e.g., royalties for products made in the United States.

Otherwise, wrote Justice Gorsuch, "patent damages run (literally) to the ends of the earth." The majority said this "position wrongly conflates legal injury with the damages arising from that injury."

The Lanham Act contains language similar but not identical to Section 284, including enabling recovery of "any damages sustained by the plaintiff" subject to "principles of equity."

Accordingly, the \$90 million award could survive even for Abitron-to-European sales if the triggering conduct is, for example, Abitron's infringing use in commerce at a U.S. trade show. More broadly, "principles of equity" remains a wild card that could lead to an award under the Lanham Act where, for example, a full remedy was not given or not available under foreign law.

An Invite to Congressional Action

Congress enacted the patent infringement statute at issue in *WesternGeco* in response to a 1972 Supreme Court decision in *DeepSouth Packing Co. Inc. v. Laitram Corp.*, that was viewed as enabling multi-jurisdictional gamesmanship. In *Abitron*, the minority outright invited legislation: "It is now up to Congress to correct the Court's limited reading of the [Lanham] Act."

The most dramatic change would be to enshrine extraterritoriality expressly within the

Lanham Act causes of action, but that might directly confront comity concerns such as those that the European Commission already raised in an amicus brief.

Thus, Congress could more delicately clarify that the triggering conduct for liability is a likelihood of consumer confusion in the United States versus use in commerce. Congress may also want to wait for more clarity about how Abitron is going to be applied.

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Disclosure: The author was a co-author of the brief for the American Intellectual Property Law Association as Amicus Curae In Support of None of the Parties in Abitron v. Hetric.

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