
1. Cross-border enforcement of intellectual property rights in U.S. law

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1. INTRODUCTION

The cross-border enforcement of intellectual property law covers a broad range of topics that include issues of jurisdiction, conflict of law, and the enforcement of foreign judgments to name a few. It would take a book length chapter to do justice to this important and varied subject, often given short shrift in treatises on intellectual property law. In this chapter I have tried to emphasize the major areas of concern but have not exhausted all the diverse circumstances where cross-border issues come into play. I have done so in the following four broad contexts: the extraterritorial application of U.S. law, the gray market, choice of forum and choice of law, and the enforcement of foreign judgments.

To provide an overall assessment regarding the cross-border enforcement of intellectual property law in the U.S. is a difficult proposition because of the breadth of the subject matter. One can generalize that in a digital networked environment and a global marketplace intellectual property rights (IPR) can no longer be viewed in a strictly territorial framework. In this regard, U.S. courts have progressively expanded the scope of U.S. law across national borders with less restraint than in the past. This decline of strict territoriality has occurred increasingly over many decades. One gets the impression that some kind of tipping point has taken place and we are challenging notions of strict territoriality as never before.

Before discussing the specific issues regarding cross-border enforcement, it is appropriate to highlight specific actors and institutions that play a role in cross-border enforcement.

2. ACTORS AND INSTITUTIONS

Several institutions are involved in the cross-border enforcement of IPR. In addition to the federal and state courts, the United States Trade Representative (USTR), the International Trade Commission (ITC), and

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U.S. Customs and Border Protection (CBP) all play a special role in the cross-border enforcement of IPR. The discussion turns to these three institutions.

(a) USTR Enforcement of Section 301 and Special 301

At the broadest level, the United States Trade Representative coordinates trade policy within the government. Under §301 of the Trade Act of 1974, the USTR has discretion to initiate an investigation into protectionist trade practices of other countries. The “Special 301” Report is an annual review of the global state of IPR protection, enforcement, and market access, which the USTR conducts pursuant to Section 182 of the Trade Act of 1974, as amended by the Omnibus Trade and Competitiveness Act of 1988 and the Uruguay Round Agreements Act. The Special 301 provisions of the 1988 Trade Act require the USTR to identify countries that deny either fair or adequate protection to intellectual property, or market access to U.S. intellectual property holders. The USTR must then determine which of the identified countries belong on the annual “Priority Watch List.” In 2013, the USTR reviewed 95 trading partners for the year’s Special 301 Report and placed 41 countries on the Priority Foreign Country, Priority Watch List. The USTR has made significant progress since the 2010 Joint Strategic Plan¹ on implementing its new trade agreements. U.S. trade agreements with strong IPR provisions are now in force with Korea, Colombia, and Panama.

(b) International Trade Commission

The ITC is a quasi-judicial independent federal agency that has authority to enforce certain intellectual property rights. Enforcement of patent rights in the ITC is similar to a patent infringement action in district court, but has some significant differences as well. A patent owner (complainant) can ask the ITC to initiate an “investigation” into possible violations of Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337. Section 337 was enacted with the goal of protecting American businesses from unfair competition from abroad and makes it unlawful, among other things, to import into the United States articles that infringe a valid and enforceable U.S. patent, registered copyright, or registered trademark.

Section 337 provides relief from unfair methods of competition and unfair acts in the importation of articles into the United States, or in their

¹ <http://www.whitehouse.gov/sites/default/files/omb/IPEC/2013-us-ipeec-joint-strategic-plan.pdf> (last accessed June 3, 2014).

sale, if the effect or tendency of such actions is to destroy or substantially injure a U.S. industry. This formulation reflects several decades of U.S. trade policy and the inherent tension between protecting American industries and minimizing interference with legitimate trade. Section 337 adjudications are subjected to the requirements of the Administrative Procedures Act.²

The ITC has the power to issue cease-and-desist orders and can issue exclusion orders to block the importation of infringing articles regardless of source. The Act codified the ITC's most appealing aspect, its speed, by requiring the ITC to decide cases in 12 months, or in complex cases, 18 months. This characteristic distinguishes the ITC from the district courts, which have no set time limits in adjudicating disputes. The 1974 Trade Act vested the ITC with final decision-making authority, subject only to presidential veto for policy reasons. For example, in 2013 the President vetoed the ITC's exclusion order of Apple Company products deemed to have infringed Samsung's patents.³

As compared with the ITC, federal district courts have a higher statutory requirement for rendering a valid judgment. The district courts must have personal jurisdiction over the patent infringer, and the patent holder who initiated the litigation has the burden to prove that the court has personal jurisdiction over the patent infringer; conversely, the ITC has national *in rem* jurisdiction over all products imported into the United States. Simply stated, the ITC's jurisdictional requirements are satisfied if the infringing product is physically present in the United States.

Another substantial difference between the district courts and the ITC is each institution's subpoena power. Since the ITC is a federal agency, it has a nationwide subpoena power that gives the complainant an advantage in gathering evidence and testimony. However, the subpoena power of district courts is more limited in scope and must, with high regard, bow down to constitutional limitations. In terms of remedial relief, the ITC can impose strong injunctive measures after reaching a decision pursuant to a Section 337 investigation; but, unlike the district courts, it cannot award money damages. Available injunctions include exclusion orders and cease-and-desist orders.

² 5 U.S.C. §§ 101–913.

³ For a copy of the President's veto letter *see* http://www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF (last accessed June 3, 2014).

(c) Customs and Border Protection

The U.S. CBP is an administrative agency with the authority, under the Tariff Act of 1930, the Lanham Act of 1946, and the Copyright Act of 1976, to make infringement determinations concerning federally registered trademarks and copyrights. Although the CBP has no legal authority to make patent infringement determinations, it does have the power to bar entry into the United States of goods that the ITC has found to infringe a valid and enforceable U.S. patent.

Through its enforcement powers and its administrative authority to make trademark and copyright infringement determinations, the CBP is tasked with impeding the stream of counterfeit and pirated goods into the United States. The CBP may, on its own accord, initiate enforcement actions to detain or seize infringing merchandise. In addition, it may proceed on information supplied by rights owners. Enforcement actions represent the joint efforts of many disciplines within the CBP. In some instances, IPR enforcement actions may also be commenced in collaboration with other Government agencies.

An owner of a registered trademark can record the trademark with the CBP.⁴ Upon recordation, the trademark owner is entitled to protection at the border. For its enforcement procedures, the CBP makes a fundamental distinction between goods that are counterfeit and those that bear a confusingly similar mark. Counterfeit goods are treated more harshly and are seized and forfeited. Even if the trademark was not recorded, Customs may seize and forfeit counterfeit goods under the Federal Anti-Counterfeiting Consumer Protection Act.⁵ A different procedure is employed with infringing goods that fall short of being a counterfeit product. Infringing goods of a recorded trademark are subject to a 30-day detention period whereby the importer can seek entry into the United States. For example, the CBP may allow importation if the importer removes the trademark on the goods. A similar procedure exists for copyright owners so long as the copyright owner registers with the Copyright Office and then records with the CBP. For non-recorded copyrights, the CBP will act against clearly counterfeit goods but will not act against possibly pirated goods. In sum, although the CBP enforces

⁴ See the procedures set forth in 19 C.F.R. §§ 133.1–4.

⁵ 18 U.S.C. § 2320 (2002).

both recorded and non-recorded trademarks and copyrights, its enforcement of recorded trademarks and copyrights takes priority over those not recorded with the CBP.⁶

The Customs Bureau's IPR recordation system, as embodied in its electronic IPR database, was designed to make IPR information involving imported merchandise accessible to CBP personnel. IPR border enforcement by the CBP is incorporated into the efforts of several other governmental agencies. The three primary bureaus are the Office of Strategic Trade, the Office of Field Operations, and the Office of Regulations and Rulings. The CBP provides assorted training for its officers, enabling them to undertake multiple issues involving national security, narcotics interception, and trade enforcement priorities such as IPR.

3. THE EXTRATERRITORIAL APPLICATION OF U.S. TRADEMARK LAW, COPYRIGHT LAW, AND PATENT LAW

(a) **Introduction: The Ever Shrinking Presumption Against Extraterritoriality**

The laws of the United States are presumed inapplicable beyond the jurisdiction of the territory of the United States.⁷ The presumption against the extraterritorial application of U.S. law exists for good reason; if a U.S. court attempts to regulate conduct occurring in another country, that country may regard the court's actions as an affront to its territorial sovereignty and its rights under international law to control all activities within its borders.⁸ The international business community requires certainty as to which law will govern its practices: if a foreign country also regulates the disputed conduct, enforcement of the U.S. law will subject transnational businesses to conflicting or cumulative liability. Compliance with multiple regulations may also reduce the competitiveness of a

⁶ For a good example of how the CBP operates see *Ross Cosmetics Distribution Centers v. U.S.*, 18 C.I.T. 979, 34 U.S.P.Q. 2d 1758 (Ct. Int'l Trade 1994).

