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WHO RUNS THE WORLD? THE IMPORTANCE OF DEFINING THE TERRITORIAL REACH OF THE LANHAM ACT

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I. INTRODUCTION

"United States law governs domestically but does not rule the world."[1] Since the enactment of the Lanham Act in 1946, the United States Supreme Court and the United States Courts of Appeals have differed in the application of its extraterritorial reach.[2] Courts have applied the extraterritoriality of the Lanham Act to disputes between United States citizens and foreign citizens.[3] Despite finding a consistent home on federal court dockets, cases involving foreign defendants have yet to gain a dependable judgment.[4]

In 2021, the Tenth Circuit added to the existing clashing judgments.[5] In *Hetronic International, Inc. v. Hetronic Germany GmbH*, the Tenth Circuit refined an existing test for analyzing the territorial reach of the Lanham act, thereby creating the sixth test within the United States Court of Appeals.[6] Although five tests are surely Supreme Court worthy, six tests cannot be ignored. The Respondent in *Hetronic International, Inc. v. Hetronic Germany GmbH* thought so too.[7]

On January 26, 2022, Abitron Austria GMBH ("Abitron"), owner of Hetronic Germany GmbH ("Hetronic GER"), filed a Petition for a Writ of Certiorari ("the Petition") with the Supreme Court of the United States.[8] Abitron urges the Court to grant certiorari for Hetronic GER for several reasons.

First, Abitron stresses the current conflict the Tenth Circuit's decision presents with the other eleven Circuits.[9] Not only is there a circuit split, but the Court of Appeal are applying six different tests to analyze the territorial reach of the Lanham Act.[10] Specifically, the Tenth Circuit is in direct conflict with a Fourth Circuit decision.[11] Second, Abitron highlights the issue of inconsistency across court

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[1] RJR Nabisco, Inc. v. Eur. Cmty., 579 U.S. 325, 335 (2016) (citing Microsoft Corp. v. AT&T Corp., 550 U.S. 437, 454 (2007)).

[2] *Compare* Steele v. Bulova Watch Co., 344 U.S. 280 (1952) *with* Hetronic Int'l, Inc. v. Hetronic Germany GmbH, 10 F.4th 1016 (10th Cir. 2021) *with* McBee v. Delica Co., Ltd., 417 F.3d 107 (1st Cir. 2005).

[3] Steele, 344 U.S. 28586; Vanity Fair Mills, Inc. v. T. Eaton Co., 234 F.2d 633, 638-40 (2d Cir. 1956).

[4] James C. Gracey, *Thou Shalt Not Steele: Reexamining the Extraterritorial Reach of the Lanham Act*, 21 VAND. J. OF ENT. & TECH. L. 823, 847 (2019).

[5] *Hetronic Int'l, Inc.*, 10 F. 4th at 1038.

[6] *Id.*

[7] *Hetronic Int'l, Inc. v. Hetronic Germany GmbH*, 10 F.4th 1016, 1036 (10th Cir. 2021).

[8] *Id.* at 1025-1026.

[9] *Id.* at 1030.

[10] *Id.* at 1035.

[11] *Id.* at 1045; *Tire Engineering & Dis., LLC v. Shandong Linglong Rubber Co.*, 682 F.3d 292, 310-311 (4th Cir. 2012).

decisions and intellectual property law.[12] Third, Abitron asserts that the Tenth Circuit just got it wrong.[13]

This comment will focus on the breakdown of the circuit split, why the *Hetronic International, Inc. v. Hetronic Germany GmbH* decision is a turning point in trademark law, and why the Supreme Court should not only grant the Petition but should create a new test for analyzing the extraterritorial reach of the Lanham Act.

In Part II, this comment discusses the background of the Lanham Act and its accompanying presumption against extraterritoriality. This comment will then review each of the six tests, including their development, their elements, and how the court applied the test to determine the extraterritorial reach of the Lanham Act.

Part III discusses the interpretation of the Lanham Act within the United States Court of Appeals. It explains the six different tests adopted by the Circuits and how those Circuits have applied the tests. Part IV contends that the Supreme Court should grant Abitron's petition for Certiorari and highlights the implications denying Certiorari will likely have. Part V proposes why the Supreme Court, after granting Certiorari, should not adopt the test from the Tenth Circuit. Part VI discusses the *Hetronic* test, a new test which encompasses all the key elements from the six different tests the Circuit Court's determined. Part VII analyzes the *Hetronic International, Inc. v. Hetronic Germany GmbH* case as applied to the new *Hetronic* test as laid out in Part VI.

II. BACKGROUND

A trademark is a type of intellectual property that is protected by both United States federal and state law.[14] At the federal level, the United States Patent and Trademark Office administers the Trademark Act of 1946, or the "Lanham Act," which governs trademark law.[15] Under the Lanham Act, "the owner of a trademark used in commerce" can register its trademark with the United States Patent and Trademark Office.[16] The "use in commerce" requirement means there must be a genuine use of a mark "in the ordinary course of trade."[17] "Commerce" means "all commerce which may be lawfully regulated by Congress."[18]

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[12] *Hetronic Int'l, Inc*., 10 F.4th at 1051.

[13] *Id.* at 1026-27.

[14] Trademark: Overview, Practical Law Intellectual Property & Technology, https://www.westlaw.com/9-512-8249?transitionType=Default&contextData=(sc.Default)&VR=3.0&RS=cblt1.0 (last visited March 22, 2022).

[15] *Id.*

[16] *Id.*

[17] 15 USC § 1127.

