IP RIGHTS AND EXTRATERRITORIALITY

SARAH RING, *Houston*
Porter Hedges

State Bar of Texas
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CHAPTER 4

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I. INTRODUCTION

The issue of extraterritoriality in both trademark and patent law arises in the context of both enforcement and priority. In the enforcement context, courts must determine whether foreign use of a U.S. trademark or patent constitutes infringement and, if so, what foreign sales are subject to damages. In the context of priority, the issue of extraterritoriality arises when a foreign trademark or patent owner claims priority in the U.S. or when a U.S. trademark or patent owner claims rights over a prior foreign user. This article discusses how both patent and trademark law are applied extraterritorially in the context of enforcement and priority.

II. THE EXTRATERRITORIAL REACH OF TRADEMARK LAW AS IT RELATES TO PRIORITY

U.S. trademark law, for the most part, does not allow a foreign user to claim priority over a prior user in the United States. The Ninth Circuit, however, has recognized the "well-known mark doctrine," which acknowledges a prior foreign user's trademark rights over a prior domestic user if the mark is sufficiently well-known in the United States. But most courts and the Trademark Trial and Appeal Board ("TTAB") do not recognize the well-known mark doctrine and deny rights based solely on prior use abroad.

The TTAB has explicitly held that it does not recognize the well-known mark doctrine. *Jung v. Magic Snow, LLC*, 124 U.S.P.Q.2d 104102 (T.T.A.B. 2017). In *Jung*, Opposer Jung filed an opposition proceeding alleging likelihood of confusion with Jung's own use of the mark. *Id*. at 1. But Jung largely relied on the alleged fame of the mark in Korea and recognition of the mark in the United States due to her efforts in Korea. *Id*. at 2. The TTAB dismissed the opposition on the basis that Jung failed to establish prior use of the mark under Section 2(d) because the TTAB does not recognize the well-known mark doctrine as a basis for establishing priority. *Id*. at 3.

The Second Circuit has also declined to recognize the well-known mark doctrine. *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135 (2d Cir. 2007). In *Punchgini*, owners of a registered federal trademark for BUKHARA for restaurant services sued defendants for the operation of two Indian restaurants in New York City named Bukhara Grill. *Id*. at 144. Although plaintiff had previously operated a restaurant in Manhattan for five years and franchised a restaurant in Chicago for ten years, there had been no Bukhara restaurant in the United States since 1997. *Id* .at 143. The court found that plaintiff had abandoned the mark in the United States. *Id*. at 145. And the court found that the continued operation outside the United States did not give plaintiff rights in the United States under the "famous marks doctrine." *Id*. at 165. In fact, the Second Circuit recognized that the Ninth Circuit is the only court that has recognized the famous mark (well-known mark) doctrine and declined to apply it absent Congressional recognition. *Id*. at 164-165.

Most recently the Federal Circuit held that Coca-Cola could not cancel U.S. trademark registrations for THUMBS UP and LIMCA even though it had been selling beverages under those marks in India for decades. *Meenaxi Enterprise, Inc. v. The Coca-Cola Co.*, 38 F.4th 1067 (Fed Cir. 2022). Interestingly, Coca-Cola only brought the cancellation proceeding under § 14(3) of the Lanham Act for the registrant allegedly misrepresenting "the source of the goods or services on or in connection with which the mark is used." *Id*. at 1069. The Federal Circuit noted that, despite Coca-Cola having used the marks in India for decades, Coca-Cola did not base its claim on any alleged extraterritorial rights (i.e., the well-known mark doctrine), but instead based its claims entirely on alleged injury occurring in the United States. *Id*. at 1075-76. The TTAB cancelled the trademark registrations holding that Meenaxi was attempting to dupe consumers in the United States who were familiar with Coca Cola's THUMBS UP cola from India into believing that Meenaxi's THUMBS UP cola was the same drink that that these efforts to deceive satisfied the misrepresentation of source claim. *Id*. at 1071. The Federal circuit reversed the TTAB noting that Coca Cola had not identified "any lost sales in the United States." *Id*. at 1076. Coca Cola's only evidence that there were sales of its products in the United States was that certain third party retailers had sold THUMBS UP and LIMCA in the United States. *Id*. Coca Cola did not present any evidence that it had ever sold the brands in the U.S. *Id*. The Federal Circuit found no reputational injury to the Coca-Cola brands because there was no evidence that the Indian-American community is aware of the THUMBS UP and LIMCA marks. *Id*. at 1078. The court noted that the Board's conclusion that the reputation of the marks would extend to the millions of Indian-American's appears to rest in part on an assumption that Indian Americans would necessarily be aware of the marks reputations in India. *Id*. The court concluded that the limited U.S. sales of Coca-Cola's Indian products by third parties were not sufficient to establish that the product had a reputation in the US. *Id*. The court also noted that Coca-Cola did not present any survey evidence showing awareness of either mark in the United States. *Id*.

