Edwards Wildman

Extraterritorial reach of the Lanham Act: a viable option

The extraterritorial reach of the Lanham Act is a viable option against foreign infringers, with circuit courts showing a trend towards broadening the scope of application

The extraterritorial reach of the Lanham Act provides rights holders with a powerful tool for pursuing foreign infringers in US courts. The level of effect necessary to confer jurisdiction varies by circuit, and may require a plaintiff to prove that a defendant's actions had "substantial", "significant", "more than insignificant" or "some" effect.

The Ninth Circuit displays the least restrictive test, as is evident in its July 13 2013 order in the ongoing dispute between Airwair International and Vans Inc over Vans' sale of boots that allegedly infringed Airwair's iconic Dr Martens brand in Japan. This broad interpretation of the Lanham Act giving trademark law a wider reach into foreign jurisdictions is often justified by the fact that foreign trademark infringement can result in damage to a rights holder's brand or reputation in the United States, as well as a loss in sales, both foreign and domestic.

Many courts interpret the broad language of the Lanham Act generally to justify foreign application. Section 45 states that "the intent of the Lanham Act is to regulate commerce within the control of Congress by making actionable, the deceptive and misleading use of marks in such commerce". The Supreme Court has addressed extraterritorial application of the Lanham Act only once, in *Bulova*. It held that this clause demonstrates congressional intent to expand the Lanham Act to foreign acts of infringement, and that the act applies to "all commerce which may lawfully be regulated by Congress". Authority for extraterritorial application is further found under Article 1, Section 8 of the Constitution, where Congress is given the power to regulate commerce with "foreign nations and among the states".

In *Bulova*, a Mexican manufacturer who was a US citizen bought watch parts in the United States, assembled the watches in Mexico and placed the BULOVA mark on the watches for resale. While not sold in the United States, the counterfeit watches did flow through US commerce when bought in Mexico by US citizens travelling back to the United States. The court rejected the Mexican manufacturer's defence that the Lanham Act did not apply to its Mexican activities, holding that the purchase of parts in the United States was an "essential step" in the infringement act, and that the effects of the manufacturer's activities had domestic and international consequences.

Following *Bulova*, the Second Circuit in *Vanity Fair Mills, Inc v T Eaton Co*, 234 F2d 633 (2d Cir 1956) developed a three-factor test to determine whether extraterritorial application of the Lanham Act is appropriate. The defendant, a Canadian company, applied to register the mark VANITY FAIR in Canada approximately one year after the plaintiff had registered the mark in the United States. The defendant allegedly ceased use of the mark in Canada for nearly nine years, during which time it purchased products from the plaintiff to sell in Canada. The defendant then began to sell VANITY FAIR-branded products in Canada made from noticeably lower-quality materials. The plaintiff attempted to enjoin the defendant from using the mark in the United States and Canada. In its analysis, the court considered three main factors. First was whether the defendant's actions had a substantial effect on US commerce. Second was whether the defendant was a US citizen, and third was whether any conflicts with rights or registrations in a foreign jurisdiction existed.

The court found that the defendant's actions did have a substantial effect on US commerce, since the lower-quality VANITY FAIR-branded products diminished the plaintiff's reputation and created consumer confusion. However, the court also found that the final two factors had not been satisfied, as the defendant was based primarily in Canada and held a valid Canadian trademark registration, creating a conflict of law.

The Fourth Circuit Court of Appeals slightly altered the Second Circuit's test, changing the 'substantial' effect test to a 'significant' effect. This alteration allows for a broader application of the Lanham Act to foreign actions that may not have a direct effect on US commerce (see *Nintendo of Am v Aeropower Co*, 34 F3d 246 (4th Cir 1994)).

The Fifth Circuit also weighed in with its own test that focuses on whether the defendant's acts have an effect on US commerce. In *American Rice, Inc v Arkansas Rice Growers Cooperative Association*, 701 F2d 408 (5th Cir 1983) the Fifth Circuit retreated back to the analysis in *Bulova*, indicating that a defendant's US acts need not necessarily be independently infringing acts, provided that they are "essential steps" to the conduct that resulted in the alleged infringement. American Rice sued Arkansas Rice for infringement of its trademark on rice sold in Saudi Arabia. While the court still conducted its analysis using the basic *Vanity Fair* factors, instead of a substantial or significant effect on US commerce, the Fifth Circuit required a less stringent 'more than insignificant' effect. As the defendant had processed and packaged infringing rice products in the United States before shipping those products to Saudi Arabia, the court found a 'more than insignificant' effect on US commerce.