[18] *Id.*

As stated in the United States Constitution in Article 1, "Congress shall have the Power . . . to regulate Commerce with foreign nations, and among several States . . . ."[19]

The Lanham Act imposes liability on "any person who shall, without the consent of the registrant, use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark."[20] Trademarks are territorial in nature, meaning "rights in one jurisdiction do not give rise to rights in other jurisdictions."[21] As laid out by the United States Supreme Court, this principle reflects the notion that there is a presumption against extraterritoriality.[22]

In 2016, the Supreme Court explicitly stated that there is a presumption against extraterritoriality.[23] The presumption against extraterritoriality means that "absent clearly express congressional intent to the contrary, federal laws will be construed to have only domestic application."[24] If the statute does not give "clear indication of an extraterritorial application, it has none."[25] The court laid out a two-step framework work analyzing the extraterritorial application.[26] The first step is to determine "whether the presumption against extraterritoriality has been rebutted."[27] The first step can be determined by looking at whether the statute gives a "clear, affirmative indication that it applies extraterritorially."[28] If the presumption against extraterritoriality is rebutted, that is "the statute in question applies extraterritorially," then the court does not need to address the second step.[29]

The second step is to determine "whether the case involves a domestic application of the statute," which is done by "looking to the statute's 'focus'."[30] The crux of this step is to determine whether Congress clearly indicated the statute has extraterritorial application.[31] If the "conduct relevant to the statute's focus occurred in the United States," then the statute may be applied extraterritorially.[32] However,

[19] U.S. Const. art. I, § 8.

[20] 15 USCA §1114(1)(a).

[21] Trademark: Overview, Practical Law Intellectual Property & Technology, https://www.westlaw.com/9-512-8249?transitionType=Default&contextData=(sc.Default)&VR=3.0&RS=cblt1.0 (last visited March 22, 2022).

[22] *RJR*, 579 U.S. 325, 335.

[23] *Id.*

[24] *Id.*

[25] *Id.*

[26] *Id.* at 337.

[27] *Id.*

[28] *Id.*

[29] *Hetronic Int'l, Inc.*, 10 F.4th 1016, 1034.

[30] *Id.*

[31] *RJR*, 579 U.S. 325, 335.

[32] *Id.*

even though a statute can be applied extraterritorially, this does not always mean it will be applied in this manner.[33]

A. Interpretation of the Extraterritorial Principle in the Lanham Act

Since the enactment of the Lanham Act, courts have grappled with the scope of the extraterritoriality of trademarks.[34] The first and only time the United States Supreme Court addressed this issue was in 1952.[35] In *Steele v. Bulova Watch Co.*, the Court applied a liberal view, stating, "the United States is not debarred by any rule of international law from governing the conduct of its own citizens upon the high seas or even in foreign countries when the rights of other nations . . . are not infringed."[36] The Court reiterated the defendant's citizenship stating, "Congress has the power to prevent unfair trade practices in foreign commerce by citizens of the United States, although some of the acts are done outside of the territorial limits."[37] The Court reasoned that the defendant's activities, when viewed in whole, were within the jurisdictional scope of the Lanham Act.[38]

Although this case provided some direction for courts to take in applying the Lanham Act's territorial reach for United States defendants, it left the door open to many questions which courts have grappled with for decades. Specifically, the Court left unresolved the question regarding the Lanham Act's extraterritorial reach to foreign defendants.[39]

*1. "*Vanity Fair*" Test*

After *Steele v. Bulova Watch Co.*, Circuit courts began dissecting *Steele v. Bulova Watch Co.* and developing tests for analysis. The Second Circuit interpreted *Steele v. Bulova Watch Co.* narrowly.[40] The Court determined in *Vanity Fair*, that constitutionally, Congress can provide infringement remedies if the defendant's use has a substantial effect on foreign commerce in the United States.[41] But Congress cannot

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[33] *Hetronic Int'l, Inc.*, 10 F.4th 1016, 1034.

[34] *See generally*, Margaret Chon, *Kondo-ing Steele v. Bulova: The Lanham Act's Extraterritorial Reach Via the Effects Test*, 25 B.U. J. SCI. & TECH. L. 101 (2019) (discussing the applicability of U.S. trademark law as applied to a Canadian grocery store chain).

[35] Steele v. Bulova Watch Co., 344 U.S. 280 (1952).

[36] *Id.* at 285-86.

[37] *Id.* at 286.

[38] *Id.* at 285.

[39] *Id.* at 285-86.

[40] *Vanity Fair*, 234 F.2d 633, 643.

[41] *Id.* at 642.

provide remedies to acts "committed by a foreign national in his home country under a presumably valid trademark registration in that country."[42] The court developed a three-factor test to determine the extraterritorial application under the Lanham Act (1) the defendant's conduct had a substantial effect on United States commerce; (2) the defendant was a United States Citizen; and (3) there was no conflict with trademark rights established under the foreign law.[43] The absence of one factor could be determinative, but the absence of two factors "is certainly fatal."[44]

The Eleventh Circuit adopted the *Vanity Fair* test to analyze the extraterritorial reach of the Lanham Act.[45] In International Café, S.A.L. v. Hard Rock Café Intern. (U.S.A.), Inc., the court analyzed International Café, S.A.L.'s subject matter jurisdiction to bring suit in United States Federal Court.[46] The court relied upon section forty-four of the Lanham Act and the Paris Convention, stating that "foreign nationals should be given the same treatment in each of the member countries as that country makes available to its own citizens."[47] Section 44 of the Lanham Act states that "any person whose country of origin is a party to the [Paris] convention . . . shall be entitled to benefits under [§ 1126(b)] to the extent necessary to give effect to any provision of the convention."[48] The court acknowledged that other courts of appeals have stated that "the rights articulated in the Paris Convention do not exceed the rights conferred by the Lanham Act."[49] However, the Eleventh Circuit determined that the Paris Convention only requires "national treatment," which is that "foreign nationals should be given the same treatment in each of the member countries as that country makes available to its own citizens."[50]

The court goes on to apply the three-factor *Vanity Fair* test.[51] One factor is easily met since the defendant is a United States citizen.[52] But, the absence of the other two factors is fatal.[53] The court notes that the only "substantial effect" in the United States would be the defendant's "financial gain" from royalties and merchandise commission, which

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[42] *Id.*
[43] *Id.*
[44] *Id.* at 643.
[45] International Café, S.A.L. v. Hard Rock Café Intern. (U.S.A.), Inc., 252 F.3d 1274, 1277 (11th Cir. 2001).
[46] *Id.* at 1276-77.
[47] *Id.* at 1277 (quoting Vanity Fair, 234 F.2d at 640).
[48] *International Café*, 252 F.3d at 1277.
[49] I*d.* at 1278; *Vanity Fair*, 234 F.2d at 644.
[50] *International Café*, 252 F.3d at 1278; (quoting *Vanity Fair*, 234 F.2d at 640).
[51] *See International Café*, 252 F.3d at 1278.
[52] *Id*.
[53] *Id.*

was insufficient to prove "substantial effect" on United States commerce.[54] Additionally, a United States court ruling might create inconsistency with a Lebanon court ruling, thereby interfering with the sovereignty of another country.[55] With the absence of two of the three factors required under Vanity Fair, the claim is certainly fatal, as ruled by the court.[56]