Judge Reyna concurred with the majority result but stated that the well-known mark exception, which he agreed was waived by Coca-Cola, was the legal issue. *Id*. at 1081. Reyna did not believe that it was appropriate to distinguish the territoriality principle of the well-known mark issue from the issue of whether Coca-Cola proved reputational injury among US consumers. *Id*. at 1082. As Reyna viewed it, the two issues were one in the same. *Id*.

III. THE EXTRATERRITORIAL REACH OF TRADEMARK LAW AS IT RELATES TO ENFORCEMENT

Whether, and to what extent, U.S. trademark laws apply extraterritorially to enforce U.S. trademark owners' rights against foreign activities is a developing issue. In fact, the Supreme Court recently granted certiorari in a case involving this issue. *Abitron Austria GmbH v. Hetronic Int'l, Inc.*, 143 S. Ct. 398 (2022).

In 2016 the Ninth Circuit reversed a lower court's dismissal of an action against a Canadian retailer that purchased Trader Joe's branded goods from Trader Joe's stores in the U.S. and resold them in Canada. *Trader Joe's Co. v. Hallatt*, 835 F.3d 960 (9th Cir. 2016). The Ninth Circuit applied the two-step framework of *RJR Nabisco*. *Id*. at 966 (citing *RJR Nabisco, Inc. v. European Cmty*., 579 U.S. 325 (2016)). At step one courts ask "whether the statute gives a clear, affirmative indication that it applies extraterritoriality." *Id*. The Ninth Circuit noted that the Supreme Court settled this question with regard to the Lanham Act when it held in *Steele v. Bulova* that the Act's "use in commerce" element and broad definition of "commerce" clearly indicate Congress's intent that the Act should apply extraterritorially. *Id*. (citing *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952)). The second step of the RJR two-step framework involves determining "the limits Congress has (or has not) imposed on the statute's foreign application." *Id*. The court determined that Defendant Hallatt's conduct impacted American commerce in a manner sufficient to invoke the Lanham Act's protections by applying the three-part test of *Timberlane Lumber*. *Id*. at 969 (citing *Timberlane Lumber Co. v. Bank of America National Trust & Savings Ass'n*., 549 F.2d 597 (9th Cir. 1976)). The first two prongs required that Trader Joe's allege that "Hallatt infringes its trademarks (1) in a way that affects American foreign commerce, and (2) causes Trader Joe's a cognizable injury under the Lanham Act." *Id*. The court held that defendant's foreign activities did not need a substantial or even significant effect on American commerce. *Id*. "[S]ome effect" on American commerce was sufficient. *Id*.

