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Intellectual Property Alert

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SCOTUS clarifies recovery of extraterritorial damages under Lanham Act

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The Supreme Court resolved a circuit split on the extraterritorial reach of the Lanham Act—but this decision may limit the ability of trademark holders to target foreign infringers.



What's the Impact?

- / The Supreme Court concluded that the prohibitions against trademark infringement, under the Lanham Act, do not extend to activities carried out abroad even when there may be a likelihood of consumer confusion within the United States.
- / Trademark holders, in particular brand owners, may find it more difficult to enforce their marks against counterfeiters located outside the United States, even though counterfeits are typically offered for sale and sold online without any distinction as to where the seller and consumer are located.

On June 29, 2023, the U.S. Supreme Court vacated the Tenth Circuit's decision affirming a \$96 million jury award in *Abitron Austria GmbH, et al. v. Hetronic International, Inc.* (No. 21-1043) and held that the Lanham Act cannot be applied to infringing acts outside of the United States.

Background

Hetronic International, Inc. (Hetronic), a U.S. company, sells radio remote controls for operating heavy-duty construction equipment (e.g., cranes). Hetronic's products are marketed under the Hetronic brand name and feature a distinctive black-and-yellow color scheme to distinguish them from its competitors. For nearly a decade, Abitron Austria GmbH and five other foreign entities (collectively, Abitron) served as distributors of Hetronic's products outside the United States.

In 2011, Abitron decided to manufacture their own products—identical to Hetronic's—and sell them under the Hetronic brand outside of the United States, mostly in Europe. After learning about Abitron's sales, Hetronic filed suit against Abitron in the Western District of Oklahoma, asserting, among other claims, trademark infringement under 15 U.S.C. §§ 1114(1)(a) and 1125(a)(1) of the Lanham Act.

In 2020, a jury awarded Hetronic over \$100 million in damages, of which \$96 million was due to Abitron's trademark infringement. After the Tenth Circuit upheld the lower court's decision and damages award, Abitron petitioned the Supreme Court for review, arguing that the Lanham Act did not apply extraterritorially to Abitron because 97% of its sales were made outside the United States.

The Supreme Court's decision

On November 3, 2022, the Supreme Court granted certiorari to consider whether "the Lanham Act [applied] extraterritorially to petitioners' foreign sales, including purely foreign sales that never reached the United States or confused U.S. consumers." A number of brand owners, U.S. trade associations, as well as the U.S. Solicitor General filed amicus briefs, the vast majority in support of Hetronic, citing, among other things, the importance of having an effective remedy in U.S. courts against foreign counterfeiters.

In its majority decision, the Supreme Court first reiterated that the "longstanding" presumption against extraterritoriality meant, absent express statutory language or clear Congressional intent to the contrary, §§ 1114(1)(a) and 1125(a)(1) of the Lanham Act could only apply "within the territorial jurisdiction of the United States." Next, the majority explained that the "ultimate question regarding permissible domestic application turns on the location of the conduct relevant to the focus [of the statute]," which, in the case of §§ 1114(1)(a) and 1125(a)(1), was the "unauthorized use 'in commerce' of a protected trademark." As the permissible domestic application of the Lanham Act is limited by the location of infringing use in commerce, the majority concluded that the Tenth Circuit erred by upholding the damages award based on infringing sales, of which 97% were made outside the United States.

Notably, although concurring in the decision to vacate the lower court's decision, Justice Sotomayor, joined by Justices Roberts, Kagan, and Barrett, disagreed with the framework adopted by the majority limiting the domestic application of the Lanham Act to only the location of infringing use in commerce. In her concurring opinion, Justice Sotomayor advocated for applying the Lanham Act extraterritorially to "activities carried out abroad when there is a

likelihood of consumer confusion in the United States.” Echoing her comments and questions during oral argument, Justice Sotomayor reasoned that foreign buyers advertise their goods on the Internet and “purposely target American customers in America.” Thus, according to Justice Sotomayor, regardless of whether foreign businesses choose to deliver the goods into or outside the United States, so long as they are competing with U.S. trademark owners to secure U.S. customers, the “focus” of the Lanham Act should be the location where there is a likelihood of consumer confusion.

Takeaways

The Supreme Court granted certiorari in large measure due to the circuit split on the test of extraterritorial application of the Lanham Act. Prior to the *Arbitron* decision, defendants accused of trademark infringement due to their foreign activities could face widely different consequences, including a wide range of damages, simply depending on the jurisdiction in which they were sued. This Supreme Court decision ensures uniform application of the Lanham Act with respect to foreign activities.

However, the decision may limit the ability of trademark holders, in particular brand owners, to enforce their marks against counterfeiters located outside the United States. As noted in Justice Sotomayor’s concurrence—as well as many of the third-party amicus briefs—in today’s marketplace, counterfeits are almost always offered for sale and sold online without any distinction as to where the seller and consumer are located. Under the framework adopted by the majority, counterfeiters who sell infringing products abroad may escape liability even if they target and cause confusion among consumers within the United States.

For example, notwithstanding that 97% of Arbitron’s sales occurred outside of the United States, the Tenth Circuit found evidence of “sufficient character and magnitude” showing that Arbitron’s acts of infringement had significant impacts within the United States, including “millions of euros worth of infringing products that made their way into the United States after initially being sold abroad, diverted tens of millions of dollars of foreign sales from Hetriconic that otherwise would have ultimately flowed into the United States, . . . [and] numerous incidents of confusion among U.S. consumers.”

Moving forward, trademark holders, in particular brand owners, may need to employ more creative tactics to target counterfeiters located abroad, for example, by targeting “downstream” importers, distributors, resellers, or even end users of counterfeit products located within the United States.

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