*2. "*Vanity Fair*" Test Relaxed*

The Fourth Circuit altered the *Vanity Fair* test to a more lenient version.[57] In *Nintendo of America, Inc. v. Aeropower Co., Ltd.*, the court made a key distinction by changing the standard from "substantial effect" to "significant effect" in terms of the effect on United States commerce.[58] The court noted that this factor should be considered first and only after considering whether there is a "significant effect" on United States commerce, should the court look to the citizenship of the defendant or conflict with foreign law.[59] Here, the court agreed with the district court that shipments of "infringing cartridges to buyers in Mexico and Canada" had a "significant impact" on United States commerce since those shipments entered the United States market through third parties.[60] The court did not analyze the other two factors due to the lower court failing to consider the other two factors: the defendant's citizenship and the effect on foreign law.[61]

The Fifth Circuit applied a more liberal version of the Vanity Fair test in *Am. Rice, Inc. v. Am. Rice Growers Co-op Ass'n* .[62] In this case, the court recognized that the three *Vanity Fair* factors are "relevant in determining whether the contacts and interests of the United States are sufficient to support the exercise of the extraterritorial jurisdiction."[63] The court points out that the absence of one of these factors is not dispositive and the court should not limit its inquiry to the factors exclusively.[64] In applying these factors, the court concluded one factor was easily met, the defendant was a United States citizen.[65] In regard

[54] *Id.*
[55] *Id.* at 1249.
[56] *Id.*
[57] Nintendo of America, Inc. v. Aeropower Co., Ltd., 34 F.3d 246 (4th Cir. 1994).
[58] *Id.* at 250.
[59] *Id.*
[60] *Id.* at 249.
[61] *Id.* at 251.
[62] Am. Rice, Inc. v. Am. Rice Growers Co-op Ass'n, 701 F.2d 414 (5th Cir. 1983).
[63] *Id.* at 414.
[64] *Id.*
[65] *Id.*

to the "substantial effect" factor, the Fifth Circuit widened the scope.[66] The court said the defendant's sales had "more than an insignificant effect on United States commerce" because the defendant's activities of processing, packaging, and distribution are activities within commerce.[67] For the third factor, the court stated it could not rule on it considering the absence of a Saudi court's statement of the legal use of the defendant's trademark in Saudi Arabia.[68]

3. Distinct "Tripartite" Test

The Ninth Circuit decided to carve its own path and created an entirely new test. The Ninth Circuit adopted the test applied to the Sherman Act in *Timberlane Lumber Co. v. Bank of American National Trust & Savings Association*.[69] In applying *Timberlane Lumber Co. v. Bank of American National Trust & Savings Association,* the Lanham Act applies extraterritorially if:

> (1) the alleged violations . . . create some effect on American foreign commerce;
> (2) the effect [is] sufficiently great to present a cognizable injury to the plaintiffs under the Lanham Act; and
> (3) the interests of and links to American foreign commerce [are] sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority.[70]

The Ninth Circuit applied this test in *Trader Joe's Company v. Hallatt*.[71] The court notes that for the first prong, the defendant's foreign activities only need to have "some effect" to sufficiently meet the first prong.[72] Further, a plaintiff will usually satisfy the first and second prong "by alleging that infringing goods, though sold initially in a foreign country, flowed into American domestic markets.[73] In this case, Trader Joe's makes a key argument that the "some effect" on United States markets was because Hallatt's activities harm Trader

[66] *Id.*
[67] *Id.* at 414.
[68] *Id.* at 415.
[69] Timberlane Lumber Co. v. Bank of Am. Nat. Trust & Savings Ass'n, 549 F.2d 600 (9th Cir. 1976).
[70] Trader Joe's Co. v. Hallat, 835 F.3d 960, 969 (9th Cir. 2016) (quoting Love v. Associated Newspapers, Ltd., 611 F.3d 601, 613 (9th Cir. 2010).
[71] 835 F.3d 960 (9th Cir. 2010).
[72] *Id.* at 969.
[73] *Id.*

Joe's reputation and "decrease the value of its American-held trademarks."[74] This "reputational harm" has been determined to satisfy "some effect."[75]

For the second prong, the court determined it was met because Trader Joe's provided a compelling argument that they will suffer the harm of Hallatt's activities in the United States because international shoppers will associate Trader Joe's with inflated prices.[76] Additionally, evidence of the domestic economic activity of Hallatt hiring third parties in Washington to purchase Trader Joe's goods on his behalf weighs heavily in favor of applying the Lanham Act.[77]

The third prong is the most complicated since it considers international comity and gives effect "to the rule that we construe statutes to avoid unreasonable interference with other nations' sovereign authority where possible."[78] Further, the third prong involves the weighing of seven factors.[79]

The first factor is the "degree of conflict with foreign law or policy."[80] Courts will "typically find a conflict with foreign law or policy when there is an ongoing trademark dispute or other proceeding abroad."[81] If there is no pending or ongoing dispute, as the court determined in this case, the factor weighs in favor of extraterritorial application.[82] The second factor, "the nationality of allegiance of the parties and the locations or principal places of business," will usually weigh in favor of extraterritoriality "when both parties are United States citizens."[83] The third factor, "the extent to which enforcement by either state can be expected to achieve compliance," involves consideration of the remedy sought and enforcement of the judgment.[84] The court here determined that there would be little difficulty in enforcing its judgment, thereby weighing in favor of applying the Lanham Act.[85]

The fourth factor, "the relative significance of effects on the United States as compared with those elsewhere," initially goes against the interest of federal courts: protecting foreign consumers from confusion.[86] However, the court here determined that since the Trader

[74] *Id.* at 970.
[75] *Id.* at 971.
[76] *Id.* at 971-72.
[77] *Id.* at 972.
[78] *Id.*
[79] *Id.* at 972-73.
[80] *Id.* at 972.
[81] *Id.* at 973.
[82] *Id.*
[83] *Id.* at 972-73.
[84] *Id.* at 972, 974.
[85] *Id.* at 974.
[86] *Id.* at 972, 974.