The court found that the first two prongs of the *Timberlane* three-part test were met. *Id*. at 972. Then the court determined that, although Trader Joe's did not allege that products made it back into the United States like in *Bulova*, the effects were felt in the United States because the reputation of the U.S. brand was harmed by Hallatt offering Trader Joe's goods at inflated prices and Hallatt's lack of quality control that caused at least one customer to become ill. *Id*. at 971-972. The court also found significant that Hallatt purchased the goods from U.S. Trader Joe's stores and hired people in the U.S. to help purchase and transport the goods. *Id*. at 972.

The third *Timberlane* prong considers seven subfactors to evaluate potential "interference with other nations' sovereign authority." *Id*. at 974-975 (citing *RJR Nabisco*, 136 S.Ct. at 2107 n.9)). The court determined that the seven subfactors "do not counsel against applying the Lanham Act here." *Id*. at 975. The court relied on the fact that there was no pending or ongoing adversarial proceeding in Canada, the fact that Trader Joe's was an American company and Hallatt maintains lawful permanent resident status in the United States, the fact that there was nothing to suggest that the court would have difficulty enforcing a damages award or injunction against Hallatt, the fact that Hallatt's sales have the potential to mislead consumers in Canada, and the fact that the harm to Trader Joe's was foreseeable to Hallatt to find that prong three of the *Timberlane* test weighed in favor of application of the Lanham Act. *Id*. at 974-975.

In 2020, the D.C. Circuit declined to either adopt Ninth Circuit's *Trader Joe's* "some effect" on US commerce test over the First Circuit's more stringent test requiring that the conduct by a foreign defendant must have a "substantial effect on US commerce." *IMAPizza, LLC v. At Pizza Ltd.*, 965 F.3d 871, 880 (D.C. Cir. 2020) (citing *Trader Joe's*, 835 F.3d at 969; *McBee v. Delica Col, Ltd*., 417 F.3d 107, 120 (1st Cir. 2005)). The owner of a chain of restaurants named "&pizza" along the East Coast of the United States brought suit against the owner of the "@pizza" restaurant in Edinburgh, Scotland. *Id*. at 874.

The DC circuit held that even under the more lenient Ninth circuit "some effect" test the facts do not plausibly involve an effect on US commerce sufficient to state a claim because defendant was a foreign citizen, the business (restaurant) was "quintessentially local" in UK, defendant neither purchased supplies nor sold goods in the U.S., and neither products nor advertisements are alleged to have "filtered through" the US. *Id*. at 8801. The court declined to apply the Lanham Act despite the fact that some U.S. students and tourists may be familiar with the U.S. restaurant, a potential investor confused @pizza and &pizza, and (3) the owners of @pizza visited the U.S. to further its scheme of copying the &pizza restaurants. *Id*. at 880. The court reasoned that, even though some consumers in Scotland were confused, IMAPizza has not explained how the confusion will affect pizza purchases in U.S. commerce. *Id*. The court further reasoned that, although a potential investor was confused, IMAPizza does not allege this confusion caused any harm. *Id*. Finally, the court further reasoned that defendants' visits to the U.S. restaurants do not establish the domestic reputation al harm to U.S. firms deemed sufficient to apply the Lanham Act extraterritorially. *Id*.