⁷ *American Banana Co. v. United Fruit Co.*, 213 U.S. 347 (1909).

⁸ See *Vanity Fair Mills v. T. Eaton Co.*, 234 F.2d 633 (2d Cir.), *cert. denied*, 352 U.S. 871 (1956) (jurisdiction of the Lanham Act did not extend to Canadians due in part to the court's reluctance to rule on rights created by Canadian law). *Id.* at 647.

business in the world marketplace, distorting trading patterns as foreign businesses seek out new, more reliable, trading partners. In other words, fear of U.S. law will impair the free movement of capital and the creation of new business ventures and may lead to distrust of U.S. companies.

In over a century of litigation, the presumption against extraterritoriality has generally been subject to three qualifications. I will point out, however, throughout this chapter that the exceptions have largely swallowed the presumption. They have been enlarged to the extent that one could argue that the presumption against extraterritoriality exists in a diminished state, despite the lip service it is given. Nonetheless, the courts still articulate a tripartite test when U.S. law is to be applied extraterritorially: first, the exception arises when the “‘affirmative intention of the Congress clearly expressed’ [is] to extend the scope of the statute to conduct occurring within other sovereign nations”;⁹ secondly, when adverse effects within the United States would occur from the failure to extend the law; and thirdly, where the conduct regulated occurred primarily in the United States, even if the effects were largely felt extraterritorially.¹⁰ As we will see, most of the cases applying the trademark and copyright law extraterritorially manifest one or more of these exceptions to overcome the presumption against extraterritoriality, but there are significant differences among the circuits, particularly in the trademark area, in the interpretation and the weight ascribed to each of the exceptions.

There are two scenarios in which courts have had little reluctance in applying intellectual property laws extraterritorially and have done so for many years. The first involves contributory infringement. Courts have held that conduct abroad can be reached under U.S. patent, trademark, and copyright law if it actively induces or contributes to infringement occurring within U.S. territory.¹¹ These cases acknowledge that, although U.S. intellectual property law applies only to infringements occurring within U.S. territory, the cause of an infringement may emanate from outside the territory. The second situation concerns the recovery of profits received as a result of an infringement. The Federal Circuit has specified

⁹ *Environmental Defense Fund v. Massey*, 986 F.2d 528 (D.C. Cir. 1993) (quoting *EEOC v. Arabian American Oil Co.*, 499 U.S. 244, 248 (1991) and *Benz v. Compania Naviera Hidalgo, S.A.*, 353 U.S. 138, 147 (1957)).

¹⁰ See, e.g., *EEOC v. Arabian American Oil Co.*, 499 U.S. 244 (1991) (refusal to apply Title VII discrimination to American citizens employed by an American company doing business overseas).

¹¹ See, e.g., *Spindelfabrik Suessen-Schurr v. Schubert & Salzer*, 903 F.2d 1568, 1577–78 (Fed. Cir. 1990).

that, so long as the defendant infringes a patent, trademark, or copyright in the United States, then the recoverable damages may include the profits received by the defendant from foreign sales of the infringing product.¹²

Although criminal penalties for a knowing infringement of IPR have increased dramatically, the criminal law has maintained a strict territorial profile. This phenomenon has continued for traditional reasons principally involving policies of comity; however, once it is determined that counterfeit goods are made in the United States even though sale is intended abroad, the full force of the criminal law will be imposed and the retail value of the counterfeit goods as measured by the U.S. market will be used for sentencing purposes.¹³

(b) The Extraterritorial Application of U.S. Trademark Law

(1) Introduction

The Trade Mark Act of 1946 (the “Lanham Act”) provides a battery of remedies for infringement of registered and unregistered marks, false advertising, and unfair competition. The statute applies to “all commerce which may lawfully be regulated by Congress.”¹⁴ Congress has expressed the jurisdictional reach of the Lanham Act broadly: “the intent [of the Act] is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce.”¹⁵ This has led some courts (notably the Ninth Circuit) to significantly extend the extraterritorial reach of the Lanham Act. They have consistently applied the Act to the export of goods from the United States, regardless of whether promotion, sales, or other such activities have occurred in the United States.

For the most part, the manufacture and shipment of goods within the United States are sufficient to invoke the application of the Lanham Act to promotion and sales occurring outside the United States. Instances in which courts have not applied the Lanham Act involved potentially direct conflicts with foreign laws because of the exporter’s ownership of foreign trademark registration rights. Despite this general thrust, the circuits diverge significantly about the scope of the Lanham Act’s extraterritorial

¹² See, e.g., *Update Art*, 843 F.2d at 73; *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939) 309 U.S. 390 (1940); *Los Angeles News Serv. v. Reuters Television Int’l, Ltd.*, 149 F.3d 987 (9th Cir. 2003).

¹³ *United States v. Lozano*, 490 F.3d 1317 (11th Cir. 2007).

¹⁴ Lanham Act § 45, 15 U.S.C. § 1127 (1996).

¹⁵ *Id.*

jurisdiction and the pertinent test to apply in exercising that jurisdiction. When presented with a claim that requires the extraterritorial application of a United States statute, a court must carefully weigh the statutory jurisdictional provisions against the facts to determine if the contacts and interests of the United States are sufficient to support the exercise of extraterritorial jurisdiction. This was a concern in *Steele v. Bulova Watch Co.*,¹⁶ the only Supreme Court case to interpret extraterritorial reach of the Lanham Act.

(2) The landmark Supreme Court case: *Steele v. Bulova Watch Co., Inc.*

In *Bulova*, an American citizen named Steele transferred his watch business from Texas to Mexico, where he obtained a Mexican registration of the trademark “Bulova.” He assembled components from Switzerland and the United States, stamped “Bulova” on the watches, and sold them in Mexico.

American retail jewelers in the Mexican border areas complained that numerous defective “Bulova” watches not made by Bulova Watch Company were brought in for repair in the U.S. The Supreme Court affirmed a district court judgment against Steele. The Court found that the broad jurisdictional grant in the Lanham Act encompassed petitioner’s activities. In determining whether subject matter jurisdiction was present, the Supreme Court considered several factors. First, the defendant’s U.S. citizenship was held to be an important factor when considering extraterritorial jurisdiction. Secondly, the Court held that Steele’s extraterritorial activities had sufficient impact on the commerce of the United States, that his activities were not confined within the territorial limits of a foreign nation, that Steele had bought some of his parts in the United States, and that some of his products had reached the U.S. and had adversely affected Bulova’s trade reputation in markets cultivated by advertising domestically and abroad. Lastly, there was no potential conflict with Mexican law and sovereignty if the defendant was enjoined from using in Mexico a trademark lawfully registered under Mexican law. The Court was able to avoid this problem because, subsequent to the grant of certiorari, the Mexican courts nullified the defendant’s trademark registration. Based on these three considerations, the Court sustained injunctive relief and ordered the defendant discontinue acts outside U.S. territorial jurisdiction.

¹⁶ 344 U.S. 280 (1952).

Bulova may be interpreted as requiring consideration of three factors in determining whether the extraterritorial jurisdiction of the Lanham Act can be sustained: (1) the citizenship of the defendant; (2) the effect of the defendant's activities on U.S. commerce; and (3) the existence of conflict with foreign law. These three elements, while easy to enumerate, have led to a significant discrepancy in application among the circuits. In particular, the tests for extraterritorial jurisdiction articulated by the Second and Ninth Circuits vary considerably in their application of *Bulova*; whereas the Second Circuit requires a "substantial" effect on commerce, the Ninth Circuit is less demanding, requiring only "some" effect on commerce. More significantly, the circuits diverge on the way by which a court should determine whether a conflict with foreign law exists.

(3) The Second Circuit's restrictive *Bulova* application

These three factors – the citizenship of the defendant, the effect of the infringing conduct on commerce within the United States, and the possibility of a conflict with a foreign law – were critical to the *Bulova* Court's holding that the Lanham Act could be applied extraterritorially. This test was applied in *Vanity Fair Mills v. T. Eaton Co.*¹⁷ In *Vanity Fair*, Eaton, a Canadian corporation, obtained a Canadian trademark registration for "VANITY FAIR" for use on underwear eight years after the U.S. plaintiff obtained a U.S. registration for the same mark. Further, Eaton had bought and sold underwear from the plaintiff before producing its own line of underwear. In applying the three-part *Bulova* test, the Court of Appeals for the Second Circuit refused to extend subject matter jurisdiction under the Lanham Act because two of the three factors were absent. Unlike *Bulova*, the defendant was not a citizen of the U.S. and was acting in its own country under the imprimatur of a Canadian registration. Finding these factors absent, the court discontinued its analysis and did not evaluate the effect on U.S. commerce. In sum, the court justified its denial of jurisdiction under the Lanham Act: "we do not think that Congress intended that the infringement remedies provided in [the Lanham Act] ... should be applied to acts committed by a foreign national in his home country under a presumably valid trademark registration in that country."¹⁸

¹⁷ 234 F.2d 633 (2d Cir.), cert. denied, 352 U.S. 871 (1956).