Joe's trademarks are well known in Canada and over a third of sales at the Washington location are non-United States citizens, the potential to mislead consumers is high.[87] Therefore, this factor weighs in favor of extraterritorial application of the Lanham Act.[88]

The court considered the fifth and sixth factors together.[89] The fifth is "the extent to which there is explicit purpose to harm or affect American commerce," and the sixth factor, "the foreseeability of such effect."[90] The court determined that, in light most favorable to Trader Joe's, the conclusion that Hallatt intended to harm Trader Joe's, or such harm was foreseeable, weighs in favor of extraterritorial application.[91] Finally, the seventh factor is "the relative importance to the violations charged of conduct within the United States as compared with conduct abroad."[92] Here, the court concludes that the activities most important to Hallatt occur in Canada, not the United States.[93] Therefore, this factor weighs against the extraterritorial application.[94] With prong one, two, and a majority of the prong three factors weighing in favor of extraterritorial application of the Lanham Act, the court reversed the district court's ruling of dismissing Trader Joe's claims.[95]

[87] *Id.* at 974.
[88] *Id.*
[89] *Id.*
[90] *Id.* at 972-73.
[91] *Trader Joe's Co.*, 835 F.3d at 974.
[92] *Id.* at 973.
[93] *Id.* at 975.
[94] *Id.*
[95] *Id.*

4. "Three Wells" Test

The First Circuit confronted the issue regarding extraterritoriality and foreign defendants.[96] Based on the *Vanity Fair* test, the First Circuit refines the test for the extraterritorial application of the Lanham Act when the defendant is not an American citizen.[97] The court recognized this analysis is different because a "separate constitutional basis for jurisdictions exists for control of. . .foreign activities."[98] The court laid out the following test:

> In order for a plaintiff to reach foreign activities of foreign defendants in American courts . . . subject matter jurisdiction under the Lanham Act is proper only if the complained-of activities have a substantial effect on United States commerce, viewed in light of the purposes of the Lanham Act. If this "substantial effects" question is answered in the negative, then the court lacks jurisdiction over the defendant's extraterritorial acts; if it is answered in the affirmative, then the court possesses subject matter jurisdiction.[99]

In *McBee v. Delica Co., Ltd.*, the court further assessed the framework for extraterritoriality under the Lanham Act.[100] The court distinguished the decision in *Steele v. Bulova Watch Co.*, because in *Steele v. Bulova Watch Co.*, the court relied on two different aspects of Congressional power, one of which is the power to regulate "the conduct of its own citizens," which is not present in this case.[101] When the defendant is not an American citizen, and the alleged illegal acts occurred outside the United States, the analysis seems to rely solely on the foreign commerce power.[102] Explicitly, the extraterritorial application of the Lanham Act extends to conduct by foreign defendants "only where the conduct has a substantial effect on United States commerce."[103] Under the "substantial effects" test, there must be evidence of impacts within the United States. Those impacts must be of "a sufficient character and magnitude to give the United States a

[96] McBee v. Delica Co., Ltd., 417 F.3d 107 (1st Cir. 2005).
[97] *Id.* at 111.
[98] *Id.*
[99] *Id.*
[100] *Id.* at 116-17.
[101] *Id.* at 118; *Steele*, 344 U.S. at 285-86.
[102] *McBee*, 417 F.3d at 119.
[103] *Id.* at 120.

reasonably strong interest in the litigation."[104]

However, in 2021, the Tenth Circuit expanded upon the *Vanity Fair* and *McBee v. Delica Co., Ltd.* decision by refining the factors necessary to the extraterritorial application of the Lanham Act.[105] In *Hetronic International, Inc. v. Hetronic Germany GmbH*, a United States company, Hetronic International, Inc. ("Hetronic US") manufactured radio remote controls for heavy-duty construction equipment.[106] Hetronic US and Hetronic Germany GmbH, a German Corporation ("Hetronic GER"), entered into a distribution and licensing agreement in 2007.[107] After this, Hetronic GER concluded that based on an agreement made before 2007, Hetronic GER owned all the technology developed under the previous agreement.[108] Hetronic GER began manufacturing and distributing copy-cat versions of Hetronic US's products in Europe.[109]

The Tenth Circuit adopted the *McBee v. Delica Co., Ltd.* framework, including that the plaintiff must show the defendant's conduct had a "substantial effect" on United States commerce.[110] The court also agreed that the Lanham Act will usually extend extraterritorially when the defendant is a United States citizen, and potential conflict with other foreign law should be considered.[111] The court notes that this "substantial effects" step is the sole issue to analyze here since none of the defendants are United States citizens, and no argument was raised to the third element: whether applying the Lanham Act would create conflict with trademark rights in a foreign jurisdiction.[112] Under the "substantial effects" test, Hetronic US points to three "great wells of effects on U.S. commerce" to meet its burden.[113]

When applying the "substantial effects" test, the Tenth Circuit makes specific note that "courts should keep in mind the Lanham Act's 'core purposes,'" which are to protect United States consumers "from confusion and 'assur[e] a trademark's owner that it will reap the financial and reputational rewards associated with having a desirable name or product."[114]

The first "great well" is the defendants' direct sales into the United

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[104] *Id.*
[105] *Hetronic Int'l, Inc.*, 10 F.4th 1016 (10th Cir. 2021).
[106] *Id.* at 1023.
[107] *Id.* at 1024-25.
[108] *Id.* at 1025.
[109] *Id.*
[110] *Id.* at 1036
[111] *Id.* at 1038.
[112] *Id.* at 1042.
[113] *Id.*
[114] *Id.* (citing Dastar Corp. v. Twentieth Century Fox Film Corp, 539 U.S. 23, 33-34 (2003)).