Finally, most recently the Supreme Court granted certiorari of a Tenth Circuit decision involving the extraterritorial infringement of trademarks in *Abitron Austria GmbH v. Hetronic Int'l, Inc*. 10 F. 4th 1016 (10th Cir. 2021), *cert. granted*, 143 S. Ct. 398 (2022). Hetronic is an U.S. company that manufactures radio remote controls for heavy-duty construction equipment and sells them in the U.S. and abroad. *Id*. at 1027, 1044. The Tenth Circuit affirmed a $96 million jury verdict for trademark infringement where 97% of the products sold were sold abroad to foreign buyers and were not designated for use in the United States. In so holding, the Tenth Circuit stated that, since *Steele*, the courts of appeals have devised various tests to determine the limits of the Lanham Act's extraterritorial reach. *Id*. at 1035. It noted that those tests have focused on three factors: (1) whether the defendant is a U.S. citizen, (2) the extent to which the defendant's conduct has affected U.S. commerce, (3) and whether imposing liability under the Lanham Act would conflict with foreign law. *Id*. at 1042. The Tenth Circuit "rejected both the *Timberlane* and *Vanity Fair* tests" and largely adopted an approach articulated by the First Circuit. *Id*. at 1036. Under that approach, where the defendant is a U.S. citizen, the Lanham Act reaches that defendant's extraterritorial conduct even when the effect on U.S. commerce isn't substantial. *Id*. at 1037. But where a defendant is a foreign national, the plaintiff must show that the defendant's conduct has a substantial effect on US commerce. *Id*. If the plaintiff establishes a substantial effect, the court will consider whether applying the Lanham Act to the particular conduct at issue "would create a conflict with trademark rights established under the relevant foreign law." *Id*. In finding the defendant liable for foreign sales that never made their way into the U.S., the court explained that defendant's sales of goods that did enter the U.S. and caused confusion here gave the United States a reasonably strong interest in the litigation and permitted holding petitioners liable for all of their other sales too. *Id*. at 1044. The court further used a "diversion-of-sales theory" noting that defendants conduct had deprived the trademark owner of tens of millions of dollars in foreign sales that it would have made but for defendant's foreign use. *Id*. at 1045-1046. Because the trademark owner was a U.S. company, the court reasoned, those lost revenues would have flowed into the U.S. economy but for defendant's conduct infringing a US trademark. *Id*. at 1046.

The Solicitor General filed an amicus brief strongly disagreeing with the Tenth Circuit's decision and noting that the Lanham Act should not extend to foreign uses where the foreign uses did not cause a likelihood of confusion in the United States. *Abitron Austria GmbH v. Hetronic Int'l, Inc*., Brief amicus curiae of the United States, 27 December 2022. https://www.supremecourt.gov/DocketPDF/21/21-1043/250939/20221227173944587_21-1043%20Abitron%20v.%20Hetronic%20FINAL.pdf

Several other groups and individuals also filed amicus briefs. Notably, the Intellectual Property Owner's Association's (IPO) stated that the purpose for filing its brief was to emphasize that the Lanham Act rebuts the general presumption against extraterritorial applications of United States law. The IPO disagreed with the Solicitor General's arguments to the contrary. The IPO also noted that, because it considers the citizenship of defendants important, it favors adoption of the Second Circuit's test in *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633 (2d Cir. 1956), which takes into account whether there is a substantial effect on United States commerce and the citizenship of the defendants, as well as the issue of whether an extraterritorial application of the Lanham Act would conflict with foreign trademark law. *Abitron Austria GmbH v. Hetronic Int'l, Inc*., Brief amicus curiae of the United States, 27 December 2022. https://www.supremecourt.gov/DocketPDF/21/21-1043/250859/20221227130459110_21-1043_Amicus%20Brief.pdf

Intellectual property practitioners in the United States will be closely watching *Hetronic* as it could have wide-ranging effects on the extraterritorial application of trademark, patent and copyright law.

IV. THE EXTRATERRITORIAL REACH OF PATENT LAW

There are significant distinctions between the extraterritorial application of U.S. patent law and extraterritorial application of U.S. trademark law. First, although a prior foreign user of a trademark generally does not have superior rights over the first party to use a mark in commerce in the United States, U.S. patent law denies patent protection based on prior foreign activity. *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135 (2d Cir. 2007); 35 U.S.C. § 102 (both pre-AIA and AIA). And the American Invents Act broadened the extraterritorial application of § 102 by denying patent protection for foreign public uses and attempts to sell the invention outside of the U.S. AIA 35 U.S.C. § 102. Prior to the AIA only foreign patents and publications (and not foreign public uses and attempts to sell) could bar patent protection in the U.S. Pre-AIA 35 U.S.C. § 102.

