

**BULOVA WRONGLY DECIDED:
A CASE AGAINST EXTRATERRITORIALITY OF TRADEMARK LAW**

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Introduction

In today's global and internet economy, national and political territorial borders are becoming less significant in trade and business transactions. Alongside this economic trend, intellectual property, trademarks in particular, is an increasingly significant commodity in the international market place and the subject of a great number of legal disputes and litigation.¹

Imagine a popular American café and coffee retail chain (company A) with outlets all over the United States packed with people standing in line to pay five dollars for a cup of coffee. Because of company A's appealing café layout, design, service, and beverage choices, it has created such a unique experience and brand so that whenever a new store opens, it is an immediate success with people lined up out the door.

Now imagine that an "entrepreneurial" tourist X from country B visits company A's café, goes back to country B, copies the exact store designs, products, services and experience, and uses a similar name. Imagine that company A has registered its mark in ten countries in the world including the United States, but fails to register its trademark in country B before the foreign copycat registers its mark there and starts business in country B. Is company A out of luck? Does it have any legal recourse? What legal regimes are available to protect and enforce company A's rights? Taking the hypothetical another step, consider that X sells its coffee products on its website, accessible all over the world, and X's coffee makes its way back into the United States. What are company A's options?

This paper examines whether United States trademark law should apply extraterritorially. Part I focuses on what the United States courts have interpreted as the extraterritorial reach of the Lanham Act. Part II presents an outline of the current domestic and international trademark law frameworks and argues that they protect the legitimate interest of the U.S. trademark holder and U.S. consumers. Part III argues that the extraterritorial application of the Lanham Act articulated by the United States Supreme Court in 1952, and since followed by the lower courts, is inconsistent with United States' obligation under international trademark law treaties and conventions, and conflicts with well-recognized choice of law principles.

I. United States Trademark Law and Extraterritoriality

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¹ See, e.g., Dan L. Burk, *Trademark Doctrines for Global Electronic Commerce*, 49 S.C. L. Rev. 695, 696 (1998) ("a close connection between trademark law and the growth of electronic commerce already has become apparent to those that watch the development of 'cyberlaw'").

United States trademark law is a part of the broader body of law called unfair competition or unfair trade practices.² Unfair competition and trademark law's primary policy is to protect the public from deception in the market place,³ the goal is to ensure that consumers receive accurate brand information.⁴ As a secondary goal, trademark law protects U.S. trademark holders' investments in reputation and goodwill associated with products and/or services represented or symbolized in their trademarks.⁵

The power of the federal government to provide for trademark registration arises strictly out of the Commerce Clause.⁶ Congress enacted the first modern United States Trademark Act in 1905, but because of substantial limitations, revamped and subsequently codified it in the Lanham Act of 1946.⁷ The Lanham Act has been amended numerous times and most recently, significant amendments were made in 1988 under the Trademark Law Revision Act of 1988 (TLRA) that became effective in 1989.⁸

The Supreme Court first addressed the extraterritorial reach of the Lanham Act in *Steele v. Bulova Watch Co. (Bulova)*.⁹ *Bulova* involved a United States citizen that sold counterfeit, or, as characterized by the Court, "spurious" Bulova watches marked with the "Bulova" trademark. The counterfeiter manufactured and sold the spurious watches in Mexico by importing parts from the United States.¹⁰ While no direct sale of the counterfeit watches ever took place in the United States, unknowing customers brought them back into the country and to Bulova stores for repair.¹¹ The *Bulova* court found that the broad jurisdictional language of the Lanham Act stating that "all commerce which may be regulated by Congress" extended United States trademark law extraterritorially.¹² The Court further held that Congress intended the Act to extend to conduct beyond United States borders, reasoning that commerce as defined by the United States Constitution includes commerce with foreign nations.¹³

² *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403,405(1916); *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 93 (1918); *See, e.g.*, 74 Am. Jur. 2d, *Trademarks & Tradenames* § 84 ("It is now universally agreed that the law of trademarks is only part of the larger field of unfair competition.").

³ *Intel Corp. v. Terabyte Int'l, Inc.*, 6 F.3d 614, 618, (9th Cir. 1993); *Forschner Group Inc. v. Arrow Trading Co.*, 124 F.3d 402, 407, (2d Cir. 1997) ("The law of trademarks and unfair competition is shaped primarily by two competing public policies-- namely, preventing consumer confusion on the one hand while promoting and rewarding healthy competition on the other."); *Platinum Home Mortgage Corp. v. Platinum Financial Group Inc.*, 149 F.3d 722, 725, (7th Cir. 1998); *Times Mirror Magazines, Inc. v. Las Vegas Sports News, L.L.C.*, 212 F.3d 157, 170 (3rd Cir. 2000) (Barry, dissenting, quoting Jerome Gilson, 2 *Trademark Protection & Practice* §5.12[1][e] at 5-272 to 5-273) (1999), *cert. denied*, 532 U.S. 1071 (2001) (Historically, the Lanham Act has attempted to balance the two competing goals of protecting consumers and protecting a trademark owner's investment.).