States.[115] Here, there is a disagreement in the total direct sales into the United States.[116] Following the offer of proof at trial, the court accepts the admission of direct sales totaling €202,134.12.[117] The court explicitly points out that "applying the Lanham Act to a foreign infringer's direct U.S. sales isn't an extraterritorial application of the Act."[118] The extraterritorial application applies to foreign acts of a foreign infringer.[119]

The second "well" is the defendants' sales of products abroad that ended up in the United States.[120] Courts have determined that "a foreign defendant can be liable for Lanham Act violations when its products find their way into the United States, even if initially sold abroad."[121] Here, Hetronic GER stated that over €1.7 million of their foreign sales ended up in the United States.[122] The court stated that when American consumers are exposed to the infringing mark, especially in over €1.7 million worth of products, "confusion and reputational harm" can be inferred.[123] However, the court does not need to rest on inference here, since Hetronic US submitted evidence of United States consumers' confusion about Hetronic US's "products relationship to the Abitron companies."[124] This evidence included United States consumers contacting Abitron Germany to purchase Hetronic US products, thinking that Abitron Germany sold them.[125]

The third "well" is diverted foreign sales that Hetronic US would have made but for the defendants' infringing conduct.[126] United States courts have an interest in protecting American companies from "economic harm suffered in the form of lost sales that it would have made if it weren't for Defendants' trademark infringement."[127] Additionally, the court has concluded that "evidence of diverted sales evinces a substantial effect on U.S. commerce."[128] Here, Hetronic US presented evidence of "tens of millions" of United States dollars in lost sales due to Hetronic GER's infringement.[129] And that those lost

[115] *Id.*
[116] *Id.*at 1043 n.8.
[117] *Id.*
[118] *Id.* at 1043.
[119] *Id.*
[120] *Id.* at 1042.
[121] *Id*. at 1043.
[122] *Id.*
[123] *Id.*
[124] *Id.*
[125] *Id.*
[126] *Id.* at 1042.
[127] *Id.* at 1045.
[128] *Id.* at 1044.
[129] *Id.* at 1045.

revenues "would have flowed into the U.S. economy but for Defendant's conduct infringing a U.S. trademark.[130] Due to this substantial monetary injury, Hetronic GER caused substantial effects on United States commerce.[131]

III. THE SUPREME COURT SHOULD GRANT CERTIORARI DUE TO THE CONFLICTING APPLICATIONS OF THE LANHAM ACT'S EXTRATERRITORIAL PRINCIPLE

The Supreme Court should grant Abitron's petition for Certiorari because the Tenth Circuit's ruling in *Hetronic International, Inc. v. Hetronic Germany GmbH* adds to an already highly split Courts of Appeals thereby decreasing consistency and fairness across court rulings.[132] The *Hetronic International, Inc. v. Hetronic Germany GmbH* decision essentially creates a sixth test for determining the extraterritorial reach of the Lanham Act among circuit courts.[133] The Second and Eleventh Circuit's apply the *Vanity Fair* test.[134] The Fourth and Fifth Circuit's apply a revised *Vanity Fair* test where the court looks for a "significant" effect on United States commerce, instead of "substantial."[135] The Ninth Circuit applies the distinct tripartite test rooted in antitrust law.[136] The First Circuit deviates from the other circuits and creates a test under *McBee v. Delica Co., Ltd.* for when the defendant is not a United States citizen.[137] Finally, the Tenth Circuit adopts the First Circuit's test based on *McBee v. Delica Co., Ltd.*.[138] Since the court modifies the test, the Tenth Circuit essentially creates its own test, making six tests within the twelve circuits.

The sheer number of applications for deciding the extraterritorial reach of the Lanham Act within the United States Courts of Appeals is reason enough to grant Certiorari.[139] These various applications have

[130] *Id.*
[131] *Id.*
[132] *Id.* at 1035-37.
[133] *Id.* at 1033.
[134] *Vanity Fair*, 234 F.2d at 642; *International Café*, 252 F.3d 1278.
[135] *Nintendo*, 34 F.3d 250; *Am. Rice*, 701 F.2d 414.
[136] *Trader Joe's*, 835 F.3d 969.
[137] *McBee*, 417 F.3d 111.
[138] *Hetronic Int'l, Inc.*, 10 F.4th at 1036.
[139] *U.S. Supreme Court to Decide the Extraterritorial Application of the Lanham Act*, CROWELL, https://www.crowell.com/NewsEvents/AlertsNewsletters/all/US-Supreme-Court-to-Decide-the-Extraterritorial-Application-of-the-Lanham-Act (last visited Nov. 8, 2022).

led to inconsistencies throughout intellectual property law.[140] Basic principles of a federal judiciary such as promoting consistency and fairness in law bolsters the reason for the Supreme Court to take on *Hetronic International, Inc. v. Hetronic Germany GmbH* and decide the standard for applying the Lanham Act extraterritorially.[141] Since federal law is the supreme law of the land, it is imperative that it is applied in a consistent manner throughout all federal and state courts.[142] Consistency in judicial application promotes confidence in the courts to make fair decisions.[143] Without the consistency, plaintiffs would be inclined to forum shop to a circuit that best suits their objective, whether it is fair to both parties.[144]

IV. THE SUPREME COURT SHOULD NOT ADOPT THE TENTH CIRCUIT TEST

The Supreme court should not adopt the Tenth Circuit test for application of the Lanham Act to extraterritoriality because the different tests disagree on two crucial questions (1) whether the defendant is a United States citizen and (2) whether the extraterritorial application of the Lanham Act will create conflict with a foreign law's trademark rights are necessary to the application of the extraterritorial reach of the Lanham Act.[145] There is no issue with these two questions.[146] Congress's power over United States citizens is a matter of domestic law and does not raise serious international concerns, which supports the need for element one: whether the defendant is a United States citizen.[147] The second element, that is: if there is a "substantial effect" on United States commerce, the court should determine whether the extraterritorial application would "create a conflict with trademark rights established under the relevant foreign law," is necessary because

[140] Abitron Austria GMBH; Abitron Germany Gmbh; Hetronic Germany Gmbh; Hydronic-Steuersysteme Gmbh; Abi Holding Gmbh; Albert Fuchs, Petitioners, v. HETRONIC INTERNATIONAL, INC., Respondent., 2022 WL 253018; Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA J. INT'L 505, 520-530 (1997).

[141] JUDICIAL CONF. OF THE U.S. STRATEGIC PLAN FOR THE FEDERAL JUDICIARY 1, 2 (2020).

[142] U.S. CONST. amend. VI, §2.

[143] JUDICIAL CONF. OF THE U.S. STRATEGIC PLAN FOR THE FEDERAL JUDICIARY 1, 23 (2020).