¹⁸ *Id.* at 642.

(4) The Ninth Circuit's jurisdictional rule of reason: Borrowing from antitrust

Following *Bulova*, in the 1960s and 1970s a number of decisions adopted the three-part test in applying the Lanham Act extraterritorially.¹⁹ In 1977, however, in *Wells Fargo & Co. v. Wells Fargo Express Co.*,²⁰ the United States Court of Appeals for the Ninth Circuit abandoned the *Bulova* standard for a "jurisdictional rule of reason." In *Wells Fargo*, a U.S. corporation (Wells Fargo), owner of the registered U.S. trademark, claimed that a Liechtenstein corporation deliberately appropriated its trademark in Europe and the United States. It brought an action in the United States for injunctive relief and damages against the corporation's wholly-owned subsidiary. On appeal, the court modified significantly the three-factor *Bulova* test, opting for a more broadly stated jurisdictional rule of reason, as enunciated in an antitrust decision, *Timberlane Lumber Co. v. Bank of America*.²¹ The factors to be taken into account are: (1) whether there is some effect on American foreign commerce; (2) whether the effect is sufficiently great to present a cognizable injury to plaintiffs under the federal statute; and (3) whether the interest of and links to American foreign commerce are sufficiently strong in relation to those of other nations.²² This third factor is further broken down into seven subfactors and is based on Restatement (Second) of the Foreign Relations Law of the United States.²³ As the *Wells Fargo* court stated:

The elements to be weighed include the degree of conflict with foreign law or policy, the nationality or allegiance of the parties and the locations or principal places of business of corporations, the extent to which enforcement by either state can be expected to achieve compliance, the relative significance of effects on the United States as compared with those elsewhere, the extent to which there is explicit purpose to harm or affect American commerce, the foreseeability of such effect, and the relative importance to the violations charged of conduct within the United States as compared with conduct abroad.²⁴

¹⁹ See, e.g., *Scotch Whisky Ass'n v. Barton Distilling Co.*, 489 F.2d 809 (7th Cir. 1973); *A.T. Cross Co. v. Sunil Trading Corp.*, 467 F. Supp. 47 (S.D.N.Y. 1979).

²⁰ 556 F.2d 406 (9th Cir. 1977).

²¹ 549 F.2d 597 (9th Cir. 1976).

²² See *Star-Kist Foods, Inc. v. P.J. Rhodes & Co.*, 769 F.2d 1393, 1395 (9th Cir. 1985) (summarizing the *Timberlane* test).

²³ Restatement (Second) of the Foreign Relations Law of the United States, Section 40.

²⁴ *Wells Fargo*, 556 F.2d at 428–29 (citing *Timberlane*, 549 F.2d at 614).

The Ninth Circuit test amounts to a jurisdictional rule of reason, balancing the factors on a case-by-case basis. This test incorporates, in broader language, two elements of the *Bulova* test. Like the Second Circuit's interpretation of *Bulova*, no one factor will automatically grant jurisdiction or immunity. The Ninth Circuit's test is significantly more flexible than that of the Second Circuit and will sustain a wider ambit for extraterritorial jurisdiction even though there may be some risk of conflict with foreign law.

The *Wells Fargo* court concluded that some factors, such as the foreign citizenship of the defendant, suggested that jurisdiction should not be granted, whereas other factors, such as the defendant's ongoing commercial activity in the United States, indicated that jurisdiction would be warranted. Accordingly, the court remanded the question of whether the defendant's foreign activities provided an adequate basis for asserting jurisdiction under the *Timberlane* test.²⁵

At first blush, the Ninth Circuit would appear to have adopted a variant of *Vanity Fair*. There are, however, significant differences. First, the court relaxed the commerce element of the Second Circuit test by requiring that the foreign activities have "some" effect on U.S. foreign commerce, rather than a "substantial" effect. The court reasoned that the substantiality test arose in attempting to distinguish between purely intrastate commerce, which Congress may not regulate, and interstate commerce, which it can. In contrast, Congress has exclusive authority over foreign commerce. Secondly, the court added to the *Vanity Fair* test a series of factors taken from an antitrust case as a "jurisdictional rule of reason of comity and fairness."²⁶

The same controlling factor appears to be decisive in both the Fifth and Seventh Circuits, as the following cases will show.

(5) Following in the Ninth Circuit's footsteps: *McBee v. Delica*

Even though the plaintiff was unsuccessful in this claim for infringement, *McBee v. Delica*²⁷ represents the current expansive extraterritorial application of the Lanham Act. Well-known jazz musician Cecil McBee was unable to enforce his rights against the use of his mark by a Japanese company selling girl's clothing on the company's Japanese-language website. It is significant that the court adopted the standard applied in the extraterritorial application of antitrust law in *Hartford Fire Insurance Co.*

²⁵ *Id.* at 429.

²⁶ *Id.* at 428.

²⁷ *McBee v. Delica Co., Ltd.*, 417 F.3d 107 (1st Cir. 2005).

v. California.²⁸ In *Hartford Fire Insurance Co. v. California*, the Supreme Court modified established precedent on the extraterritorial application of the Sherman Act. The Court restated the principle that the Sherman Act applies to foreign conduct “that was meant to produce and did in fact produce some substantial effect in the United States.”²⁹ The Court specified that “Congress voiced no opinion on the issue whether a court with Sherman Act jurisdiction should ever decline to exercise such jurisdiction on the basis of international comity.”³⁰ Although the term “comity” was not at issue in this case, the Court rejected the application of comity as being jurisdictional.

McBee extends *Hartford* to the extraterritorial application of trademark law. Simply put, jurisdiction over foreign conduct will exist under the Lanham Act if that conduct produced some substantial effect in the United States. Moreover, once the substantial effect test is met, the court is to consider the question of comity as a prudential question, not a jurisdiction question (concerning whether jurisdiction should be exercised). With this holding, the *McBee* court shunted to one side both *Steele v. Bulova Watch Co.*³¹ and *Vanity Fair Mills v. T. Eaton Co.*³² *McBee* is a significant case in articulating a more expansive standard for the extraterritorial application of the Lanham Act, an approach that I believe is well justified. Unlike the reach of commerce 20 years ago, we are experiencing an intense flow of Internet commerce that warrants a more expansive extraterritorial reach of U.S. trademark law.

Critics of an expansive extraterritorial application of U.S. trademark laws contend that the United States is not the global court of commerce. However, *McBee* acknowledges that Congress has little concern in applying U.S. trademark law where no substantial effects are felt in the United States. Only when a substantial effect is felt in the United States may a court assert jurisdiction. Until foreign nations provide necessary protections through regulation and enforcement, far-reaching extraterritorial enforcement is necessary to prevent violators from “hid[ing] in countries without efficacious ... trademark laws, thereby avoiding legal authority.”³³ Yet this doctrine is still circumscribed by comity even when a substantial effect is felt in the United States, and the extraterritorial application of U.S. law must give way when true conflict between

²⁸ 509 U.S. 764 (1993).

²⁹ *Id.* at 796.

³⁰ *Id.* at 798.

³¹ 344 U.S. 280 (1952).

³² 234 F.2d 633 (2d Cir. 1956).

³³ *McBee v. Delica Co., Ltd.*, 417 F.3d 107, 119 (1st Cir. 2005).

domestic and foreign law exists. Here, courts may use comity considerations as a means to decline to exercise jurisdiction.

(6) Conclusion: The proper scope of the extraterritorial application of U.S. trademark law

The split in the jurisdictions, as exemplified between the Second and the Ninth Circuits, is more than a difference in language. The Ninth Circuit's *Timberlane* factors do overlap the Second Circuit three-part test and in most cases the outcome would be similar under each approach. The major difference between the two approaches lies less in the Ninth Circuit's refusal to adopt a "substantial effect" test and more in trademark law's attitude toward the principle of territoriality. The Second Circuit stresses the extent to which the plaintiff has developed or was likely to develop its trademark rights in the foreign country affected by the defendant's activity, the comparative strength of the parties' rights in that locality, and the probability of the defendant's activities affecting the worth of the plaintiff's U.S. trademark rights. In other words, the Second Circuit takes a more stringent territorial view of trademark law; one which focuses on the Lanham Act's underlying policy of protecting U.S. trademarks and which calls for careful scrutiny of the defendant's rights in the foreign country (particularly where a registration is involved). By contrast, the Ninth Circuit's decisions tend to extend the Lanham Act regardless of the plaintiff's rights and interests in the foreign locality, limited only where the plaintiff has litigated and lost in the foreign jurisdiction. Thus, the existence of a facially valid foreign trademark in *Wells Fargo* did not automatically preclude an infringement claim against its owner for sales under the mark.