⁴ 212 F.3d 157 at 170 (Berry, dissenting).

⁵ *Id.*

⁶ *See, e.g.*, *Hanover Star Milling Co.*, 240 U.S. 403, 405 (1916); *United Drug Co.*, 248 U.S. 90, 93 (1918).

⁷ Edward Rogers, *The Lanham Act & the Social Function of Trademarks*, 14 *Law & Contemp. Probs.* 173, 177-184 (1949).

⁸ *Id.*

⁹ 344 U.S. 280, 281 (1952).

¹⁰ *Bulova*, 344 U.S. 280 at 281-285.

¹¹ *Id.* at 285-86.

¹² *Id.* at 284.

¹³ *Id.* at 284-85.

In finding subject matter jurisdiction over the defendant Steele in Mexico, the *Bulova* Court articulated a tripartite test for the extraterritorial application of the Lanham Act: (1) whether there is an effect on United States commerce; (2) whether the infringer is a United States citizen; and (3) whether a conflict of law would arise.¹⁴ The Court found that all three criteria had been met because the defendant's conduct effected Bulova's established commercial reputation and therefore effected U.S. commerce,¹⁵ the defendant was a United States citizen¹⁶, and there was no conflict with Mexican law since defendant's Bulova trademark in Mexico had been cancelled.¹⁷

Over the years, the United States courts have applied different variations of this tripartite test.¹⁸ While the circuit courts differ somewhat with respect to the extent of the "effect" on interstate commerce necessary to trigger subject matter jurisdiction under the Lanham Act,¹⁹ the courts have increasingly interpreted the scope of the Lanham Act broadly and to apply to activities occurring outside of the United States.²⁰

II. The Current International Trademark Framework Forwards United States Trademark Law Policy

The Paris Convention of 1883 resulted in the first international effort to standardize and internationalize intellectual property rights.²¹ The World Intellectual Property Organization (WIPO) now administers the Convention, and its members have amended it numerous times, with the latest amendment in 1967.²² Today, the Convention has over 100 members, including the United States and all other industrialized nations.²³ The Paris Convention operates on the assumption that each member state will adopt the controlling law and faithfully apply it within its territory.²⁴ Like the Berne Convention for the Protection of Literary and Artistic Works, the

¹⁴ *Id.* at 285-86.

¹⁵ *Id.* at 286.

¹⁶ *Id.* at 284.

¹⁷ *Id.* at 289.

¹⁸ *See, e.g.,* *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633 (2d. Cir. 1956); *American Rice, Inc. v. Arkansas Rice Growers Co-op. Ass'n*, 701 F.2d 408 (5th Cir. 1983); *see also, e.g.,* Erika Marie Brown, *Extraterritorial Application of Trademark Law Under the Lanham Act: recent decision from the second circuit*, 11 N.Y. Int'l L. Rev. 55, 62 (summer 1998).

¹⁹ *See, e.g.,* Brown, *supra*, note 18.

²⁰ *See, e.g.,* Robert Alpert, *The Export of Trademarked Goods from the United States: The Extraterritorial Reach of the Lanham Act*, 81 TRADEMARK REP. 125 (1991); The Ninth Circuit went as far as to affirm the extraterritorial application of the Lanham Act against a foreign defendant for activities in Mexico despite the defendant owning a valid trademark registration in Mexico for the mark in dispute. *Ramirez & Feraud Chili Co. v. Las Palmas Food Co.*, 146 F. Supp. 594, 597 (S.D. Cal. 1956), *aff'd* 245 F.2d 874, 875 (9th Cir 1957).

²¹ Paris Convention for Protection of Industrial Property, Mar. 20 1883, 21 U.S.T. 1583 (last revised, July 14, 1967) (hereinafter the Paris Convention).

²² *Id.*

²³ JANE C. GINSBURG ET AL., TRADEMARK AND UNFAIR COMPETITION LAW: CASES AND MATERIALS 999 (Foundation Press 2001).