In *McBee v Delica Co, Ltd*, 417 F3d 107 (1st Cir 2005) the First Circuit Court of Appeals changed the order in which the *Vanity Fair* factors are applied, relying on the two main sources of congressional power under the Constitution – namely, the power of Congress over US citizens, even when abroad, and the power of Congress to regulate commerce with foreign nations. In *McBee*, a Japanese retailer began selling clothing and accessories under the CECIL MCBEE mark. The products were sold in retail stores and on a Japanese language website, but the retailer rarely authorised shipment to the United States. Cecil McBee, a US jazz musician, claimed that this sale of goods caused a loss in performance opportunities, a false association between him and the retail brand, and confusion among US and Japanese consumers. McBee unsuccessfully challenged registration of the retailer's CECIL MCBEE mark in Japan and then sued for infringement in the United States.

The approach in *McBee* begins by discerning whether the defendant is a US citizen. If not, the substantial effects test is used to determine whether to apply the Lanham Act. The First Circuit considers whether there is a conflict of law with a foreign country only after it has determined that it is appropriate to exercise jurisdiction under the Lanham Act. The court relied heavily on the fact that the retailer was based in Japan, not the United States. The court subsequently moved to its analysis of the substantial effects test, finding that the $2,500 worth of products received by McBee did not have a substantial effect on US commerce and noted that a US judgment would conflict with the retailer's valid trademark rights in Japan, and thus refused to apply the Lanham Act.

The Ninth Circuit uses a more intensive, although less restrictive, test in order to determine whether to apply the Lanham Act extraterritorially. While the test originates with *Bulova*, it is also similar to the rule of reason used in many antitrust cases to determine extraterritorial application of the Sherman Act. First, the court applies the three-part test originally applied in *Timberlane Lumber Co v Bank of America*, 549 F 2d 597 (9th Cir 1976), which considers whether:

- the alleged infringement creates some effect on US foreign commerce;
- the effect is sufficiently great to present a cognisable injury to the plaintiff; and
- the interests of and links to US foreign commerce are sufficiently strong to justify an assertion of extraterritorial authority.

The third factor is then analysed in a further seven-part test that considers:

- the degree of conflict with foreign law;
- the nationality of the parties;
- the extent to which enforcement in the United States would achieve compliance;
- the significance of effects on the United States, as compared to elsewhere;
- whether the explicit purpose of the defendant was to harm US commerce;
- the foreseeability of these effects; and
- the relative importance of the violations within the United States.

The Ninth Circuit's tests requires only 'some effect' on US foreign commerce. While

Lawrence R Robins
Partner
lrobins@edwardswildman.com

Larry Robins represents clients on a variety of IP matters, with a particular focus on the litigation of trademark, copyright and related disputes; strategic trademark portfolio development, management, and protection; and counselling on the use and protection of copyrighted works.

Kelly Donahue
Associate
kdonahue@edwardswildman.com

Kelly Donahue is an associate in the Boston office of Edwards Wildman. She assists on matters including US and international trademark portfolio management, clearance and enforcement, copyright protection matters and domain name disputes.

tests in other circuits focus specifically on citizenship and potential for conflicting law in foreign jurisdictions, the Ninth Circuit reserves these issues for analysis under its third factor, where seven sub-factors are weighed. This creates a less restrictive and broader test that values a balancing of many factors to determine application of the Lanham Act. The Ninth Circuit's test recently arose again in an ongoing dispute between Airwair and Vans related to sales by a Vans Japanese licensee of allegedly infringing 'Gibson' boots with trade dress similar to Airwair's Dr Marten branded footwear (see *Airwair International Ltd v Vans Inc*, 12 Civ 5060 (ND Cal, July 17 2013)). Vans filed a motion to dismiss Airwair's complaint, arguing that the manufacturing, advertising and sale of its Gibson line occurred beyond US borders. The court ultimately held that the Lanham Act did apply, even though most of the licensee's products were sold in Japan, because Vans' actions had some effect and were linked to US commerce.

The Vans line received attention in the United States from various footwear blogs, touting the Gibson line as "obviously modelled after Dr. Martens footwear". Other blogs accessed by US consumers encouraged use of proxy services or travelling friends to obtain shoes in the Gibson line directly from Japan. The court found that Vans' ratification of its licensee's infringing activities, potential purchases of Gibson product by travellers coming to the United States and visibility of Gibson footwear by US consumers on the Vans Japanese website were sufficient to show an effect on US foreign commerce. The third-party publicity and commentary likening the shoe to the Dr Marten brand further supported the allegations that Vans' activities had an effect on US foreign commerce. In balancing the seven sub-factors used, the court found that Vans' licensing and quality control activities in the United States, in combination with the foreseeability that Gibson shoes could enter the US market, outweighed the fact that the allegedly infringing goods were manufactured and sold in Japan. This provides a broadened view of extraterritorial application of the Lanham Act. While the effect on US commerce was balanced, further factors entered the analysis, such as the foreseeability of products entering the United States and the intent of the defendant to deceive consumers.

While applicable authority will determine the level of activity and contact necessary to link a defendant's actions to US commerce, each circuit shows a trend towards broadening the scope of application, as the stringent requirements for substantial effect on US commerce have started to diminish.

Practitioners should thoroughly explore options for pursuing extraterritorial infringement actions in the US courts as part of a global enforcement strategy. WTR