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Tenth Circuit Deepens Circuit Split on the Lanham Act's Extraterritorial Scope

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In 'Hetronic International v. Hetronic Germany GmbH', the appellate court held that the Lanham Act can apply extraterritorially—sometimes.

In a recent published decision, the U.S. Court of Appeals for the Tenth Circuit confronted for the first time the question of whether the Lanham Act's scope extends outside of the United States. Reviewing decisions from other circuits, the appellate court held that the Act can have extraterritorial application, if certain conditions are met. In doing so, the Tenth Circuit recognized—and further deepened—an ongoing circuit split.

Case Background
Hetronic International, the plaintiff in the case, is an American company that manufactures remote ratio controls used to operate heavy-duty construction equipment. *Hetronic International v. Hetronic Germany, GmbH*, Nos. 20-6057 & 20-6100, 2021 U.S. App. LEXIS 25354, at *1 (10th Cir. Aug. 24, 2021). In the mid-2000s Hetronic entered into licensing and distribution contracts with a few foreign companies (the defendants below) under which those foreign companies would distribute Hetronic's products, mostly in Europe. Id. The relationship worked well for several years, until one of the defendants “embrac[ed] a creative legal interpretation” of one of the parties' agreements and asserted that they, and not Hetronic, owned the rights to Hetronic's intellectual property. Id. at *2. The defendants began manufacturing their own products and selling them under the Hetronic brand—again mostly in Europe.

Hetronic filed suit in the Western District of Oklahoma, asserting a number of claims, including ones for trademark infringement under the Lanham Act. The case went to trial and a jury awarded Hetronic over $115 million in damages. Id. The district court also entered a *worldwide* injunction barring the defendants from selling their infringing products in any country. Id. The defendants appealed, claiming among other things that while the Lanham Act can apply extraterritorially in some cases, it cannot reach their conduct—i.e., foreign defendants selling products to foreign customers. Id. Weighing in on an ongoing circuit split, the Tenth Circuit held that the Lanham Act did cover the defendants' conduct, but that the district court's “expansive injunction” had to be narrowed. Id.

The Lanham Act and Extraterritoriality

After addressing a few issues relating to whether the district court had personal jurisdiction over the defendants, id. at *9-21, the Tenth Circuit took up the question of whether the district court's permanent, worldwide injunction was proper, id. at *21. To do that, the court needed to decide whether the Lanham Act can apply outside of the United States.

The Tenth Circuit began by reviewing Supreme Court precedent. Id. at *23. In *Steele v. Bulova Watch Company*, 344 U.S. 280 (1952), the high court held that the Lanham Act can have extraterritorial reach, but as the Tenth Circuit recognized, *Steele* "leaves much unanswered about the extent" of that extraterritorial reach. *Hetronic*, 2021 U.S. App. LEXIS 25354, at *23. The Tenth Circuit went on to consider other, more recent Supreme Court cases that considered the extraterritorial applicability of several federal statutes, including the Alien Tort Statute, the Patent Act, the Racketeer Influence and Corrupt Organizations Act, and §10(b) of the Securities and Exchange Act of 1934. Id. at *23.

Having reviewed Supreme Court precedent, the court of appeals next turned to the three different tests that other circuit courts had adopted to fill the void left by the *Steele* decision. Id. at *26. First up is the so-called *Vanity Fair* test, which has been adopted in one way or another by the First, Fourth, Fifth, Eleventh, and Federal Circuits. It has three parts: "(1) [W]hether the defendant's conduct had a substantial effect on U.S. commerce; (2) whether the defendant was a United States citizen; and (3) whether there was a conflict with trademark rights established under the relevant foreign law." Id. at *28 (citation omitted). The second, known as the *Timerlane* test, was adopted by the Ninth Circuit, and it consists of "a similar but distinct tripart test," asking if (1) the violations "create *some* effect on American foreign commerce;" (2) whether the effect is enough "to present a cognizable injury to the plaintiffs;" and (3) whether "the interests of and links to American foreign commerce are sufficiently strong … ." Id. at *29 (quotation omitted) (emphasis added) Third and finally, the First Circuit has adopted the *McBee* test, under which the court must first ask if the defendant is a U.S. citizen; if not, the Lanham Act can apply extraterritorially "only if the complained-of activities have a substantial effect on U.S. commerce, viewed in light of the purposes of the Lanham Act." Id. at *30-31 (quotations omitted).

