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Litigation - USA

Jurisdiction under Lanham Act: 'Substantial Effect' on Commerce Needed

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Introduction

It has long been settled that, in appropriate cases, trademark infringement and dilution actions can be brought under the US Lanham Act against foreign corporations not operating in the United States, thus allowing for extraterritorial application of the Lanham Act. However, the expansive ability of the Internet to allow foreign corporations to reach individuals in the United States through websites wholly hosted and written abroad has forced US courts to refine previous existing notions of jurisdiction under the Lanham Act over such international companies. Recently, in a case of first impression, the Court of Appeals for the First Circuit in *Cecil McBee v Delica Co, Ltd*⁽¹⁾ held that a foreign corporation's website must have a substantial effect on US commerce before extraterritorial application of the Lanham Act will be allowed. In so holding, the First Circuit enunciated an entirely new framework for analyzing this important jurisdictional question and rejected the previously held notion that considerations of comity, including potential conflicts with foreign trademark law, should be factored into a court's analysis. Applying its new framework, the First Circuit dismissed the dilution claims brought by a US citizen under the Lanham Act, ruling that the website of a Japanese company, which was written entirely in Japanese and hosted in Japan, was insufficient in and of itself to confer jurisdiction over that company, notwithstanding the fact that the website was visible to potential consumers in the United States. Instead, the court ruled that under the 'substantial effect' test, something more - such as interactive features that would allow the successful online ordering of the defendant's products - would be required to allow such a claim to proceed.

Facts

Plaintiff Cecil McBee, a US citizen and resident, sought to hold the defendant responsible for conduct in Japan which McBee claimed violated the Lanham Act. McBee is a well-known jazz musician who has both released numerous albums under his own name (including in Japan) and performed in the United States and worldwide (again, including in Japan). McBee has never licensed or authorized the use of his name to anyone, except in direct connection with his own musical performances.

The defendant is a Japanese corporation which holds a Japanese trademark for CECIL MCBEE for a variety of products. Delica uses the trademark for a line of clothing and accessories primarily marketed at teenage girls. These products are generally made available by Delica to its customers in Japan through three different channels. First, Delica sells its Cecil McBee products in retail stores - which also operate under the name 'Cecil McBee' - throughout Japan. Second, customers may order Cecil McBee merchandise from other Japanese companies, which purchase the goods from Delica. Finally, Delica operates a website, www.cecilmcbee.net, which contains pictures and

descriptions of its products, as well as the locations and telephone numbers of retail stores selling those products. Although the website can be viewed from anywhere in the world, the site is created and hosted in Japan and is written almost entirely in Japanese. Importantly, the site itself does not allow purchases of Cecil McBee products to be made online.

In 1995 the plaintiff became aware that Delica was using his name, without authorization, on its line of clothing. Upon learning of the unauthorized use, McBee first petitioned the Japanese Patent Office to invalidate Delica's CECIL MCBEE trademark. That effort ultimately failed. Thereafter, in October 2002 McBee filed a complaint against Delica in the state of Maine alleging, among other things, trademark dilution and unfair competition claims under the Lanham Act. McBee's claims centred on the allegation that the unauthorized use of his name on a line of girl's clothing created a "misleading and false inference" that McBee had endorsed Delica's Cecil McBee product line, and that this inference had caused McBee harm with respect to his recording and touring endeavours.

Delica sought to dismiss the complaint. Initially, the magistrate judge overseeing the case denied that motion, pointing to the website's accessibility in the United States. Delica objected to that ruling and argued that the magistrate judge had erred in failing to consider comity, noting that the magistrate's ruling would cause a potential conflict between Japanese and US law, given Delica's Japanese trademark for CECIL MCBEE. The US District Court for the District of Maine subsequently agreed with Delica. Relying on established case law, which had mainly focused on such comity considerations, the district court noted the potential conflict with Japanese trademark law if a jury were to determine a violation of the Lanham Act by Delica:

"[A] damage award under the Lanham Act in this case would produce an inadvertent conflict between our laws and [the d]efendant's trademark rights established under Japanese law that could result in a chilling effect on the protection afforded under Japanese law and create international dissension."⁽²⁾

Accordingly, the district court dismissed McBee's Lanham Act claims. McBee then appealed to the Court of Appeals for the First Circuit.

Decision

The First Circuit affirmed the district court's dismissal of McBee's Lanham Act claims, but used an entirely different analysis to reach its decision. Rather than focus principally on comity considerations, as other courts (including the lower court) had previously done when analyzing whether the Lanham Act could reach the conduct of foreign corporations operating outside of the United States, the First Circuit held that jurisdiction under the Lanham Act is proper "only if the complained-of activities have a substantial effect on [US] commerce, viewed in light of the purposes of the Lanham Act". In so holding, the First Circuit directly acknowledged that it was departing from the legal framework developed by other courts to consider this legal issue.