(c) Extraterritorial Application of U.S. Copyright Law

(1) Introduction

Extraterritorial application of U.S. copyright law has been less accommodating to owners' interests than that of trademark law in reaching acts of infringement occurring outside the United States. Why should the courts be less prone to extend the extraterritorial reach of the Copyright Act than the Lanham Act? The accepted rationale is that the Lanham Act is based on the commerce power of Congress and the corresponding intent of Congress that the commerce power be applied expansively.

Copyright law, on the other hand, is derived from an explicit Constitutional provision in Article I, Section 8. U.S. district courts have subject matter jurisdiction over copyright cases under 28 U.S.C. § 1338(a), which confers on U.S. district courts the jurisdiction to hear actions

“arising under any Act of Congress relating to ... copyrights” Thus, if a copyright claim does not arise under an “Act of Congress” it is likely that U.S. district courts will not have subject matter jurisdiction to hear it.³⁴ As a corollary, foreign activities are not actionable under copyright law unless a part of, or a consequence of, an act of infringement occurs within the United States.³⁵ In contrast, under the Lanham Act, because of the expansive interpretation of the commerce power, the plaintiff may recover even though no domestic act of infringement has taken place.

Generally, three kinds of cases have tested the scope of district courts’ subject matter jurisdiction under the “Act of Congress” grant of authority: (1) those in which no infringing activity has taken place in the United States; (2) those in which some infringing activity has actually taken place in the United States but the activity has a tenuous relation to the foreign activity; and (3) those in which the only infringing activity that took place in the United States was the authorization of other activity that took place in another country.

(2) Insufficient infringing activity in the United States

At a minimum, the courts have held that there must be some degree of infringing activity in the United States for subject matter jurisdiction over the claim. Thus, where no infringing activity took place in the United States, it has been unanimously held that the U.S. district courts do not have subject matter jurisdiction.³⁶ Alternatively, where defendants have engaged in some infringing activity in the United States as well as infringing activity abroad, several courts have held that U.S. district courts have subject matter jurisdiction, even if the extent of the infringement that occurred in the United States was minimal compared with the magnitude of the foreign infringing acts. For example, in *Update Art v. Modiin Publishing, Ltd.*,³⁷ the Second Circuit held that the district court had subject matter jurisdiction to hear an action based on the distribution in Israel of newspapers containing unauthorized reproductions of a “Ronbo” poster (consisting of a picture of Ronald Reagan’s head superimposed on Rambo’s body). The justification for subject matter jurisdiction was based on the defendant’s having made one infringing

³⁴ See David R. Toraya, “Federal Jurisdiction over Foreign Copyright Infringement Actions – An Unsolicited Reply to Professor Nimmer,” 70 Cornell L. Rev. 1165 (1985).

³⁵ *Zenger-Miller, Inc. v. Training Team, GmbH*, 757 F. Supp. 1062 (N.D. Cal. 1991).

³⁶ See *De Bardossy v. Puski*, 763 F. Supp. 1239 (S.D.N.Y. 1991).

³⁷ 843 F.2d 67 (2d Cir. 1988).

copy of the poster in the United States and subsequently using the infringing copy to reproduce and distribute additional copies in Israel.

(3) Authorization in the United States of infringing activity occurring in a foreign country

(i) *The Ninth Circuit: Subafilms* Even though no infringing activity may have occurred in the United States, will there be subject matter jurisdiction if the foreign infringement was authorized in the United States? This was the main issue in *Subafilms Ltd. v. MGM Pathe Communications Co.*:³⁸ whether an infringement claim exists under Section 106 of the Copyright Act “when the assertedly infringing conduct consists solely of the authorization within the territorial boundaries of the United States of acts that occur entirely abroad.”³⁹ In *Subafilms*, the British rock band the Beatles, through Subafilms, Ltd., entered into a 1966 joint venture with Hearst Corporation to produce the animated movie “Yellow Submarine.” Hearst, as agent for the joint venture, negotiated an agreement with the film company, United Artists to finance and distribute the film to movie theaters and later to television. In 1987, UA’s successor company authorized its subsidiary to distribute the film domestically, and authorized another company to distribute the picture internationally, for the home video market. Subafilms brought suit, claiming that both the domestic and foreign distribution exceeded of the 1967 agreement and constituted copyright infringement.

The court reasoned that the words “to authorize” in the 1976 Act were intended to codify the doctrine of “contributory infringement” as a form of third party liability rather than establish a direct cause of action for illegal authorization. Thus, if no cause of action existed against the primary infringer, then neither did a cause exist against the authorizer of the act.⁴⁰ Because U.S. copyright laws have no effect outside the United States, an extraterritorial primary infringement cannot serve as grounds on which to base the authorizing contributory infringement.

Subafilms contended that the U.S. copyright laws extend to extra-territorial acts of infringement when such acts result in adverse effects within the United States and failure to apply the copyright law extra-territorially would have a disastrous effect on the American film industry. Subafilms had argued that the Lanham Act, the Sherman Act, and the

³⁸ 24 F.3d 1088 (9th Cir.) (en banc), *cert. denied*, 513 U.S. 1001 (1994).

³⁹ 24 F.3d at 1089.

⁴⁰ *Subafilms*, 24 F.3d at 1093.

securities laws have been applied to extraterritorial conduct. Nonetheless, the court would not overturn 80 years of consistent jurisprudence on the extraterritorial reach of the Copyright Law without further guidance from Congress. The court reasoned that the presumption against extraterritorial application of U.S. laws is particularly appropriate when it avoids unintended clashes between U.S. and foreign law that could lead to international discord. Congressional intent was manifested in the U.S. adherence to international copyright conventions (such as the Universal Copyright Convention and Berne) whose central thrust is the principle of national treatment.

(ii) *The Subafilms fallacy* *Subafilms* rests on a deceptively rigorous syllogism. Its major premise is that acts occurring outside the United States cannot constitute direct copyright infringement under the United States Copyright Act. Its minor premise is that there can be no contributory infringement without direct infringement. Therefore, there can be no third party liability for acts of infringement that occur outside the United States.

The major premise of this syllogism is of dubious validity. The 1976 Act creates two sets of discrete rights – the authorization right and the enumerated exclusive rights of Section 106 (1)–(5).⁴¹ By implication, Section 106 establishes the traditional choice of law rule that the law governing copyright infringement is the law of the country where the act of infringement occurred. In determining whether an act of authorization occurring in the United States constitutes an act of infringement, a court could consider whether the foreign act constituted an act of infringement under foreign law or would have constituted a direct infringement had it occurred within the United States. The legal content of the foreign conduct, however, has no bearing on the determination whether the authorization right under U.S. law has been infringed.⁴²

Whatever one thinks about its doctrinal validity, *Subafilm*'s concept of territoriality seems outmoded in our digital age where works are transmitted immediately with a few mouse clicks. Other courts have taken a more practical approach. In *National Football League v. Prime Time 24 Joint Venture*,⁴³ the defendant satellite carrier, without permission, retransmitted the copyright owner's work to the defendant's Canadian subscribers. The defendant argued that the only performance occurred in

⁴¹ 17 U.S.C. § 106(1)–(5).

⁴² Goldstein, 2 Copyright, § 6.3.2 (2d ed. 2013).

⁴³ 211 F. 3d 10 (2d Cir. 2000).

Canada where the signal was received. The court disagreed, holding that a public performance includes each step in the process by which a protected work winds its way to the audience. Prime Time's uplink was clearly a step in that process.

(4) Authorization abroad of infringing activity taking place in the United States

In *Subafilms*, the authorization of the foreign infringing activity occurred in the United States whereas the directly infringing activity occurred abroad. But what about the reverse: does a district court have subject matter jurisdiction over the act of authorization taking place abroad, and infringing activity occurring in the United States – or is the foreign authorization beyond the reach of U.S. copyright law and jurisdiction of the U.S. courts? Recent precedent suggests that the act of authorizing or contributing to infringing activities that take place in the United States is a violation of U.S. law regardless of where the act of authorizing or contributing takes place. For example, in *GB Marketing USA Inc. v. Gerolsteiner Brunnen GmbH & Co.*,⁴⁴ a U.S. district court ruled that it had subject matter jurisdiction to hear a contributory copyright infringement suit against a German company, even though the allegedly infringing works in question, bottle labels, were printed and affixed to the German company's products in Germany. Subject matter jurisdiction was not based on the German company's bottle-labeling activities in the United States.