Breaking with the majority of its sister circuits, the Tenth Circuit adopted the *McBee* framework, albeit with one caveat. The appellate court reasoned that "the Lanham Act will usually extend extraterritorially when the defendant is an American citizen" because "[n]o one questions Congress's ability to regulate the conduct of its own citizens, even extraterritorial conduct." Id. at *31 (quotation omitted). The Tenth Circuit held that if the defendant isn't a U.S. citizen, then the plaintiff must show a *substantial* effect on American commerce: doing so "aligns the test for Lanham Act extraterritoriality with both the Supreme Court's antitrust jurisprudence and general principles of foreign relations law." Id. at *33 (citations omitted). Rather than adopting the *McBee* test wholesale, however, the Tenth Circuit added a third factor: district courts must also consider whether extraterritorial application "would create a conflict with trademark rights under the relevant foreign law." Id. at *34. The appellate court noted that although *McBee* itself "eschewed such an analysis, every

other circuit court considers potential conflicts with foreign law in assessing the Lanham Act's extraterritorial reach." Id. at 34 (citations omitted). As a result, there are now four distinct tests that circuits courts use to determine the Lanham Act's reach outside of the United States.

Having adopted its own tripartite framework, the Tenth Circuit turned to consider how and when district courts should apply it. It held that whether the Lanham Act applies outside of the United States is a question of law, and not of fact. Id. at *41-42. It further held, consistent with the Supreme Court's decision in *Morrison v. National Australia Bank Ltd*., 561 U.S. 247 (2010), that questions about extraterritoriality are *not* "a matter of subject-matter jurisdiction." Id. at *42. As a result, the court concluded that "district courts should ordinarily decide questions about the scope of the Lanham Act's extraterritorial reach as a matter of law, preferably in the litigation's early stages." Id. at *43. When this issue turns on a factual question, however, "the court may submit the factual dispute to the jury while reserving the ultimate legal determination for itself." Id. at *46.

Applying the Framework

The Tenth Circuit then took up its review of the decision below. After noting that the defendants weren't U.S. citizens, the court reviewed the relevant evidence and concluded that, viewed as a whole, "defendants' foreign infringing conduct had a substantial effect on U.S. commerce." Id. at *56. The Tenth Circuit didn't need to consider the third factor—whether extraterritorial application "would conflict with trademark rights under another country's laws"—because "defendants nowhere argue th[is] third element … ." Id. *47. While the court wasn't explicit, it seems to have decided that the defendants waived any argument on this factor.

Finally, the Tenth Circuit considered whether the district court's worldwide injunction was proper. It held that the injunction was too broad in that it applied not just to markets that Hetronic had actually penetrated, but to every country in the world. Id. at *58-59. Because "Hetronic isn't entitled to injunctive relief in markets it hasn't actually penetrated," it remanded for the district court to narrow the injunction "to the countries in which Hetronic currently markets or sells its products." Id. at *60.

Conclusion

All in all, the *Hetronic* decision lays out a clear and concise framework for district courts to apply in assessing foreign Lanham Act claims. But as *Hetronic* itself recognizes, the law is only clear within the Tenth Circuit's geographical limits. Because other circuits have adopted different tests, the strength of a plaintiff's Lanham Act claim may turn in large part on where the complaint is filed. This decades-old circuit split, which was only deepened by *Hetronic*, calls out for Supreme Court review so that district courts across the country will apply a single, uniform test on the Lanham Act's extraterritorial reach.

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