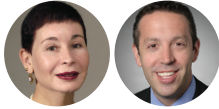


US: TRADE MARKS

Extraterritorial application of the Lanham Act

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In *Trader Joe's Company v Michael Norman Hallatt d/b/a Pirate Joe's*, the Ninth Circuit Court of Appeals issued a decision which granted Trader Joe's the right to pursue claims for trade mark infringement under the Lanham Act against activity that occurred in Canada.

Trader Joe's is a well-known American grocery store that sells a range of Trader Joe's-branded products which are only available in its stores. Hallatt, a US lawful permanent resident, had been purchasing large quantities of Trader Joe's products in the US, transporting those products into Canada, and then re-selling them at his store in Canada, Pirate Joe's, which was designed to look like a Trader Joe's store. Trader Joe's sued Hallatt alleging that he violated federal and state trade mark and unfair competition laws by misleading customers into falsely believing that Pirate Joe's was authorised by Trader Joe's to sell its products, by displaying Trader Joe's trade marks and trade dress without approval and without adhering to Trader Joe's strict quality control practices.

The district court granted Hallatt's motion to dismiss for lack of subject matter jurisdiction, determining that claims under the Lanham Act did not apply because the allegedly infringing conduct occurred in Canada. Trader Joe's subsequently filed an appeal with the Ninth Circuit.

In issuing its judgment, the Ninth Circuit first looked at whether it had jurisdiction to hear the case. It decided that question affirmatively, holding that "the extraterritorial reach of the Lanham Act is a merits question that does not implicate federal courts' subject matter jurisdiction". It then asked whether the defendant's conduct impacts US commerce in a manner sufficient to invoke the protections of the

Lanham Act. To answer this question, the Court applied a three-part test, indicating that the Lanham Act applies to activity outside the US in circumstances in which: "(1) the alleged violations ... create some effect on American foreign commerce; (2) the effect [is] sufficiently great to present a cognizable injury to the plaintiffs under the Lanham Act; and (3) the interests of and links to American foreign commerce [are] sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority."

Trader Joe's was able to satisfy the first two prongs of the test by arguing that Hallatt's foreign conduct has some effect on US commerce because his activities harm its reputation and decrease the value of its American trade marks (helping them navigate around the first sale doctrine – namely, the exhaustion of remedies where there is a sale of legitimate products). Specifically, Trader Joe's took the position that Hallatt's distribution of Trader Joe's-branded products did not meet their quality control standards, thereby resulting in the devaluation of the mark and the tarnishing of their image. The Ninth Circuit then weighed seven factors to determine that an assertion of extraterritorial authority was justified. Accordingly, the Ninth Circuit remanded the case to the District Court for further proceedings.

With the Ninth Circuit's ruling, Trader Joe's is able to pursue claims for trade mark infringement against Hallatt in the US for activities in Canada. The decision could be particularly helpful to brand owners in their fight against certain categories of infringement resulting from conduct outside the US.