[144] Jan-Peter Ewert and David Weslow, *Forum Shopping in Europe and the United States*, 66 INTA BULLETIN 9-10 (2011).

[145] *Hetronic Int'l, Inc.*, 10 F.4th 1016, 17.

[146] *Id.*

[147] *Steele*, 344 U.S. at 285-86.

it supports the notion of the Paris Convention.[148]

The issue with the Tenth Circuit's test is with the "three wells" in determining whether the foreign defendant's conduct had a "substantial effect" on United States commerce, specifically with wells "one" and "three."

A. The "First Well"

The "first well" should not be part of the court's analysis regarding the extraterritorial reach of the Lanham Act. As specifically stated in *Hetronic International, Inc. v. Hetronic Germany GmbH*, "a foreign infringer's direct U.S. sales don't factor into [the] analysis of whether the Lanham Act applies abroad."[149] The court here decided a dispute over the exact amount of Abitron's direct sales to the United States was not worth resolving due to the fact that the amount is not necessary to the extraterritorial analysis.[150] Since the foreign infringer's direct sales to the United States are not necessary for extraterritorial analysis, the court should not spend time examining it.

B. The "Second Well"

Moving to the "second well," which considers the defendant's sales abroad that end up in the United States.[151] This element of analysis is proper in that multiple courts have determined that a plaintiff "can meet their burden by presenting evidence that while the initial sales of infringing goods may occur in foreign countries, the goods subsequently tend to enter the United States in some way and in substantial quantities."[152]

Additionally, the court states that substantial amounts, can cause "confusion and reputational harm" to the plaintiff.[153] Noted by the court, the evidence presented exposes that over €1.7 million in the defendants' foreign sales ended up in the United States.[154] This significant amount indeed confused United States citizens.[155] The court

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[148] *Hetronic Int'l Inc*., 10 F.4th at 1037; Paris Convention for the Protection of Industrial Property, 25 Stat. 1372, 21 U.S.T. 1583.

[149] *Hetronic Int'l, Inc*., 10 F.4th at 1043. *See also* McBee, 417 F.3d at 122 (stating that courts have "repeatedly distinguished between domestic acts of a foreign infringer and foreign acts of that foreign infringer," and the extraterritorial analysis only applies to the latter).

[150] *Hetronic Int'l, Inc*., 10 F.4th at 1042.

[151] *Id.*

[152] *Id.* at 1043; *McBee*, 417 F.3d at 125.

[153] *Hetronic Int'l, Inc*., 10 F.4th at 1043.

[154] *Id.*

[155] *Id.*

explains multiple instances where United States consumers were "confused about Hetronic's products relationship" to the Abitron companies.[156] These instances included United States consumers inquiring with Abitron Germany to purchase Hetronic US products under the belief that Abitron Germany sold Hetronic US products as well as almost weekly, consumers sent Abitron products to Hetronic US for repair.[157] Due to the strong impact on United States consumers, this second well is necessary for the court to consider when analyzing the extraterritorial reach of the Lanham Act.

C. The "Third Well"

The "third well" is most concerning as it encourages United States courts to participate in domestic favoritism. The "diversion of foreign sales theory" is based on the notion "the idea that [petitioners] stole sales from *abroad*, which in turn affected [international's] cash flow in the United States.[158] Essentially, this theory would allow United States companies to sue foreign defendants for their activities whenever they "allegedly cost the [United States company] 'foreign sales' that would have benefited the United States."[159]

This rule presents a widely irresponsible and significant power to United States companies.[160] Under this theory, almost any conduct by a foreign defendant could impact the United States. With the rise of e-commerce by United States consumers, worldwide trade is only increasing.[161] In 2021, the total United States e-commerce sales increased by 14.2% to $870.8 billion from total e-commerce sales in 2020, while global e-commerce sales soared to $4.2 trillion.[162] Due to the rise in e-commerce, both on the national and global scale, sales can be made internationally with a click of a button, essentially creating a 'trade without borders' situation. The vague "diversion of sales" theory

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[156] *Id.*

[157] *Id.*

[158] *Abitron Austria GMBH*, 2022 WL 253018, at *21.

[159] Abitron Austria GMBH v. Hetronic Int'l, inc., no. 21-1043, 2022 U.S. WL 253018, at *21 (Jan. 21, 2022).

[160] Kyle Jahner, *Overseas Trademark Damages 'Messiness' Ripe for High Court Look*, BLOOMBERG LAW (May 9, 2022), https://news.bloomberglaw.com/ip-law/overseas-trademark-damages-messiness-ripe-for-high-court-look.

[161] Joan Verdon, *Global E-Commerce Sales to Hit $4.2 Trillion as Online Surge Continues*, ADOBE REPORTS, FORBES, (Apr. 27, 2021), https://www.forbes.com/sites/joanverdon/2021/04/27/global-ecommerce-sales-to-hit-42-trillion-as-online-surge-continues-adobe-reports/?sh=240b7c8050fd.

[162] *Id.*; *Quarterly Retail E-Commerce Sales 4th Quarter 2021*, UNITED STATES CENSUS BUREAU (last visited Feb. 19, 2023), https://www.census.gov/retail/ecommerce/historic_releases.html.

is dangerous because not only does it enable United States companies to sue foreign defendants for activities that "allegedly cost" the United States foreign sales, but there is also no threshold of the necessary lost foreign sales to meet the "diversion of sales" requirement.[163] To keep this "well," the Supreme Court needs to draw a baseline of what is considered a "diversion of sales." Under the current theory, the Tenth Circuit could find a "diversion of sales" of $2 million, equaling three percent of foreign sales, or $2 million equaling forty percent of foreign sales, warrants liability under the Lanham Act.[164] The lack of clarity on this issue, coupled with the rise in global e-commerce, supports the need for the Supreme Court to solve this issue.