²⁴ Paris Convention Article 6(3); *see also* Thomas J. McCarthy, 4 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 29:25 (4th ed. 2006). The Second Circuit in *Vanity Fair* explicitly interpreted the Paris Convention in this matter, stating that it "is not premised upon the idea that trade-mark and related laws of each member nation shall be given extraterritorial application, but on exactly the converse principle that each nation's law shall have only territorial application." 234 F.2d 633, 640 (2d. Cir. 1956).

Paris Convention rests primarily on the principle of national treatment, which requires that each member nation treat the nationals or domiciles of other member states as they would their own citizens.²⁵

The Paris Convention also established certain substantive treaty rules for more efficient multination registration of trademarks including a priority period of up to six months in acquiring the benefits²⁶ and protection of a category of unregistered marks.²⁷ Article *6bis* of the Convention protects against the use of confusingly similar marks:

The countries of the Union undertake . . . to refuse or to cancel the registration, and to prohibit use, of a trademark which constitutes a reproduction, an imitation, or a translation liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods.²⁸

Additionally, multilateral trade negotiations among the United States, Canada, and Mexico and members of the General Agreement on Tariffs and Trade (GATT) have resulted in incorporation of intellectual property protection standards into the North America Free Trade Agreement (NAFTA) and in the Trade-Related Aspects of Intellectual Property (TRIPS) Agreement in the GATT.²⁹ NAFTA and TRIPS provide a more protective standard (less difficult to meet) of gauging whether a mark is well-known in the territory by assessing notoriety in the relevant public sector, as opposed to the entire country, as is the case under the Paris Convention. TRIPS also extends protection of registered trademarks to dissimilar goods or services where the use of the mark on unrelated service would indicate a connection to the registered trademark.³⁰

In order to harmonize the obligations of Article 16 of TRIPS and Article *6bis* of the Paris Convention with respect to the protection of well-known marks, in 1999 WIPO adopted a final resolution that requires well-known marks to be protected in member states, regardless of whether the marks are used or registered.³¹ The existence of the Paris Convention's provisions on well-known marks and their corollaries under TRIPS, NAFTA, and similar international agreements, provides ample legal tools to protect the legitimate interests of the U.S. consumers and U.S. trademark holders without the need to resort to the application of U.S. trademark law to extraterritorial activities.

²⁵ See GINSBURG ET AL., *supra* note 23.

²⁶ *Id.*

²⁷ *Id.*

²⁸ See Paris Convention, Article *6bis(1)*.

²⁹ GINSBURG ET AL., *supra* note 23; see also, e.g., Marshall A. Leaffer, *The New World of International Trademark Law*, 2 MARQ. INTELL. PROP. L. REV. 1 (1998).

³⁰ The extension of the right to prohibit use or registration to dissimilar goods and services is contingent upon whether the use of that trademark in relations to the unrelated good or services "would indicate a connection between those goods or services and the owner of the registered trademark and provided that the interests of the owner of the registered trademark are likely to be damaged by such use." TRIPS, Article 16.3.

³¹ See Draft Provisions on the Protection of Well Known Marks, 21 (Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications, Second Session, Second Part, June 7-12, 1999) (May 10, 1999, WIPO Doc. SCT2/8).

III. The Lanham Act Should Not Be Applied Extraterritorially

Since *Bulova* was decided, there have been numerous criticisms of the extraterritorial application of United States trademark law.³² Some commentators suggest that Congress should amend the Lanham Act to incorporate the Paris Convention and the TRIPS Agreements.³³ Some courts already treat the agreements as self-executing and equivalent to domestic legislation.³⁴ Even when considering international agreements as self-executing, United States courts generally apply United States law to avoid conflict with obligations under such agreements.³⁵

The Supreme Court's decision in *Bulova* is inconsistent with the general presumption against extraterritoriality of United States law.³⁶ Although this is not an absolute presumption,³⁷ the extraterritorial application of U.S. trademark law is inconsistent with basic principles of both domestic and international law on at least two grounds: (1) the United States' obligations under international trademark conventions and treaties assume the territorial application of law within each member state; and (2) the extraterritorial application of United States trademark law is contrary to well-recognized principles of conflicts of laws.

A. Bulova Conflicts with United States Obligations Under International Trademark Treaties and Conventions

United States law should not conflict with our international legal obligations under treaties and conventions.³⁸ Today, numerous treaties regulate protection of intellectual property and trademarks including the Paris Convention and others as described in Part II of this paper. The Paris Convention and its corollary treaties reflect two fundamental principles, national treatment and minimum rights, both of which presume limiting national trademark law territorially.³⁹ National treatment provides that each member nation promises to give at least the same protection to foreigners who are citizens of the Paris Convention (member nations) as it gives its own citizens. Since nations apply their own laws to the activities of their own citizens occurring within their territory, the practical effect of national treatment is that each member nation applies its own laws to citizens from other member countries as it does its own citizens for activities conducted within its territory. In the trademark context, each nation is to apply its own trademark laws with respect to events occurring within its own territory.⁴⁰ The minimum rights principle provides that each member nation promises to give at least a defined level of protection

³² See, e.g., Kraver and Purcell, *infra* note 43; Alpert, *supra* note 20.