(d) Extraterritorial Application of U.S. Patent Law

(1) The decline of strict territoriality in patent law

Donald Chisum, in his 1997 comment "Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law,"⁴⁵ predicted that the increasing interdependence of the global economy and the growing concern over the costs of multinational IPR procurement and enforcement will make territorialism an unacceptable obstacle to international trade. Almost 15 years later, this prediction seems farsighted as courts increasingly face decisions about whether to extend domestic patent law abroad through extraterritorial enforcement and whether to adjudicate foreign patents through multinational patent litigation. While

⁴⁴ 782 F. Supp. 763 (W.D.N.Y. 1991).

⁴⁵ 37 Va. J. of Int. L. 603 (1997).

U.S. courts have exhibited a willingness to extend U.S. patent law extraterritorially, they have been reluctant to adjudicate foreign patents.

Courts have consistently held that patent law is territorial in scope. A U.S. patent grants exclusive rights “throughout the United States,”⁴⁶ and imposes liability on those who make, use, or sell the patented invention “into the United States.”⁴⁷ The problem is that business activities are often not confined within U.S. borders and with the increasing importance of the global marketplace patent holders have looked to extra-territorial enforcement to avoid piecemeal litigation in a number of countries. The practical realities of the global marketplace and the ease of transporting portions of an enterprise abroad are reflected in two sections of the Patent Act. Section 271(f) of the US Patent Act (adopted in 1984) imposes liability for exporting “components” of a patented invention for assembly abroad. Moreover, in 1998 Congress added § 271(g) of the Patent Act, which created liability for importing into the United States, or selling, offering for sale, or using in the United States, a product made by a process that is protected by a U.S. patent, irrespective of where that process is actually performed.

A good example of these dynamics occurred in *NTP, Inc. v. Research in Motion, Ltd.*⁴⁸ The issue in *NTP* was whether an electronic mail system (Blackberry System) with one component located in Canada infringed a domestic patent as a use under 271(a). The court held that the control and beneficial use of the patented system occurred within U.S. borders even though one claimed feature lay outside U.S. borders. According to the Federal Circuit, a system claim is used at the place where the system as a whole is put into action of service (i.e. the place where control of the system is exercised). Contrary to this assertion, the Court held that a process claim was not used within the United States “unless each of the claimed steps is performed within this country.” The Court determined that while the Blackberry system infringed the product claims, it did not infringe the process claims. Under the *NTP* court’s decision, it appears that infringement of method claims is more limited in extraterritorial reach of a specific U.S. patent compared with infringement based on system claims.

⁴⁶ 35 U.S.C. § 154(a)(1).

⁴⁷ 35 U.S.C. § 271.

⁴⁸ 418 F. 3d 1282 (Fed. Cir. 2005).

(2) Supplying the components of a patented combination

(i) *Eolas Technologies, Inc. v. Microsoft Corp.* In *Eolas Technologies, Inc. v. Microsoft Corp.*,⁴⁹ the Federal Circuit considered whether Section 271(f)⁵⁰ encompassed the act of exporting software code for copying and assembly abroad. In that case, Eolas Technologies, Inc. sued Microsoft for infringement of a U.S. patent covering Internet-browsing software. Microsoft exported source code for Windows and Internet Explorer on golden master disks to Original Equipment Manufacturers (OEMs) outside the United States. The foreign OEMs replicated the software using the golden master disks and installed the software onto computer hard drives, which were then sold to customers.

On appeal, the Federal Circuit considered whether the exported software code constituted a component of a “patented invention” for purposes of infringement under Section 271(f). According to Microsoft, the golden master disks were not a “component” with the meaning of Section 271(f). In particular, Microsoft asserted that Section 271(f) is limited to “physical” components of machines.

In its holding, the Federal Circuit found that the statutory language of Section 271(f) is not limited to “machines” or “physical structures.” Instead, the *Eolas* court reasoned that “every component of every form of invention deserves protection”⁵¹ under Section 271(f). Furthermore, the *Eolas* court held that software code on a golden master disk could constitute a “component” of a patented computer-program invention since it forms a “component” of a patented process or computer program product, both of which are statutory inventions under Title 35. The *Eolas* court, therefore, refused to impose any “tangibility” requirement to Section 271(f) and concluded that Microsoft’s act of supplying software code on golden master disks could form the basis for infringement under Section 271(f).

(ii) *Microsoft Corp. v. AT&T Corp.* In *Microsoft Corp. v. AT&T Corp.* the U.S. Supreme Court examined the contours of 271(g) of the patent imposing liability for exporting the components of a patent invention for assembly abroad and took a traditional approach of construing patents narrowly to avoid extraterritorial effects. In *Microsoft* the Supreme Court held that software that had been created in the United States and exported

⁴⁹ 399 F.3d 1325 (Fed. Cir. 2005).

⁵⁰ See supra.

⁵¹ *Eolas*, 399 F.3d at 1339.

to foreign countries on a master disk to be copied and implemented on computers located outside the United States was outside the reach of U.S. patent law.

AT&T held a patent on a computer used to encode and compress recorded speech digitally. Microsoft's Windows system had the potential to infringe this patent in that it allowed a computer to process speech in the same manner as was claimed by AT&T's patent. Microsoft did not personally sell Windows to foreign manufacturers for installation of the software onto the computers sold by foreign manufacturers; rather, Microsoft sent each manufacturer a version of Windows (a master disk), which the manufacturer used to generate copies. Thus, it was the copies, not the master disk received from Microsoft, that were installed on the computers of the foreign manufacturer. In short, the Supreme Court determined that the statutory term "supplying" does render Microsoft liable in the United States for "copying" that takes place abroad. Significantly, the Supreme Court in *Microsoft* took a conservative approach to questions of territoriality, maintaining that as a principle of general application foreign conduct is generally the domain of foreign law.

(iii) *Bayer AG v. Housey Pharmaceutical, Inc.* Contrary to the holdings reached in *Eolas* and *AT&T*, the Federal Circuit took a more traditional approach when assessing Section 271(g) in *Bayer AG v. Housey Pharmaceutical, Inc.*⁵² In that case, Housey Pharmaceutical, Inc. sued Bayer AG for infringement based on patented screening methods for discovering drugs. Bayer allegedly practiced the screening methods abroad but then imported information gathered from the methods into the United States for drug development. Housey asserted that these acts constituted infringement of the patented-screening methods under Section 271(g).⁵³

Strictly reading the statute, the Federal Circuit concluded that Section 271(g) addresses only patented manufacturing methods (i.e. methods of actually making or creating a product) and does not encompass methods of gathering information. The Court noted that this interpretation was consistent with the legislative history of Section 271(g), which, according to the Court, indicated that Congress was "concerned solely with physical goods that had undergone manufacture" and "not mere information."⁵⁴ Because Bayer's acts of identifying and generating information were not

⁵² 340 F.3d 1367, 1368 (Fed. Cir. 2003).

⁵³ *See supra*.

⁵⁴ *Id.* at 1373, 1376.

considered steps in the manufacture of a final drug product, the Court held that there was no liability under Section 271(g).

The outcome in *Bayer* conflicts with that in *Eolas* and *AT&T*. In *Bayer*, the Federal Circuit held that the scope of infringing acts under Section 271(g) is limited to tangible or physical products created or made by a manufacturing process. In contrast, the decisions in *Eolas* and *AT&T* show a more liberal and, perhaps, modern approach to assessing infringement under Section 271(f) and (g). In *Eolas* and *AT&T*, the Federal Circuit interpreted Section 271(f) as not being limited by a “tangibility” requirement and held that software (whether embodied on a golden master disk or transmitted electronically) could constitute a component of a patent invention. While the types of acts covered by Sections 271(f) and (g) differ, the application of those sections to “intangible” technology, such as information and software, arguably should be the same. Indeed, in today’s global marketplace, information and software are not only viewed as commodities or products, but also are incorporated as key components of computerized systems and processes. Nonetheless, under current Federal Circuit case law, Sections 271(f) and (g) are interpreted in a different way.

4. PARALLEL IMPORTATION AND THE GRAY MARKET

This section will examine the cross-border aspects of the gray market involving trademark, copyright and patent. The gray market has engendered a vigorous debate about whether it harms or benefits the market economy. Whatever the merits of the arguments pro and con, the gray market is a phenomenon that has always existed and will continue to exist so long as importers can profitably undercut the price of authorized dealers. Gray market issues arise in all areas of intellectual property but trademark presents the most intricate problems, and is given here a deeper discussion than copyright and patent.

(a) Trademarks and the Gray Market

Gray market problems arise when a United States trademark owner sells a product in the United States and the same product is manufactured and/or sold outside the U.S. under the same mark. If the foreign goods are imported into the country and sold in the United States without the U.S. mark owner’s consent, a gray market is said to exist. Running the gamut from VCRs, watches, foods, cosmetics, and tires, gray imports are

generally goods at the high end of the quality range and are associated with brand names. Owners of brand names have several fora for combating gray goods, including a suit before the ITC, but this perennial battle has played its way out in two settings, which are emphasized in this section. The first is through Customs Office enforcement to interdict gray goods from entering the United States. The other setting is through private actions.