The analysis of whether U.S. patent rights can be enforced extraterritorially is more complicated than the analysis of whether U.S. trademark rights can be enforced extraterritorially. This is because enforcing patent rights abroad requires an analysis of what constitutes "infringement" under each section of 35 U.S.C. § 271. For example, subsections (a) and (b) do not address extraterritoriality and subsections (c), (f) and (g) do address extraterritoriality. 35 U.S.C. § 271. Also, the Federal Circuit has determined that, at least in the case of *NTP v. RIM*, a system claim could be infringed where a portion of the system was located outside the United States but that a method claim could not be infringed where a single step was performed outside the U.S. *NTP, Inc. v. Research in Motion, Ltd.*, 418 F. 3d 1282, 1317-1318 (Fed. Cir. 2005). So, the discussion of the extraterritorial application of the Patent Act is complicated and depends upon what subsection of Section 271 is implicated and also the details of the actual patent claim language and the details of the infringement. Needless to say, there are no bright line rules and each case must be meticulously evaluated.

For example, in 2007 the Supreme Court determined that copies of computer software made abroad (from a master version sent from the U.S.) were not "components" of a patented invention under Section 271(f)(1). *Microsoft Corp.*

v. AT&T Corp., 550 U.S. 437 (2007). AT&T argued that the copies of the software made overseas were supplied from the United States because the master was supplied from the United States. *Id.* at 450-451. The Supreme Court disagreed, holding that the copies were supplied from outside the United States. *Id.* at 456. The Court reasoned that the components supplied from the United States, and not foreign-made copies thereof, trigger liability abroad to form the patented invention. *Id.* at 453. The Court further noted that any doubt that Microsoft's conduct falls outside of Section 271(f)'s compass would be resolved by the presumption against extraterritoriality. *Id.* at 454. And, in response to concern that the ruling would create a "loophole" for software makers to make copies in foreign countries is "properly left for Congress to consider." *Id.* at 457.

Then, in 2012 the Federal Circuit held the manufacturer of pest control compositions liable for inducement under Section 271(b) for manufacturing and selling the product entirely overseas. *Merial Ltd. v. Cipla Ltd.*, 681 F.3d 1283 (Fed. Cir. 2012). The court found Cipla liable for inducement because it played fundamental roles in manufacturing, packaging and assisting in the development of the product for a direct infringer to sell in the United States. *Id.* at 1304. The court reasoned that Section 271(b) had no territorial restrictions and that Cipla's actions employed extraterritorial means to actively induce acts of direct infringement that occur within the United States. *Id.* at 302.

Next, in *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, the Federal Circuit rejected Power Integration's argument that, because it demonstrated an underlying act of domestic infringement, it was entitled to receive "full compensation" for any damages suffered as the result of the infringement. 711 F.3d 1348, 1370-1371 (Fed. Cir. 2013). The court noted that Power Integrations' "foreseeability" theory of worldwide damages "set the presumption against extraterritoriality." *Id.* at 1371.

In 2018, the Federal Circuit declined to overturn the district court's grant of motion to summary judgment which held that the patentee was not entitled to damages for ambient light sensors (used to adjust screen brightness) that were manufactured, packaged, and tested abroad, and shipped to manufacturers and distributors abroad. *Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.*, 895 F.3d 1304 (Fed. Cir. 2018). The patentee was not entitled to damages on these products despite evidence that Apple (defendant's customer) sold iPhones that included the accused products in the United States and that defendant and Apple are both U.S corporations with their principal places of business in the United States. *Id.* at 1329. Despite this evidence, the court affirmed summary judgment because none of the evidence sufficed to allow a reasonable finding that the foreign sales related to products that were actually made, used, sold or offered for sale in the United States under 271(a). *Id.* at 1330. The court distinguished *Carnegie Mellon* on the facts because in *Carnegie Mellon* "there was some evidence suggesting that specific contractual commitments for specific volumes of chips [accused products] were made in the United States." *Id.* at 1330 (citing *Carnegie Mellon Univ. v. Marvell Tech. Group, Ltd.*, 807 F.3d 1283, 1309 (Fed. Cir. 2015)).