³³ See, e.g., Roger E. Schechter, *The Case for Limited Extraterritorial Reach of the Lanham Act*, 37 VA. J. INT'L L. 619 (1997).

³⁴ See, e.g., McCarthy, *supra* note 24, at § 29:33 (some courts have interpreted the Paris Convention as self-executing).

³⁵ See, e.g., *McCulloch v. Sociedad Nacional de Marineros de Honduras*, 372 U.S. 10, 19 (1963) (avoiding extraterritorial application of U.S. law because of concern of, among other things, "embarrassment in foreign affairs"); *Lauritzen v. Larsen*, 345 U.S. 571 (1953); Restatement (Third) of Foreign Relations Law (1987).

³⁶ See, e.g., Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT'L L. 505 (1997).

³⁷ See, e.g., the Court's rationale and the precedent relied upon in justifying the extraterritorial application of U.S. law in *Steele v. Bulova Watch Co.*, 344 U.S. 280, 281 (1952).

³⁸ Restatement (Third) of Foreign Relations Law (1987); see also, *Lauritzen v. Larsen*, 345 U.S. 571, 572 (1953).

³⁹ McCarthy, *supra* note 24, at § 29:25.

⁴⁰ McCarthy, *supra* note 24, at § 29:25.

for certain rights within its territory and these rights arise from member nation's own laws – another conception with the practical effect of incorporating the territorial presumption.⁴¹ The Supreme Court's application of U.S. trademark law with respect to activities occurring in Mexico in *Bulova* is inconsistent with both of these territorial presumptions underlying the Paris Convention and other international treaties implicating trademark rights.

B. Bulova Conflicts with Well-Recognized Principles of Conflicts of Laws

In order to determine the rights of the parties with respect to activities occurring outside of the United States territory, U.S. courts must first decide which country's laws are implicated; the subject of conflicts of laws provides the principles and procedures courts invoke when a legal dispute involves events occurring in more than one jurisdiction.⁴²

Choice of law principles traditionally derive from state law and may vary from state to state.⁴³ Courts use one or a combination of the following principles in their choice of law analysis: (1) the traditional *lex loci delicti* theory of the Restatement (First) of Conflicts of Laws; (2) the “most significant relationship” test of the Restatement (Second); and (3) Professor Brainerd Currie's government interest analysis.⁴⁴ The application of any of these principles would likely result in the application of the foreign law in the *Bulova* case because all or most of the infringing activities occurred outside of the United States.⁴⁵

The traditional *lex loci delicti* approach directs courts to apply the law of the place of the wrong, defined as “the state where the last event necessary to make an actor liable for an alleged tort takes place,” and often referred to as the “place of the injury.”⁴⁶ The Restatement (Second), however, utilized a different approach called the “most significant relationship” test.⁴⁷ This approach directs the court to apply the law that “has the most significant relationship to the occurrence and the parties.”⁴⁸ Professor Currie's approach looks at the jurisdiction where the government has the most interest in the actions/conduct of the parties at issue and/or outcomes of the dispute.⁴⁹

If the *Bulova* Court had applied the traditional *lex loci delicti* principle, they would likely have applied Mexican law since the majority of the “injury” or “wrong”, *i.e.*, affixation of the mark, distribution and the sale of the spurious *Bulova* watches, took place in Mexico. The defendant's purchase of watch parts in the United States and the fact that some watches made

⁴¹ *Id.*

⁴² Restatement (Second) of Conflicts of Laws § 1 (1971).

⁴³ *See, e.g.*, Pamela E. Kraver and Robert E. Purcell, *Application of the Lanham Act to Extraterritorial Activities: Trend Toward Universality or Imperialism?*, 77 J. PAT. & TRADEMARK OFF. SOC'Y 115, 122 (1995).

⁴⁴ *Id.*

⁴⁵ *Id.* at 130.

⁴⁶ *See* Kraver and Purcell, *supra* note 43 (citing *Bennett v. Enstrom Helicopter Corp.*, 679 F.2d 630,631 (6th Cir. 1982); *Westerman v. Sears, Roebuck & Co.*, 577 F.2d 873,875 (5th Cir. 1978)).

⁴⁷ *See* Restatement, *supra* note 42.

