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U.S. Supreme Court Limits the Reach of Provisions of the Lanham Act to Domestic Commerce

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On June 29th, 2023, the U.S. Supreme Court issued its opinion in the case of Abitron Austria GmbH v. Hetronic International, Inc., holding that two provisions of the Lanham Act that prohibit trademark infringement – 15 U.S.C. § 1114(1)(a) and § 1125(a)(1) – are not extraterritorial and extend only to claims where the infringing "use in commerce" is domestic.[i] The decision may be cause for concern for many trademark owners, as it could be construed as enabling foreign actors to cause confusion among U.S. consumers by cloaking their conduct behind foreign intermediaries. On the other hand, the decision may provide consistency with other nations' intellectual property laws, as trademark law is treated by most countries as territorial in nature.[ii] To hold that the Lanham Act provisions at issue apply extraterritorially could be perceived as meddling and bring about international discord, which some parties interested in the Hetronic case, including the European Commission, a part of the executive of the European Union, have warned about.[iii]

The Facts

Hetronic International, Inc. is a U.S. company which manufactures radio remote controls for construction equipment. The products are sold in more than 45 countries and are distinguished from other similar products through their distinctive black and yellow color scheme. Abitron, a foreign corporation, originally operated as a licensed distributor for Hetronic, facilitating the spread of the latter's products throughout Europe. Abitron was authorized to assemble and sell Hetronic's remote controls under the company's brand, but it had a contractual obligation to purchase the parts from Hetronic.

Hetronic and Abitron became at odds when Abitron decided that it held the rights to much of Hetronic's intellectual property, including the marks on the relevant products. Abitron began reverse-engineering Hetronic's products, seeking to recreate them without any visible difference. Hetronic terminated its business relationship with Abitron, but Abitron continued to sell Hetronic-branded products. Hetronic then filed suit against Abitron under the Lanham Act, alleging trademark infringement.

The Provisions

The first provision at issue, 15 U.S.C. § 1114(1)(a), dictates that it shall be prohibited for any person, without the consent of the registrant, to "use in commerce any reproduction, counterfeit, copy, or colorable imitation of a

registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services" when "such use is likely to cause confusion . . . ."[iv] The second provision at issue, 15 U.S.C. § 1125(a)(1), similarly prohibits the use of protected marks in a way that confuses consumers, when that use is "in commerce." [v]

The Question and the Framework for Analysis

The question for the Court was whether the Lanham Act applies to foreign conduct. In seeking resolution, the Court explained its framework for deciding this issue in the realm of federal law. It follows a two-step analysis.

First, the Court determines whether the law in question is extraterritorial in nature, based on whether Congress has provided an "affirmative[] and unmistakabl[e] instruct[tion]" that it is so.[vi] If the Court is of the belief that Congress has made it expressly clear that the law is intended to regulate foreign conduct, then the analysis ends there. If there is not an affirmative, unmistakable instruction, then the Court performs the second step of the analysis. This step seeks to identify whether the "focus" of the law justifies application to foreign conduct, despite there being a presumption against extraterritoriality.[vii] This step requires the Court to ponder more deeply about the competing interests at play. The statute may be meant to regulate infringing conduct, but it may also be meant to serve and protect mark holders however it can be employed to do so. Thus, the Court was required to determine the focus of the relevant Lanham Act provisions.

The Arguments

Hetronic argued that while the plain language of the provisions at issue do not exhibit an intent on behalf of Congress to regulate foreign conduct through extraterritorial application of the laws, use of the word "commerce" in § 1125(a)(1) implies that purpose.[viii] Hetronic sought for the Court to adopt the position that the Lanham Act provisions apply extraterritorially, arguing that conduct tied to U.S. commerce should be governed by the U.S. statute, whether or not the actual effect complained of has occurred or is occurring within the country. Hetronic's argument is rooted in the notion that the Lanham Act serves to protect the goodwill of mark owners, rather than marks themselves.[ix] In other words, infringing conduct committed anywhere effects the reputation of domestic mark owners where they reside.

Abitron argued the contrary, suggesting that the federal statute serves only to protect against the infringing use of trademarks, and maintained that its use did not infringe based on a strict stance that the Lanham Act is not meant to apply extraterritorially under any circumstances.[x]

The Government weighed in as amicus curiae to propose a compromise. It took the position that the provisions of the Lanham Act may be applied against extraterritorial conduct, so long as the effect of confusion brought about by that conduct has been felt within the U.S.[xi]

The Court's Position and the Impact of the Decision

Justice Alito, writing for the majority of the Court, provided an important clarification about the second step in the analytical framework used to decide whether a federal law can be applied to foreign conduct. He stressed

that once the "focus" of the statute is identified, the question is asked whether "the conduct relevant to that focus occurred in United States territory."[xii] The opinion all but evaporated hope for any application of the relevant provisions to foreign conduct. Through this approach, if the "conduct relevant to the focus" occurs in the U.S., then the case involves a permissible domestic application of the statute, even if other foreign conduct occurred. If the relevant conduct occurred abroad then, whether or not any other conduct occurred in America, the case involves an impermissible extraterritorial application of the law.[xiii]

This decision may be unsettling for mark owners. The decision absolves from liability those who sell infringing products abroad that reach the United States and confuse consumers here. Despite a likelihood of confusion being created, the effect of this decision permits the foreign party behind the goods to enjoy safe harbor. Advice for American companies and individuals who seek to protect their products from trademark infringement committed by foreign entities: strengthen your foreign intellectual property rights. It may be more costly but, after Hetronic, it will be that more difficult to recover lost profits suffered due to infringements that occurred outside of the borders of the U.S.

Cullen and Dykman's Intellectual Property team continues to monitor important developments in trademark and copyright law. Should you have any questions about this legal alert, please feel free to contact Karen Levin (**klevin@cullenllp.com**) at (516) 296-9110 or Ariel Ronneburger (**aronneburger@cullenllp.com**) at (516) 296-9182.

This advisory provides a brief overview of the most significant changes in the law and does not constitute legal advice. Nothing herein creates an attorney-client relationship between the sender and recipient.

Thank you to Mattie Curry, a summer associate, who assisted in the preparation of this alert.

Footnotes

[i] No. 21-1043, 2023 WL 4239255, at *1 (U.S. June 29, 2023).

[ii] *Id.* at *8.

[iii] *Id.* at *9.

[iv] 15 U.S.C. *§ 1114(1)(a).*

[v] 15 U.S.C. *§ 1125(a)(1).*

[vi] *Id.* at 4.

[vii] *Id.* at 4.

[viii] *Hetronic,* 2023 WL 4239255, at *5.

[ix] *Id.* at *2.

[x] *Id.* at *2, 13.

[xi] *Id.* at 13.

[xii] *Id.* at 4 (internal quotations omitted).

[xiii] *Id.*

Practices

- Intellectual Property

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