THE LANHAM TRADEMARK ACT:

Balancing the Competing Concerns of Foreign Sovereignty and Extraterritorial Application

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I. INTRODUCTION

The underlying tension from which the discussion of extraterritorial application arises is international relations between States. States desire to maintain their own sovereign boundaries while simultaneously keeping other States under control. The extraterritorial application of U.S. domestic law could be a violation of a foreign country’s sovereignty. Under the Paris Convention on the Protection of Industrial Property (Paris Convention), enforcement of trademark rights is left open to interpretation by signatory States and, arguably, allows for extraterritorial application of laws. The question is how should the United States craft its policy for the extraterritorial application of laws, namely the Lanham Trademark Act (Lanham Act)?

II. SOURCES OF AUTHORITY FOR EXTRATERRITORIAL APPLICATION OF U.S. TRADEMARK LAW

A. THE 1883 PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY

The Paris Convention has under its mandate the protection of trademarks, as well as all other forms of industrial property.\(^1\) Article 10\(^{bis}\) provides that “countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.”\(^2\)

The United States, as a signatory to the Paris Convention, has the responsibility of preventing (1) any acts that create confusion with the goods or activities of a competitor; (2) false allegations that attempt to or succeed in discrediting the goods or activities of a competitor; and (3) any acts that could mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity of the goods.\(^3\)

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\(^2\) Id. at art.10\(^{bis}\)(1).
\(^3\) Id. at art.10\(^{bis}\)(3).
Convention does not suggest in what manner protection should be effectuated, nor does it place territorial limits upon Members enforcing the required protections.

**B. THE LANHAM TRADEMARK ACT**

The Lanham Act incorporates into domestic law the provisions of treaties signed by the United States with regards to intellectual property rights.\(^4\) Under subsection (a) all marks communicated to the United States by international bureaus shall be kept in a register in accordance with the treaties and conventions signed by the United States.\(^5\) Subsection (b) of the Lanham Act discusses the benefits for persons whose country of origin is a party to one of the treaties or conventions referenced under subsection (a).\(^6\) Subsection (h) of the Lanham Act provides for the protection of foreign nationals against unfair competition. The provision states,

Any person designated in subsubsection (b) of this subsection as entitled to the benefits and subject to the provisions of this chapter shall be entitled to effective protection against unfair competition, and the remedies provided in this chapter for infringement of marks shall be available so far as they may be appropriate in repressing the acts of unfair competition.\(^7\)

It is subsection (h) from which the United States bases its authority for the extraterritorial reach of the Lanham Act.

**C. THE SUPREME COURT OF THE UNITED STATES OF AMERICA**

The United States Supreme Court outlined factors to consider in determining the extraterritorial reach of United States law in *Steele v. Bulova Watch Co.*\(^8\) An American watch company sued a U.S. citizen for trademark infringement and sought an injunction against further

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\(^5\) Id.
\(^6\) Id. at § 1126(b).
\(^7\) Id. at § 1126(h).
use of the trademark.9 The watch company, which had a registered trademark in the United States, believed the citizen was intentionally deceiving the public.10 The American citizen was domiciled in Texas, but assembled the watches in Mexico from American and Swiss parts.11

Defendant citizen challenged the jurisdiction of the United States Court based on the fact that he had a trademark registration of ‘Bulova’ pending in Mexican courts.12 The U.S. trial judge originally dismissed the cause with prejudice citing no illegal acts had actually taken place in the United States.13 The U.S. Court of Appeals reversed the decision, finding a cause of action under the Lanham Act.14 The Mexican Court subsequently extinguished defendant’s registration of the trademark in Mexico, and the U.S. Supreme Court granted certiorari to decide the issue of “whether a United States District Court has jurisdiction to award relief to an American corporation against acts of trade-mark infringement and unfair competition consummated in a foreign country by a citizen and resident of the United States?15”

After examining the Lanham Act and the congressional intent behind it, the U.S. Supreme Court came to the conclusion that domestic legislation does not extend beyond the territorial boundaries of the United States, unless there is specific intent.16 The Lanham Act was found to have the requisite congressional intent for extraterritorial application. In reaching this conclusion the Supreme Court analyzed three factors: (1) the citizenship of the defendant; (2) whether there exists a conflict between foreign and domestic laws; and (3) what the effect on United States commerce was.17