Also in 2018, the Supreme Court considered extraterritoriality in the context of supplying components of a patented invention from the United States under § 271(f)(2). *WesternGeoco LLC v. ION Geophysical Corp.*, 138 S.Ct. 2129 (2018). The Court reversed a Federal Circuit decision holding that, because § 271(a) does not allow for patent owners to recover for lost foreign sales, 271(f) should be interpreted the same way. *Id.* at 2135. The Court noted the two-step framework for deciding questions of extraterritoriality from *RJR Nabisco, Inc. v. European Community* and exercised its discretion to skip step one, whether the presumption against extraterritoriality has been rebutted, because resolving step one could implicate many other statutes besides the Patent Act. *Id.* at 2136 (citing *RJR Nabisco, Inc. v. European Cmty.*, 579 U.S. 325 (2016)). Deciding the case using only the second step, the Court determined that the conduct that Congress seeks to regulate under § 284 is the "infringement" and that the "infringement" under § 271(f)(2) is the domestic conduct of supplying certain components of a patented invention "in or from the United States" with the intent that they "will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States." *Id.* at 2137. Thus, the Court concluded that WesternGeco was entitled to lost foreign profits due to ION's domestic act of supplying components of a system for surveying the ocean floors for oil and gas to companies abroad. *Id.* at 2138.

Finally, most recently, in *California Institute of Tech. v. Broadcom Ltd.*, the Federal Circuit found no error in the district court's refusal to instruct the jury on the presumption against extraterritoriality. 25 F.4th 976, 992 (Fed. Cir. 2022). The Federal Circuit reasoned that the issue was not whether infringement laws apply domestically or extraterritorially-there is no dispute that the laws apply only domestically. *Id*. The court noted that the dispute was whether the relevant transactions were domestic or extraterritorial in nature. *Id*. The district court instructed the jury that "[a]n alleged infringer is liable for direct infringement of a claim if the patent holder proves by a preponderance of the evidence that the infringer, without the patent holder's authorization, imports, offers to sell, sells or uses [the accused products] within the United States." *Id*. The court also instructed the jury on the relevant factors for determining whether a sale occurs in the United States. *Id*. The evidence was that the accused chips were developed and supplied to Apple pursuant to Master Development and Supply Agreements negotiated and entered into in the United States. *Id.* at 982. Apple and Broadcom also argued that the district court erroneously instructed the jury that the "sales cycle leading to design wins" could trigger a United States sale because the instruction was contrary to *Halo*.

Id. at 993 (citing *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 831 F.3d 1369, 1378 (Fed. Cir. 2016), *on remand from* 579 U.S. 93 (2016)). Defendants argued that *Halo* recognized a "categorical prohibition against treating such a sales cycle as a domestic sale." *Id*. at 993. The Federal Circuit declined to find error even though *Halo* held that "pricing and contracting negotiations in the United States alone does not constitute or transform those extraterritorial activities into a sale within the United States for purposes of 271(a)." *Id*. The court reasoned that *Halo* was "not a blanket holding that design wins arising out of a sales cycle can never be domestic transactions" and noted that the "jury instruction emphasized the key question of whether there were such substantial activities in the United States." *Id*. The court vacated the damages award for other reasons (error in the hypothetical negotiations at the chip level with Broadcom and the device level with Apple) but found no error in the lower court's jury instructions on extraterritoriality. *Id*. at 993-994.

V. CONCLUSION

Extraterritoriality in the context of patent and trademark law involves many complex legal and factual issues. Thus, the extraterritorial application of patent and trademark rights will continue to be litigated and debated for many years. This is especially true in view of the increasingly global economy. As practitioners we need to do our best to stay apprised of the most recent developments in the developing law on extraterritoriality in order to provide relatable advice to our clients.