(b) Customs Department Enforcement Against the Gray Market

(1) In general

Unlawful importation of trademarked products can be attacked both by private actions and by Customs Office enforcement. Although private enforcement is available, Customs enforcement is clearly the more effective remedy against the importation of unlawful goods. In general, Customs enforcement is less expensive, and time-consuming. By preventing the goods from entering into the stream of commerce, Customs enforcement provides a global, one stop remedy against unlawful importation. By comparison, a private action works in a less effective, piecemeal fashion. Private injunctive remedies prevent the sale of the goods, not their original importation. In a private action, an injunction applies only to the individual distributors but not to others who were not parties to the suit. As a result, some unlawful goods are more likely to elude interdiction and will continue to be sold to the public.

(2) Requirements to obtain Customs enforcement

(i) *Procedures* As discussed above, to obtain Customs enforcement, a trademark owner must fulfill two requirements: first, the trademark owner must have registered the mark on the principal register of the Lanham Act; secondly, the trademark owner must record the mark with the Customs Office in the manner provided by regulation. The pertinent sections are Lanham Act § 42 and § 526 of the Tariff Act of 1930.

(ii) *Sections 42 of the Lanham Act and 526 of the Tariff Act* Two complementary provisions establish Customs Office authority to prohibit unlawful importation. Section 42 prohibits the importation into the United States of articles that “copy or simulate” registered trademarks.⁵⁵

⁵⁵ Lanham Trademark Act § 42, 15 U.S.C. § 1124.

This section has been construed by Customs regulation⁵⁶ to apply to counterfeit marks only, those that are sufficiently similar to the recorded trademark so as to cause likelihood of confusion.

In addition to § 42 of the Lanham Act, § 526⁵⁷ prohibits importing “into the United States any merchandise [that] bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States ... unless written consent of the owner of such trademark is produced at the time of making entry.”

The remedies under § 526, Customs’ exclusion are not exclusive. A trademark owner may pursue an action for trademark infringement against an appropriate party under the Lanham Act § 32 and 43(a). In addition, § 526(c) complements the Lanham Act provisions by establishing a private action to prohibit the importation of unlawful goods. The language of § 526 appears broad enough to protect U.S. trademark owners who wish to prohibit the importation of foreign-made products bearing their registered trademarks. Despite this seemingly blanket prohibition embodied in the Act, Customs, for the past 50 years, has enforced the statute more narrowly, an interpretation generally upheld by the courts.⁵⁸ The controversy resides in instances where the trademark owner wishes to prohibit the importation of goods bearing his mark produced by an affiliated or related foreign company. This controversy is not new and is best understood in historical context.

(iii) *Gray market and customs enforcement: § 526 of the Tariff Act* The statute was enacted to protect American trademark owners who purchase the right to use a trademark in the United States from an independent foreign company. Section 526 provides in part:

Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the United States ... and if a copy of the certificate of registration of such trademark is filled with the Secretary of the Treasury.⁵⁹

Customs has promulgated regulations to apply § 526 of the statute; however, its administrative enforcement of the regulations has shown a

⁵⁶ C.F.R. § 133.21(a).

⁵⁷ 19 U.S.C. § 1526(a–e).

⁵⁸ 19 C.F.R. § 133.21 Pursuant to 19 U.S.C.

⁵⁹ 19 U.S.C. § 1526(a).

marked inconsistency through the years.⁶⁰ Since 1972, Customs has refused to bar entry of goods if the foreign trademark and the registered U.S. trademark are owned by the same entity. Under this “affiliate exception,” Customs will not prohibit the importation of foreign manufactured goods bearing its trademark when a U.S. trademark owner controls the source of the foreign goods. A belief that consumer welfare is enhanced by gray market price competition underlies Customs restraint in blocking entry of imported goods. By this view, Customs should not be complicit in enforcing attempts by companies to achieve international price discrimination.

Beginning in the early 1980s a split emerged in the circuits regarding the validity of the Customs’ regulation. One line of cases ruled that the Customs could not be forced to exclude all gray goods.⁶¹ By contrast, another line of cases interpreted § 526 as an absolute bar to parallel imports.⁶²

Trademark owners attacked the validity of Customs’ interpretation of § 526 for many years. In 1988, the Supreme Court, in *K-Mart Corp. v. Cartier, Inc.*,⁶³ examined the validity of these regulations.

(3) The developing case law

(i) *The K-Mart case* In *K-Mart*, COPIAT, an association of U.S. trademark holders, sought a declaration that the common control and authorized use exceptions were inconsistent with § 526 of the 1930 Tariff Act. The District of Columbia held the regulations invalid. The Supreme Court granted certiorari to resolve a split in circuit courts on the regulation at issue. In a series of lengthy opinions of surprisingly narrow focus, it reviewed three classes of cases in which the gray market might arise.

- *Case one: independent U.S. trademark owner.* In this pattern, a U.S. company buys U.S. trademark rights from an independent foreign firm. Here, the equities strongly favor the U.S. trademark owner

⁶⁰ See *Lever Brothers v. United States*, 981 F.2d 1330, 1335–37 (D.C. Cir. 1993) for a history of this inconsistent application.

⁶¹ See *Vivitar Corp. v. United States*, 593 F. Supp. 420 (CIT 1984), *aff’d*, 761 F.2d 1552, 225 U.S.P.Q. 990 (Fed. Cir. 1985).

⁶² *Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States*, 598 F. Supp. 844 (DC Cir. 1984), *rev’d* 790 F.2d 903 (Fed. Cir. 1986), *cert. granted*, 485 U.S. 176 (1988).

⁶³ 486 U.S. 281, 6 U.S.P.Q. 2d 1897 (1988).

where the foreign manufacturer imports the trademarked goods and distributes them in the United States.

- *Case two: the common control exception.* The Supreme Court held that the common control exception was consistent with § 526 and that Customs may permit importations in this situation. Here, a foreign company has established a U.S. subsidiary to own its trademark and distribute its goods in the United States. If the foreign subsidiary sells the trademark goods abroad, a gray market can be created through parallel importation by third parties.
- *Case three: authorized use exception.* In this scenario, the Court found the authorized use exception inconsistent with § 526. Here, the American company has licensed the trademark to an *independent* foreign company to use the trademark on goods manufactured abroad. Typically, the foreign manufacturer agrees not to import the goods into the United States. Unlike a subsidiary or parent under common control, the trademarked goods will not be allowed into the United States without the consent of the U.S. trademark owner. The Court declared invalid the Customs authorized use exception. Its rationale was that goods produced by an independent foreign manufacturer are of “foreign manufacture” as stated in the statutory language.

The narrow focus of *K-Mart* on § 526 provided some guidance to trademark owners in structuring their transactions but it left open some critical questions. It did not directly address § 32, 42, or 43(a) of the Lanham Act, except to declare that the question of § 42 was not before the court. The developments since *K-Mart* have tried to flesh out the relationship between these sections of the Lanham Act and Customs enforcement.

(ii) *Developments since K-Mart: § 42 of the Lanham Act and the Material Changes Doctrine* Section 42 of the Lanham Act prohibits the importation of goods into the United States bearing trademarks that shall “copy or simulate” registered trademarks. Courts have inconsistently applied this provision against the gray market. Some have held that no Lanham Act violation occurs when genuine trademarked goods sold abroad by the parent of the U.S. distributor are imported into the United States.⁶⁴

⁶⁴ *Olympus Corp. v. United States*, 792 F.2d 315, 230 U.S.P.Q. 123 (2d Cir. 1986).

Others have found that the “copy” and “simulate” language applies to both counterfeit and gray market goods.⁶⁵

For example, in *Lever Brothers v. United States*,⁶⁶ the plaintiff was a U.S. company that made SHIELD soap and SUNLIGHT dish-washing detergent, and its British affiliate made products under the same trademarks. The domestic and British products were different to suit differing consumer tastes in the British and U.S. markets. The D.C. Circuit held that the parallel importation of SHIELD soap and SUNLIGHT dish-washing liquid designated for the United Kingdom violated § 42 of the Lanham Act. It found that the differences in quality between the plaintiff’s domestic products and the English versions created a likelihood of consumer confusion under § 42, weakening each mark’s goodwill. Further, the court found that § 42 requires Customs to seize gray market goods at least when such goods are physically different in a material way from those marketed by the U.S. trademark owner. Thus, although *Lever* affirms Customs’ discretion to promulgate regulations permitting the importation of certain trademarked goods under § 526 of the Tariff Act, it does not allow Customs such discretion under § 42 of the Lanham Act when imported goods are materially different from the domestic goods. On the other hand, where the goods do not manifest substantial differences, the courts have been reluctant to find consumer confusion.⁶⁷

After *Lever*, the question is what constitutes a material difference. From the case law, a low threshold of material difference will be required and anything that might affect a purchaser’s decision is sufficient. For example, in *Lever*, the packagings for the domestic and foreign products were different. The U.S. soap product lathered more than the U.K. version, had a different scent, and contained a bacteriostat whereas the foreign product did not. Similarly, in another case the defendant had imported genuine PERUGINA brand chocolates, manufactured in Venezuela, without the plaintiff’s approval. The plaintiff alleged differences in quality control, composition configuration, packaging, and price for a

⁶⁵ *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 11 U.S.P.Q. 2d 1001 (3d Cir. 1989).