9 Id.
10 Id.
11 Id.
12 Bulova Watch Co. v. Steele, 194 F.2d 567, 568 (5th Cir. 1952).
13 Id.
14 Id. at 573.
15 Id. at 281.
16 Id. at 285.
17 Id. at 281, 285, 287.
In this case, defendant was a U.S. citizen which allowed the U.S. Court to have personal jurisdiction over him. There was no conflict of laws or danger of sovereign infringement between the United States and Mexico once defendant’s Mexican case was adjudicated. Though the illegal acts occurred outside of U.S. territory, the effect on United States commerce was felt by U.S. consumers who purchased illegitimate watches believing them to be genuine. This effect on commerce enabled the United States to have subject matter jurisdiction over the case. In answering the Supreme Court’s “questions” in Bulova, the United State Circuit Courts have developed a variety of nuances for justifying extraterritorial jurisdiction under the Lanham Act.

III. FACTORS CONSIDERED IN THE EXTRATERRITORIAL APPLICATION OF UNITED STATES TRADEMARK AND UNFAIR COMPETITION LAW

A. CITIZENSHIP OF THE DEFENDANT

One of the questions posed by the Supreme Court in Bulova was whether or not the defendant was a United States citizen. Some jurisdictions, such as the Second Circuit, interpret the Lanham Act and Paris Convention as requiring defendant to have actual citizenship in the United States for any extraterritorial application of the law. The Court in Vanity Fair Mills v. T. Eaton Co. 18 did not agree with plaintiff’s contention that the Paris Convention created a private right of action under U.S. law for acts of unfair competition occurring in foreign countries. 19 The Fourth, Fifth, and Ninth Circuit Courts, follow the actual citizenship requirement as well. 20

Some jurisdictions have augmented the citizenship requirement to allow for extraterritorial application in the event constructive citizenship exists. In Calvin Klein

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18 Vanity Fair Mills v. T. Eaton Co., 234 F.2d 633, 637 (2d Cir.1956).
19 Id. at 640.
Industries, Inc. v. BFK Hong Kong, Ltd, plaintiff sued to enjoin the distribution or sale of defective Calvin Klein clothing, which remained in Pakistan where it was produced. The Court held that despite defendant not being a U.S. citizen, his New York corporation and residence provided constructive citizenship for purposes of the Lanham Act. Thus, courts may expand the definition of citizenship to include constructive citizenship when applying the Lanham Act extraterritorially.

**B. EFFECTS ON UNITED STATES COMMERCE**

Another factor courts consider when evaluating extraterritorial application of the Lanham Act is the effect of unfair competition on United States commerce. Three standards have emerged in the U.S. Circuit Courts: “substantial” effect, “significant” effect and “some” effect. A “substantial” effect on commerce is more than a “significant” effect or “some” effect. In C-Cure Chemical Co. v. Secure Adhesives, indirect effects on United States commerce, including purchases of trademark infringing products and loans to trademark infringing companies, were held to satisfy the “substantial” threshold.

The diversion of sales from the foreign licensee of a U.S. company also survived the “substantial” effect test, as seen in Calvin Klein. The Court looked to the place of contracting and determined that, regardless of licensees being foreign, the remedy for breach of contract would be the United States and, therefore, a “substantial” effect on United States commerce existed.

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22 Id.
23 Id. at 80.
25 714 F. Supp. 78.
26 Id. at 80.
Further, harm to plaintiff’s reputation was deemed to have a “substantial” effect on U.S. commerce in *Warnaco Inc. v. V.F. Corp.* Pursuant to a contract termination agreement between a U.S. corporation and a Spanish company, the Spanish company was to sell its stock of the “Warner” trademark until exhausted. The Spanish company sold the goods in an accelerated fashion, damaging the reputation of the U.S. corporation. The fact that the U.S. corporation’s harmed reputation in Spain could diminish its reputation in the United States was found to be a “substantial” effect on United States commerce.