V. THE NEW "HETRONIC" TEST

The Supreme Court should resolve the six-way circuit split by creating a new test. The court should consider the following three factors when deciding the extraterritoriality reach of the Lanham Act: (1) the citizenship of the defendant, (2) whether the defendant's sales abroad made their way into the United States, and (3) the international comity and fairness of applying the Lanham Act. This test encompasses the key elements courts have considered when determining the extraterritorial reach of the Lanham Act, such as the citizenship of the defendant, a "substantial effect" on United States commerce, and concerns for international application. As other circuits have pointed out, no one factor is dispositive, yet the absence of more than one would weigh heavily against applying the Lanham Act extraterritorially.[165]

A. Is the Defendant a United States Citizen?

Whether the defendant is a United States citizen is a threshold issue when determining the reach of the Lanham Act.[166] The court must first consider this because, as previously mentioned, Congress has the power to regulate commerce.[167] The specific intent of the Lanham Act is "to regulate commerce within the control of Congress."[168] Not only does Congress have this power, but the principle has been upheld in each of

[163] *Supra* note 159.

[164] *Hetronic Int'l Inc.*, 10 F.4th at 1044.

[165] *See* Vanity Fair, 234 F.2d 633; Nintendo, 34 F.3d 246; Trader Joe's, 835 F.3d 960.

[166] *See* Catherine Nyarady, *Supreme Court to Address Extraterritorial Scope of the Lanham Act*, NEW YORK LAW JOURNAL, (Jan. 10, 2023, 10:00 AM), https://www.law.com/newyorklawjournal/2023/01/10/supreme-court-to-address-extraterritorial-scope-of-the-lanham-act/.

[167] U.S. CONST. art.1, § 8.

[168] 15 USCA § 1127.

the six tests adopted within the United States Courts of Appeals because the courts considered this issue first.[169] Therefore, the citizenship of the defendant is a key determinant in applying the extraterritorial reach of the Lanham Act and should be treated as the threshold issue in analyzing the extraterritorial reach of the Lanham Act.

B. Defendant Sales Abroad

Defendant's sales abroad that make their way into the United States must be considered in analyzing the extraterritorial reach of the Lanham Act because this displays both the monetary and consumer effects of infringing foreign conduct. As the court in *Hetronic International, Inc. v. Hetronic Germany GmbH* highlighted, "a foreign defendant can be liable for Lanham Act violations when its products find their way into the United States, even if initially sold abroad."[170] Further, courts have pointed out that when United States citizens are exposed to an infringing mark, "confusion and reputational harm" can and often does occur.[171]

For a proper analysis of this element, the court should first consider the monetary amount in foreign sales that entered the United States. Then, the court must consider whether those sales caused confusion or reputational harm to the plaintiff. As the court in *Hetronic International, Inc. v. Hetronic Germany GmbH* indicated, evidence including confusion with manufacturing, distribution, and customer service point of contact was "sufficiently substantial" to apply the Lanham Act.[172] Both considerations are necessary because solely foreign sales that end up in the United States may not have a direct impact on the consumer.[173] It is more comprehensive under the intent of the Lanham Act to consider the fraud and deception such products can create, especially for consumers.[174] Therefore, this two-factor element is necessary for determining whether the infringing conduct had a "substantial effect" on United States commerce.

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[169] *See* Vanity Fair, 234 F.2d 633; Trader Joe's, 835 F.3d 960. *See also* Hetronic Int'l, Inc., 10 F.4th 1016; McBee, 417 F.3d 107.

[170] *Hetronic Int'l Inc*., 10 F.4th at 1043.

[171] *Id.*

[172] *Id.* at 1043-44.

[173] *Id.*

[174] 15 U.S.C.A. §1127 (stating that one intent of the Lanham Act is "to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks.").

C. Consideration of International Comity

The consideration of international comity stems from "prong three" of the test applied by the Ninth Circuit in *Trader Joe's v. Hallat*. This element provides a more comprehensive examination of whether applying the Lanham Act extraterritorially would present conflict with trademark rights under foreign law.[175] This element involves weighing the seven factors in *Trader Joe's* "prong three."[176]

The seven factors are:

> 1) The degree of conflict with foreign low or policy,
> 2) The nationality or allegiance of the parties and the locations or the principal places of business of corporations,
> 3) The extent to which enforcement by either state can be expected to achieve compliance,
> 4) The relative significance of effects on the United States as compared with those elsewhere,
> 5) The extent to which there is explicit purpose to harm or affect American commerce,
> 6) The foreseeability of such effect, and
> 7) The relative importance to the violations charged of conduct within the United States as compared and conduct abroad.[177]

VI. APPLYING THE "HETRONIC" TEST

This section discusses how the *Hetronic International, Inc. v. Hetronic Germany GmbH* case could be applied to the new *Hetronic* test laid out above. This section will only focus on analyzing the "new" addition to the test, element three, which includes the seven factors for determining international comity and fairness. The Tenth Circuit has already properly considered elements one and two of the new *Hetronic* test.[178] Element three involves weighing the seven factors laid out above.

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[175] Vanity Fair Mills, Inc. v. T. Eaton Co., 234 F.2d 633, at 642 (2d Cir. 1956); Trader Joe's Co. v. Hallat, 835 F.3d 960, at 972-73 (9th Cir. 2016).

[176] *Trader Joe's*, 835 F.3d at 972-73.

[177] *Id.* at 972-73 (citing Timberland Lumber Co. v. Bank of Am. Nat. Trust & Savings Ass'n, 549 F.2d 597 (9th Cir. 1976)).

[178] *See* Hetronic Int'l, Inc. v. Hetronic Ger. GmbH, 10 F.4th 1016, 1036-37 (10th Cir. 2021).

The first element, "the degree of conflict with foreign laws," weighs in favor of extraterritorial application. A court will usually find a "conflict with foreign law or policy when there is an ongoing trademark dispute or other proceeding abroad."[179] In *Trader Joe's v. Hallat*, the court found this element weighed in favor of extraterritorial application because although Trader Joe's had a recognized trademark in Canada, there was no "pending or ongoing adversarial proceeding between Trader Joe's and Hallat."[180] Here, the defendants sought to get around the Oklahoma trial court's injunction by "asking a German court for a declaration involving ownership," which they rejected.[181] Since the dispute in the German court is concluded,[182] this factor weighs in favor of extraterritorial application.