⁶⁶ 652 F. Supp. 403 (D.D.C. 1987), *rev’d and remanded*, 877 F.2d 101, 107 (D.C. Cir. 1989), *summary judgment granted on remand*, 796 F. Supp. 1 (D.D.C. 1992), *aff’d in part and vacated in part*, 981 F.2d 1330 (D.C. Cir. 1993). *See also, Zino Davidoff S.A. v. CVS Corp.*, 571 F.3d 238 (2d. Cir. 2009) (unauthorized removal of a unique production code from an otherwise authentic product justifies a finding of trademark infringement).

⁶⁷ *Olympus Corp. v. U.S.*, 792 F.2d 315 (2d Cir 1986).

claim under § 43(a) of the Lanham Act.⁶⁸ Courts have also found material differences where gray market dolls did not contain the same birthday card system and their adoption papers were in Spanish.⁶⁹

(iii) *What is common control?* As *K-Mart* indicated, Customs is not required to bar gray goods in situations of common control (i.e. 2(a)(b)(c)) classes of cases. In *U.S. v. Eighty-Three Rolex Watches*⁷⁰ the court examined the meaning of “common control” for the purpose of the Customs’ regulations. The court held that a close business relationship between the foreign trademark owner and the foreign owner of the U.S. trademark owner does not constitute “common control” under the exceptions to the import ban of Section 526 of the Tariff Act of 1930. To prove common control, the relationship between the U.S. firm and the foreign firm trademark owner must be clearly shown; it is not enough to show that the domestic firm is part of the larger closely knit foreign structure. In sum, a court should focus on the ownership structure regardless of the practical realities of these business enterprises.

(4) Private causes of action against the gray market: Lanham Act §§ 32 and 43(a) and § 526(c) of the Tariff Act

The regulations, promulgated pursuant to § 526, are not the only source of protection for a U.S. trademark owner. The U.S. trademark owner may seek a judicial determination in federal court even when common ownership and control are involved. The regulations do not limit a U.S. trademark owner’s right to pursue a private cause of action under §§ 526(c), 32,⁷¹ 43(a), and 42 of the Lanham Act. It is not clear what, if anything, the Court in *K-Mart* decided about a trademark owner’s right to bring a private action.

To succeed in an action brought under these sections, the plaintiff must prove that the offending goods are likely to confuse the consumer. In

⁶⁸ 777 F. Supp. 161 (D.P.R. 1991), *rev’d and remanded* 25 U.S.P.Q. 2d 1256 (1st Cir. 1992).

⁶⁹ *Original Appalachian Artworks, Inc., v. Grenada Electronic, Inc.*, 640 F. Supp. 928 (S.D.N.Y. 1986), *aff’d* 816 F.2d 68 (2d Cir. 1987), *cert. denied* 484 U.S. 847 (1987).

⁷⁰ 992 F.2d 508 (5th Cir. 1993).

⁷¹ Section 32 prohibits “use in commerce [of] any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods ... with which such use is likely to cause confusion, or to deceive.” 15 U.S.C. § 1114(1)(a).

cases where the goods are not genuine, the courts have readily determined that likelihood of confusion exists and have prohibited the importation of the offending goods. When the goods are genuine, the courts are split over whether to impose an injunction on the seller of goods that are substantially the same as those sold by the plaintiff. Courts are more willing to prohibit importation if the U.S. trademark owner had developed a separate goodwill in the product.

In sum, a trademark owner's ability to prevent gray market importation is still in disarray after these many years. The Supreme Court's failure to resolve the issue has left the state of the law in continuing uncertainty and a trademark owner's success will depend largely on the jurisdiction in which the claims are pursued as the courts remain divided over the issue.

As the following discussion will show, doctrine involving the gray in copyright has been equally problematic.

(5) Copyright law and the international gray market

As an alternative to § 526 and Lanham Act claims and defenses, copyright law has a role to play in gray market disputes. Sometimes, copyright law or some other remedy may be necessary where likelihood of confusion may be difficult to prove. Moreover, copyright law provides an alternative when a § 526 exclusion cannot be obtained because of the common control or affiliate exception. To bring an action under copyright law, the work must be copyrightable and fall into one of the categories of works of authorship specified in § 102 of the Act. An unauthorized importation of copies or phonorecords of the copyrighted work will constitute an infringement of the copyright owner's exclusive right to distribute the work under § 106(3) of the Copyright Act. Further, § 602(a) prohibits the importation of copies or phonorecords into the United States without the consent of the copyright owner; however, the exclusive rights to distribute under § 106(3) and to prohibit importation under § 602(a) are subject to a limitation on these exclusive rights known as "the first sale doctrine." As codified in § 109(a) of the Copyright Act, the first sale doctrine creates a basic exception to the copyright owner's rights over further disposition of the material object embodying the work. Under this doctrine, once a sale has occurred, the copyright owner's rights are exhausted over further rental or resale of the copy or phonorecord.

The first sale doctrine in § 109 appears to be in direct conflict with § 602 (a)'s prohibition against unauthorized importation of copies of the work into the United States. The issue has arisen whether the first sale doctrine supersedes § 602 (a)'s prohibition against importation without consent of copies or phonorecords lawfully made and sold abroad. For a

long time the judicial decisions took varying approaches on the issue until the Supreme Court in *Kirtsaeng v. John Wiley & Sons*⁷² held that language of the statute and congressional intent supported the result that § 602(a) did not prohibit the sale of copyrighted textbooks made in Thailand that the defendant sold over the Internet. The Court held that the first sale doctrine applies to goods manufactured outside of the United States, and the protections and exceptions offered by the Copyright Act to works “lawfully made under this title” is not limited by geography. Rather, it applies to all copies legally made anywhere, not just in the United States. While vilified by copyright owners and applauded by libraries and museums, *Kirtsaeng* opts for a virtual international exhaustion for a broad array of imported goods that are copyright protected or contained in copyrighted works.

(6) Patent law and the international gray market

Although the first sale doctrine is statutorily codified in the United States Copyright Act, there is no analogous statutory provision applying exhaustion of rights in the Patent Act. Exhaustion of patent rights is therefore a common law doctrine and one that has been applied in the United States since at least 1853. The Supreme Court of the United States – and lower courts – have long applied a robust patent exhaustion doctrine, limiting a patent holder’s rights over a patented good to the first authorized sale. One hundred and fifty years of precedent by federal courts in the United States support strong patent exhaustion principles, regardless of the place of manufacture or sale. In applying a strong patent exhaustion doctrine, the Supreme Court has repeatedly relied on a “single reward” principle, permitting the patent holder to seek a single reward but not allowing him to “double dip” and exact a toll on each future resell of the patented good.

The U.S. position on international exhaustion was at best unclear until 2001, when the U.S. Court of Appeals for the Federal Circuit held in *Jazz Photo Corp. v. International Trade Commission*⁷³ that “foreign sales of products covered by a United States patent do not serve to exhaust the patent holder’s rights with respect to those products.” The Federal Circuit stated that to invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the U.S. patent. Thus, the court held that the exhaustion defense only applied to patented products that were first sold in the United States.

⁷² 133 S.Ct. 1351 (2013).

⁷³ 264 F.3d 1094 (Fed. Cir. 2001).

The Federal Circuit further elaborated on its holding in *Jazz Photo* in *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*,⁷⁴ a related case, in 2005. The court stated that *Jazz Photo* does not “dictate a narrow application of the exhaustion principle” and does not “limit the exhaustion principle to unauthorized sales. ... The patentee’s authorization of an international first sale does not affect exhaustion of that patentee’s rights in the United States.” The Federal Circuit declared that foreign sales could “never occur under a United States patent because the United States patent system does not provide for extraterritorial effect.”⁷⁵ Thus, in *Jazz Photo*, the court expressly limited first sales under the exhaustion doctrine to those occurring within the United States. Accordingly, patent owners, consumers, and licensees of patented products must do a more thorough examination of international sales transactions than in the copyright domain, because international exhaustion does not concern foreign sales.