In other jurisdictions, courts have held that defendant’s conduct need only have a “significant” effect on United States commerce. A “significant” effect is something more than “some” effect, but a slightly lesser effect than “substantial.” The Court in *Nintendo of America, Inc. v. Aeropower Co.*, defined a “significant” effect on United States commerce to be the importation of trademark infringing goods. Finally, some jurisdictions, such as the Fifth Circuit, have employed the “some” effect test. In *Wells Fargo & Company v. Wells Fargo Express Co.*, the Court found “some” effect to be a foreign company operating a subsidiary corporation in the United States. Regardless of the label, the Circuit Courts have made it clear there must be an effect on United States commerce to warrant extraterritorial application of the law.

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28 *Id.* at 946.
29 *Id.* at 945.
30 *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 248 (4th Cir. 1994).
31 *Id.* at 249.
32 *Wells Fargo & Company v. Wells Fargo Express Co.*, 556 F.2d 406 (9th Cir. 1977).
C. VALID TRADEMARK REGISTRATION IN THE FOREIGN COUNTRY AND CONFLICT WITH TRADEMARK RIGHTS CONFERRED BY THAT FOREIGN COUNTRY

There are three circumstances, when considering the registration of trademarks, in which extraterritorial jurisdiction may exist. Situation one involves countries where both parties sold goods and defendant had not established a right to use its mark. Situation two concerns countries where both parties sold goods and defendant had established by local law the right to use its mark, and situation three pertains to countries where defendant was selling but plaintiff had not proved that it sold or was likely to do so. The George W. Luft Co. v. Zande Cosmetic Co. Court held that extraterritorial jurisdiction only exists in situation one where defendant had not established a right to use its mark.\(^33\) This case was decided before the Supreme Court decision in Bulova, but the holding has remained relevant even in light of the Bulova decision. A more current case in which foreign trademark registration was considered is Sterling Drug, Inc. v. Bayer AG.\(^34\) As to the issue of extraterritorial application of the Lanham Act, the Court felt it necessary to modify Vanity Fair Mills holding,

A more careful application of Vanity Fair is necessary because the instant case is not on all fours with Vanity Fair. In Vanity Fair, the plaintiff sought a blanket prohibition against the Canadian retailer's use of "Vanity Fair" in connection with the sale of defendant's products in Canada. Sterling, on the other hand, seeks to enjoin only those uses of the "Bayer" mark abroad that are likely to make their way to American consumers.\(^35\)

Citing the George Basch Co.\(^36\) decision, the Court held the Lanham Act does not necessarily require a junior user to be completely banned from using an infringing mark, but rather the

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\(^{33}\) George W. Luft Co. v. Zande Cosmetic Co., 142 F.2d 536 (2d Cir. 1944).

\(^{34}\) Sterling Drug, Inc. v. Bayer AG, 14 F.3d 733 (2d Cir. 1994).

\(^{35}\) Id. at 746.

injunctive relief should be no broader than necessary to rectify the harm caused by the infringing mark.  

An interesting case, also out of the Second Circuit, established the rule that a trade embargo may be taken into consideration when ascertaining a foreign national’s rights under U.S. trademark law. The Court in Empresa Cubana Del Tabaco v. Culbro Corp. held a Cuban Cigar manufacturer had no claim to United States trademark rights due to the United States trade embargo with Cuba. 

On the whole, courts are reluctant to apply the Lanham Act extraterritorially if there exists a valid trademark in a foreign country and that trademark may confer conflicting rights in the foreign country. However courts are willing to modify that rule, as seen in Bayer, and even modify the rule to the extent of denying a foreign user rights under American law for public policy reasons, as seen in Empresa.

D. A BALANCING TEST V. ALL FACTORS FULFILLED

There are conflicting views as to whether a balancing test of factors should be employed or whether each factor must be fulfilled for extraterritorial application. In Atlantic Richfield Co. v. ARCO Globus International Co., the Court held that all three factors considered must be satisfied for extraterritorial application of the Lanham Act. The Court essentially held the defendant must be a United States citizen, that there can be no conflict between defendant’s foreign trademark rights and plaintiff’s domestic trademark rights, and defendant’s conduct must have had a substantial effect on United States commerce.