⁴⁸ *See* Restatement, *supra* note 42 that provides that contacts to be considered in determining which jurisdiction has the most significant relationship to the action include: (a) the place where the injury occurred; (b) the place where the conduct causing the injury occurred; (c) the domicile, residence, nationality, place of incorporation and place of business of the parties; and (d) the place where the relationship, if any, between the parties is centered.

⁴⁹ *See* Kraver and Purcell, *supra* note 43.

their way back to the U.S. would not likely change the outcome with respect to this choice of law analysis.

Were the *Bulova* Court were to apply the most significant relationship test, the Court would look at where the injury occurred. The conduct causing the injury, the affixation of the Bulova mark, and the distribution and sale of the watch all occurred in Mexico. Additionally, the defendant's place of business was in Mexico, the plaintiff and defendant had no relationship to one another, and there was minimal indirect activity in the United States. Again, Mexican law would apply under this choice of law principle.

Finally, the application of the government interest analysis principle would also likely result in the application of Mexican law. It is difficult to dispute that the Mexican government, certainly more than the U.S. government, had the greater interest in protecting its consumers from a likelihood of confusion in the market for watches sold in Mexico and regulating commerce within its territory. The United States government's interest in protecting Mexican consumers with respect to confusion in the Mexican market is minuscule or non-existent.

Thus, if the Court in *Bulova* applied any of the three major principles of conflicts of law or a combination of these principles, it would have reached the same result—that Mexican law should have controlled the outcome of the dispute. In such a case, the Court could have abstained and allowed the Mexican court to adjudicate the case under the Mexican law, or the Court could have applied Mexican law.

Conclusion

In *Bulova*, without applying U.S. law extraterritorially, the U.S. Supreme Court could have appropriately addressed and protected the legitimate interest of the U.S. Bulova company by implicating the existing domestic and international trademark legal regimes. The consumer confusion that may have occurred in the United States because of the small number of counterfeit Bulova watches making their way back into the country was likely insignificant. Nevertheless, with respect to these watches, the U.S. courts could have easily tailored a limited injunction confiscating these watches under U.S. trademark law. Such an injunction would protect U.S. consumers from confusion and would protect the legitimate interest of the U.S. Bulova company in terms of its investment in reputation and goodwill and other trademark rights within the U.S. territory—where Bulova had obtained a trademark registration.

Further, if the United States Bulova company established sufficient notoriety in Mexico and its “Bulova” trademark had become well-known, it could have brought legal action in Mexico. As a member and signatory to the Paris Convention, NAFTA, and other multi-lateral treaties, Mexico would have had an obligation to protect the United States company's trademark rights in Mexico as a well known mark. This would likely result in a finding of trademark infringement in favor of the United States company. If the Bulova mark was not well-known in Mexico, there would be no legal recourse under Mexican law. However, this would make it difficult for the defendant to exploit the reputation and goodwill of the Bulova trademark for watches in Mexico if the name was not well-known in that country.

Considering the hypothetical posed at the beginning of this paper and considering the existing international frameworks for trademark protection, it is immediately apparent that company A has sufficient opportunities to protect its mark in the United States and in industrialized countries. If faithfully and fully implemented, the current international trademark framework protects the relevant consumers from confusion. Company A in the hypothetical had the full opportunity to register its mark in country B. Even if company A did not use or register its mark in country B, it could still enjoy protection under the Paris Convention, TRIPS or other treaties that may apply, against infringer X in country B if its mark had become well-known among the relevant public sector. Perhaps in the hypothetical, the relevant market would be those that drink or purchase coffee at coffee shops. If company A's trademark had little or no notoriety in country B, company A would have no legal recourse in country B; this is the appropriate and just result. If company A's mark was not known, X had no consumer goodwill to exploit in country B and consumers in country B were not likely to confuse company A's mark with the alleged infringer's mark. However, if company A's mark was well-known in country B, under the current international legal framework, company A could bring cancellation proceedings against X's trademark registration in country B and sue for trademark infringement despite the fact that it has not used or registered its mark in country B. This system protects the United States trademark holder and the relevant consumers in the relevant market from confusion and does not improperly impose United States law upon another sovereign.

The extraterritorial application of United States trademark law as set out in *Bulova* and its progeny conflicts with the United States' obligations under current international trademark conventions and treaties, interferes with other nations' sovereignty, and is contrary to well-recognized principles of conflicts of laws. Instead, the United States should work with other interested countries to develop stricter monitoring and compliance with already existing international conventions and legal regimes for the protection of trademarks. The current international trademark framework, while it is not perfect, is improving and is the only effective and appropriate way to forward the underlying policies of trademark law in the United States and internationally.