In establishing this new framework, the First Circuit first clarified that there can be no doubt that the Lanham Act can be applied against foreign corporations or individuals in the appropriate case - "no court has ever suggested that the foreign citizenship of a defendant is always fatal" to an infringement or dilution claim under the Lanham Act. The First Circuit then turned to recent US Supreme Court decisions in the antitrust context as a guide in formulating a test as to when the Lanham Act can be so applied to the extraterritorial activities of a foreign corporation. Adopting the framework stated in *Hartford Fire Ins Co v California*,⁽³⁾ in which the Supreme Court addressed the issue of when a US court could assert jurisdiction over Sherman Act claims brought against foreign corporations which had conspired to raise reinsurance prices, the First Circuit reasoned that, like the Sherman Act, the Lanham Act is intended to cover extraterritorial conduct by foreign defendants only when such conduct has a substantial effect on US commerce:

"Congress has little reason to assert jurisdiction over foreign defendants who are engaging in activities that have no substantial effect on the United States, and courts, absent an express statement from Congress, have no good reason to go further in such situations."

Applying its new framework to the case before it, the First Circuit found that dismissal of McBee's Lanham Act claim was appropriate because McBee had failed to show that Delica's alleged infringing activities had any substantial effects on US commerce. Importantly, there was no evidence of sales of Cecil McBee merchandise - other than a limited number of sales initiated by the plaintiff himself - to the United States; to the contrary, Delica's policy was generally to decline orders from the United States. The only thing to which McBee could point as having a supposed effect on the United States was that Delica's website, although created and hosted from Japan, was visible and reachable in the United States. However, the First Circuit did not agree that this was enough to satisfy its new, exacting standard: "To hold that any website in a foreign language, wherever hosted, is automatically reachable under the Lanham Act so long as it is visible in the United States would be senseless." Given that the website was written almost entirely in Japanese, the First Circuit also noted that there was little risk that any real confusion of US consumers would result from the website's availability in the United States. Accordingly, the First Circuit affirmed the dismissal of McBee's claims:

"Were we to assert jurisdiction in this case, where there is no evidence of any harm to [US] commerce beyond the facts that the plaintiff is [a US] citizen and that the allegedly infringing goods were sold and seen in a foreign country, we would be forced to find jurisdiction in almost all false endorsement or trademark cases involving [a US] plaintiff and allegedly infringing sales abroad."

Comment

Nothing in the *McBee* decision will prevent other courts from coming to their own conclusions about whether to exercise jurisdiction over foreign corporations operating outside of the United States under the Lanham Act. However, *McBee* will very likely be instructive to other courts considering the question, especially when presented with similar facts (ie, the availability of a visible corporate website in the United States).

Thus, two questions immediately arise when examining any impact that the *McBee* decision might have. First, what did the First Circuit mean by the need for a "substantial effect on US commerce"? Second, what role will comity considerations, such as a potential conflict with trademark law (as with Delica, which had a Japanese trademark), play in a court's analysis going forward?

The 'substantial effect' test

As explained by the First Circuit, the 'substantial effect' test requires that there be evidence of "impacts" within the United States, and that these be of a "sufficient character and magnitude to give the United States a reasonably strong interest in the litigation". The First Circuit has suggested a variety of ways in which a plaintiff could show such harm to US commerce. Parties wishing to establish jurisdiction over foreign entities under the Lanham Act would be wise to be keep in mind that one of the following factors will likely be needed in order to establish a claim for infringement or dilution that can withstand judicial scrutiny:

- actual sales in the United States by the foreign corporation of goods bearing the infringing mark;
- efforts by the foreign corporation to sell in the United States from abroad, either through direct mailings or through interactive website features which allow the successful online ordering of the defendant's products (as opposed to websites which are merely visible in the United States);
- evidence of sales that have been diverted from US companies in foreign countries; and
- evidence that, even though initial sales of infringing goods were only made abroad, those infringing goods have ended up entering the United States "in some way and in substantial quantities".

Comity considerations going forward

Following the decision in *McBee*, and unlike in the past, courts analyzing the question of jurisdiction

under the Lanham Act may no longer accord much weight to comity considerations, such as potential conflicts with foreign trademark law. As the First Circuit held, such considerations are prudential questions "of whether a court should, in its discretion, decline to exercise subject matter jurisdiction that it already possesses". Thus, a foreign company acting under colour of protection of the trademark laws of its own country may no longer find itself assured of avoiding a claim under the US Lanham Act. However, this does not mean that, after *McBee*, comity will play no role in the outcome. Indeed, as the First Circuit made clear, had McBee established jurisdiction over the Japanese defendant, comity principles would most likely have counselled for dismissal of McBee's claim because of the clear conflict that would have been created with Japanese law. Accordingly, while a foreign trademark registration, standing alone, may not be sufficient to avoid an appearance in a US court, it may be enough to avoid staying there for long.

For further information on this topic please contact [Andrew G Gordon](#) at Paul, Weiss, Rifkind, Wharton & Garrison LLP by telephone (+1 212 373 3000) or by fax (+1 212 757 3990) or by email (agordon@paulweiss.com).

Endnotes

- (1) 417 F 3d 107 (1st Cir 2005).
- (2) 2004 WL 2674360 (D Me November 19 2004).
- (3) 509 US 764 (1993).

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