37 14 F.3d at 750.
On the other hand, some jurisdictions employ a balancing test and no one factor is dispositive. In *Nintendo*, the Court’s analysis found that even though all the factors for extraterritorial application must be considered, no one factor should be fatal. The Court mentioned the holding in *Totalplan Corp. of America v. Colborne* in which the absence of two factors were fatal to issuance of injunction, as well as the *Vanity Fair Mills* holding in which the conflict with foreign law and defendant's foreign citizenship precluded an injunction. Depending on which jurisdiction a claim falls into, an injunction may or may not be granted based solely on which method of evaluation the court uses to apply the Lanham Act extraterritorially.

IV. WHAT SHOULD THE UNITED STATES POLICY ON EXTRATERRITORIAL APPLICATION OF THE LANHAM ACT BE?

The factors set forth by the United States Supreme Court, and modifications by United States Circuit Courts, are excellent domestic indicators of whether or not the United States should apply the Lanham Act extraterritorially. The requirement that the defendant is a citizen of the United States, either through actual or constructive citizenship, guarantees that the United States is not attempting to unlawfully assert jurisdiction over a foreign citizen. The condition that the defendant be an actual citizen of the United States is preferable to constructive citizenship to prevent sovereign infringement.

Further, though the Circuit Courts of the United States have created three distinct labels through which to analyze the effect on United States commerce, the threshold appears to be the same. Assuming arguendo a difference in magnitude between “significant,” “substantial,” and “some” does exist, the lowest threshold has been held to meet extraterritoriality requirements.

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40 *Totalplan Corp. of America v. Colborne*, 14 F.3d 824, 830-31 (2d Cir.1994).
41 *Nintendo*, 34 F.3d 246.
This requirement is necessary because it provides the United States with a viable reason, the protection of its citizen’s livelihood, to intervene. However, reconciling the nominal distinctions from jurisdiction to jurisdiction would provide for a clearer understanding by trademark holders.

The final factor to be considered is whether or not a valid trademark exists in a foreign country that confers competing rights. The requirement that no foreign trademark rights exist effectively prevents the United States from attempting to interpret the laws of another country. Customarily, courts will dismiss any action that requires the application of foreign regulations due to the “practical difficulty of importing a foreign regulatory system, but also because of the traditional attitude that one nation will not become another's political agent by giving effect to foreign governmental rights, barring special local statutory direction to do otherwise.” The United States should refrain from varying this constraint in order to respect the sovereignty of other States.

The Circuit Courts have competing views on whether the factors should be considered as a balancing test or if one dispositive factor should preclude extraterritorial application. It would be in the United States best interests to afford other countries the utmost respect in sovereign affairs by requiring all three factors be fulfilled.

Despite an initial presumption against extraterritorial application of laws during the nineteenth century, the current international system contains extraterritorial application of various laws. The extraterritorial application of anti-trust law, in particular, can serve as a caution about problems that may arise with the extraterritorial application of the Lanham Act. It has been noted that there exists,

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the prospect of international conflict over the propriety of a nation's antitrust enforcement actions. Significant disagreements may arise because other nations resent what they regard as an unjustifiable exercise of extraterritorial jurisdiction by the prosecuting nation, as in the U.S. pursuit of the uranium cases of the 1970s.\textsuperscript{44}

Though the United States may justify its extraterritorial application of the Lanham Act as fulfilling its Paris Convention obligations, other countries may not view the United States’ actions in the same light.

Another method for determining the extraterritorial application of laws is the doctrine of jurisdictional rule of reason. This doctrine, which has been heavily relied upon in anti-trust cases, calls for “U.S. courts to balance the positive pro-competitive effects of extraterritorial application of U.S. law against its negative effects on foreign interests and U.S. foreign policy interests.\textsuperscript{45}"

To create the best method for extraterritorial application of the Lanham Act the United States’ courts should use the current factors in conjunction with the jurisdictional rule of reason. The United States Courts should first evaluate the citizenship of the defendant, the effects on United States commerce and whether a trademark exists in a foreign country with competing rights. Once all three factors have been satisfied the United States should further consider what effects applying the Lanham Act extraterritorially would have on foreign interests and United States foreign policy interests. If the negative effects of those interests outweigh the benefits of the Lanham Act, it should not be applied extraterritorially. The United States will achieve greater success in the international arena if it takes the sovereign rights of other countries into consideration when applying the Lanham Act extraterritorially.

\textsuperscript{44} Danial K. Tarullo, Norms and Institutions in Global Competition Policy, 94 A.J.I.L. 478, 481 (2000).