The second factor, "the nationality or allegiance of the parties and the locations or the principal places of business of corporations" also weighs in favor of extraterritorial application. This factor typically weighs in favor when "the parties are foreign citizens who operate domestic businesses."[183] Here, the defendants established a distributor in the United States, where they sent employees for training and repair.[184] They also registered two marks with the United States Patent and Trademark Office.[185] Neither of these two business activities constitutes "domestic business."[186] A distributor in the United States is not indicative of conducting a domestic business.[187] Many companies have distributors in foreign countries, and on the global scale of business in society, a single distributor that receives training from the company falls short of conducting "domestic business."[188] Therefore, the court will likely conclude it weighs against extraterritorial application.

The third factor, "the extent to which enforcement by either state can be expected to achieve compliance," weighs in favor of extraterritorial application. Courts "in exercising [their] equity powers may command persons properly before it to cease or perform acts

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[179] *Trader Joe's*, 835 F.3d at 973.

[180] *Id.*

[181] Brief of Appellee at 28, Hetronic Int'l, Inc. v. Hetronic Ger. GmbH, 10 F.4th 1016 (10th Cir. 2021) (Nos. 20-6057, 20-6100).

[182] *Id.*

[183] *Trader Joe's*, 835 F.3d at 973.

[184] Brief for Appellee at 7, Hetronic Germany GmbH v. Hetronic Int'l, Inc., 10 F.4th 1016 (10th Cir. 2021) (Nos. 20-6057, 20-6100).

[185] *Id.*

[186] *SDS Korea Co. v. SDS USA, Inc.*, 732 F. Supp. 2d 1062, 1078 (S.D. Cal. 2010) (demonstrating the test for personal specific jurisdiction by which a court could claim such over a "doing business").

[187] *Id.*

[188] *Id.*

outside its territorial jurisdiction."[189] The Paris Convention held that nationals of the parties to the convention "shall have . . . the same legal remedy against infringement of their rights."[190] Here, Germany is a party to the Paris Convention and has been since 1968.[191] Based on the Paris Convention, an injunction would achieve compliance with the Lanham Act.[192] Therefore, this factor weighs in favor of extraterritorial application of the Lanham Act.

The fourth factor, "the relative significance of effects on the United States as compared with those elsewhere," weighs in favor of extraterritorial application. One of trademark law's two goals is to "protect consumers from confusion."[193] Here, consumer confusion is present.[194] United States consumers would reach out to Abitron about buying Hetronic US's products.[195] They would also, on a nearly weekly basis, send Abitron products to Hetronic US for repair.[196] Due to these regular consumer confusions, this factor weighs in favor of extraterritorial application.

The fifth and sixth factors are the extent to which there is explicit purpose to harm or affect American commerce, and the foreseeability of the effect would likely weigh in favor of extraterritorial application. Although the Ninth Circuit did not provide a standard for analyzing these factors but only looked at the complaint, this analysis will focus on the facts the Tenth Circuit concluded.[197] In this case, Abitron's United States distributor was "uncertain about the relationship between the Abitron companies and Hetronic US."[198] The United States distributor for Abitron could not distinguish an Abitron NOVA and a Hetronic US NOVA.[199] Additionally, "millions of euros worth" of products from Abitron came into the United States, and Abitron's "efforts to sell" the products caused consumer confusion.[200] The opacity between Abitron and Hetronic US's products and the lack of

[189] Ramirez & Feraud Chili Co. v. Las Palmas Food Co., 146 F. Supp. 594, 604 (S.D. Cal. 1956).

[190] Paris Convention for the Protection of Industrial Property, art. 2, Mar. 20, 1883, 21 U.S.T. 1629.

[191] *Id.* at art. 1.

[192] Brief for Appellee at 29, Hetronic Germany GmbH v. Hetronic Int'l, Inc., 10 F.4th 1016 (10th Cir. 2021) (Nos. 20-6057, 20-6100).

[193] 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS & UNFAIR COMPETITION § 2:2 (4th ed. 2013).

[194] Hetronic Int'l, Inc. v. Hetronic Germany GMBH, 10 F.4d 1016, 1043 (10th Cir. 2021).

[195] *Hetronic Int'l, Inc.*, 10 F.4th at 1043.

[196] *Id.*

[197] *Trader Joe's*, 835 F.3d at 974.

[198] *Hetronic Int'l Inc.*, 10 F.4th at 1043.

[199] *Id.*

[200] *Id.* at 1044.

evidence of attempting to remedy the confusion would likely persuade the court this factor weighs in favor of extraterritorial application.

Lastly, the seventh factor, "the relative importance to the violations charged of conduct within the United States as compared and conduct abroad," weighs against extraterritorial application. Here, the foreign sales at issue "originated abroad rather than domestically," and that the trial court already determined that this factor weighed against extraterritorial application.[201] Since the trial court has made this determination and the Tenth Circuit did not address it, the Supreme Court would likely conclude that this factor weighs against the extraterritorial application of the Lanham Act.

VII. CONCLUSION

The correct extraterritorial application of the Lanham Act has been widely disputed between the United States Circuit Courts. There are currently six different tests applied by such courts to determine the reach of the Lanham Act. This is five too many. The Supreme Court needs to grant Abitron's Petition and determine the best test to use when applying the extraterritorial reach of the Lanham Act.

The best test is a combination of the key consistencies throughout the six tests. It considers the citizenship of the defendant, the defendant's sales abroad that made their way into the United States, and international comity through the weighing of seven factors. Although this test is not perfect, it does provide the Supreme Court with a comprehensive foundation for analyzing the extraterritorial reach of the Lanham Act.

The Supreme Court granted Abitron's Petition for Certiorari on November 4, 2022,[202] and oral arguments were held on March 21, 2023.[203] Although the Supreme Court has taken one step in remedying this significant circuit split, the Supreme Court should use this as an opportunity to spell out the test courts must use when applying the extraterritorial reach of the Lanham Act.

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[201] Brief for Appellee at 29, Hetronic Germany GmbH v. Hetronic Int'l, Inc., 10 F.4th 1016 (10th Cir. 2021) (Nos. 20-6057, 20-6100).

[202] Abitron Austria GMBH v. Hetronic International, Inc., 10 F. 4th 1016 (10th Cir. 2021), *cert. granted*, 143 S. Ct. 398 (Nov. 4, 2022).

[203] SUPREME COURT OF THE UNITED STATES, *Oral Argument Audio*, March 21, 2023, https://www.supremecourt.gov/oral_arguments/audio/2022/21-1043.