In sum, U.S. copyright and patent law differ in their approach to international exhaustion. Compared with the first sale rule under § 109 of the Copyright Act, the United States has a judge-made patent exhaustion doctrine which holds that an authorized, unrestricted sale of a patented product *exhausts* the patentee’s rights in the product. The Federal Circuit has made it clear in *Jazz Photo* that U.S. patent rights are only exhausted by an authorized sale in the United States, whether or not the non-U.S. sale was authorized by the patent owner. Thus, a sale outside the United States would still subject the buyer to patent liability if it sought to import the patented product into or distribute it in the United States without authority.

Why do we have international exhaustion in copyright law but not in patent law? The Supreme Court majority felt it was obligated to sidestep a geographic limit on copyright exhaustion as a matter of statutory interpretation in light of Section 104 of the Copyright Act, which applies U.S. copyright law to foreign works and Section 109, the first sale doctrine. Alternatively, geographic limit on the patent exhaustion doctrine has existed for a long time, and both the Supreme Court and Federal Circuit have long restated that U.S. patent law lacks extraterritorial effect. Policy-wise, as Justice Ginsburg’s *Kirtsaeng* dissent noted, in trade negotiations the United States opposes international exhaustion to support intellectual property holders in creating differing prices in different territories, particularly beneficial to patent-intensive industries, such as pharmaceuticals.

⁷⁴ 394 F.3d 1368 (Fed. Cir. 2005).

⁷⁵ *Id.* at 1376.

Despite the history of the principle of independence, I believe that the principles articulated in *Jazz Photo* are outdated. Specifically, I would reject the doctrine upholding the independence of patents in infringement suits. I would argue that a court's finding of patent infringement in one country should be binding on the courts of other countries. Requiring the parties to go through another round of litigation only wastes time and resources, undermining the efficiency of the now globalized patent system.

5. CHOICE OF FORUM AND THE APPLICATION OF FOREIGN LAW BY U.S. COURTS

(a) Introduction

In the United States, to hear a case, a court must possess personal jurisdiction over the defendant and jurisdiction over the subject matter of the claim. Although these concepts may be expressed differently in other countries, the notion that there are restrictions (grounded both in fairness to the parties and in the legitimate scope of forum sovereignty) on the courts that may adjudicate a particular dispute is shared by all developed legal systems. The U.S. is not party to a multi-lateral treaty on jurisdiction concerning civil matters. The principles regarding such jurisdiction have been developed by the case law and the courts have distinguished the jurisdiction to hear a claim when the subject involves copyright as compared with trademark and patent law.

(b) Copyright Law: *London Film Productions, Ltd. v. Intercontinental Communications, Inc.*

As a general principle, the courts often reiterate the principle that intellectual property law is territorial in nature and, as such, is considered effective only within the borders of an individual country. But when an act of infringement occurs in a foreign country, a U.S. court may, nevertheless, have jurisdiction to hear the case. Here the distinction is made between jurisdiction to adjudicate – choice of forum – and the choice of law to be applied. The federal courts may have jurisdiction if the claim of copyright infringement is considered a transitory cause of action, even if the cause of action arose in the foreign jurisdiction. Title 28 U.S.C. § 1332(a)(2) confers jurisdiction in a federal court if the requirements of diversity of citizenship (citizens of a state and citizens or subjects of a foreign country) and jurisdictional amount (\$75,000) are

met. For claims based on foreign patents, several provisions have been invoked to establish jurisdiction of federal courts. Under the title “Supplemental Jurisdiction,” 28 U.S.C. § 1367 provides that:

In any civil action of which the district courts have original jurisdiction, the district courts shall have supplemental jurisdiction over all other claims that are so related to claims in the action within such original jurisdiction that they form part of the same case or controversy under Article III of the United States Constitution.

The necessary relationship between the claims is established if the federal claim derives from “a common nucleus of operative facts” with the state claim to be heard under supplemental jurisdiction.⁷⁶

Even though U.S. law may not apply, a U.S. court might retain jurisdiction over an action for an infringement of an intellectual property right, and in so doing, apply the laws of the foreign jurisdiction. As will be shown, the U.S. courts are more willing to apply foreign law in cases involving copyright than in those involving Patent Law.

U.S. courts are willing to allow a U.S. forum to apply to the laws a foreign jurisdiction in copyright matters. For example, in *London Film Productions, Ltd. v. Intercontinental Communications, Inc.*,⁷⁷ the court relied on “diversity jurisdiction” in an international copyright case. In this case, a British company, London Film, charged a New York company, Intercontinental Communications (ICI) with infringing London Film’s British copyrights. The alleged infringements took place in Chile and other South American countries. ICI moved to dismiss the claim. First, it challenged the district court’s jurisdiction over this action because plaintiff alleged no wrongdoings under U.S. law. Secondly, even assuming jurisdiction, the court would have to construe unfamiliar foreign laws and in so doing would violate the doctrine of *forum non conveniens*. The court noted the “obvious interest in securing compliance with this nation’s laws by citizens of foreign nations who have dealings

⁷⁶ *United Mine Workers of Am. v. Gibbs*, 383 U.S. 715, 725 (1966).

⁷⁷ 580 F. Supp. 47 (S.D.N.Y. 1984). See David R. Toroya, “Federal Jurisdiction over Foreign Copyright Infringement Actions – An Unsolicited Reply to Professor Nimmer,” 70 Cornell L. Rev. 1165 (1985); Nimmer and Nimmer on Copyright, § 17.03 (2013); Jane C. Ginsburg, “Global Use/Territorial Right: Private International Law Questions of the Global Information Infrastructure,” 42 J. Copyright Soc’y U.S.A. 318 (1995) (proposing choice of law rules applying to copyright infringement occurring in a multiplicity of nations).

within this jurisdiction. A concern with the conduct of American citizens in foreign countries is merely the reciprocal of that interest.”⁷⁸

As for the *forum non conveniens* argument, the case would likely involve the construction of at least one, if not several, foreign laws, but, as the court noted, the need to apply foreign law is not in itself reason to dismiss or transfer the case. Moreover, the court pointed out that the defendant was not subject to personal jurisdiction in any foreign forum and that an available forum is necessary to validate dismissal on grounds of *forum non conveniens*. If there is no alternative forum the plaintiff might find himself with a valid claim but nowhere to assert it.

Even when personal jurisdiction can be exercised over the parties, a U.S. court may refuse to act, on the ground of *forum non conveniens*. Generally, a motion to dismiss under a *forum non conveniens* doctrine is decided in two steps. The court must determine whether there exists an alternative forum with jurisdiction to hear the case. If so, the court must then decide whether the balance of convenience tilts strongly in favor of trial in the foreign forum. Here, the court must consider the relevant private interests of the litigants such as the access to proof, availability of witnesses, and other factors that make the trial less costly in the venue at issue. Thus, one court held that New York is a *forum non conveniens* in a dispute about ownership between two British citizens, governed by British contract law, with events taking place in the U.K.⁷⁹

Normally, a district court has wide discretion on whether to dismiss an action under the doctrine of *forum non conveniens*. But in *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney & Co.*,⁸⁰ the second circuit overturned the trial court’s application of the doctrine. There, the plaintiff claimed that Disney had exceeded its authority under a grant from Igor Stravinsky when it distributed videocassettes of *Fantasia* – including sequences synchronized to “The Rite of Spring” – in at least 18 countries other than the United States. In reversing the trial court’s *forum non conveniens* dismissal (which had been based, among other things, on the difficulty of ascertaining and applying foreign law), the court indicated that reluctance to apply foreign law is one factor favoring dismissal. Nonetheless, countervailing considerations suggested that New York was the appropriate venue: the defendant is a U.S. corporation, the 1939 agreement was substantially negotiated and signed in New York, and the agreement was governed by New York law.

⁷⁸ 580 F. Supp. at 49.

⁷⁹ *Murray v. British Broad. Corp.*, 81 F.3d 287 (2d Cir. 1996); see also *Creative Technology, Ltd. v. Aztech System Pte. Ltd.*, 61 F.3d 696 (9th Cir. 1995).

⁸⁰ U.S.P.Q. 2d 1577 (2d Cir. 1998).

(c) Patent Law: *Voda v. Codis Corp.*

*Voda v. Codis Corp.*⁸¹ reveals the reluctance of U.S. courts to apply foreign law in cases involving patent as compared with copyright law. In *Voda*, the district court had allowed the patentee to add claims of infringement of foreign counterpart patents from France, Germany and the United Kingdom to the action. On appeal, the Federal Circuit declined to decide whether the district court had jurisdiction. Even if it had, the Court of Appeals declared that the district court had abused its decision to exercise this jurisdiction. This was based on “considerations of comity, judicial economy, convenience and fairness,” all of which established compelling reasons to decline jurisdiction in this case. This decision did not definitely settle the issue of whether a U.S. patentee can successfully introduce claims stemming from foreign-counterpart patents in a U.S. litigation. However, it does show the attempts that may be made in litigation to attack an infringer in one court when arguing that not only domestic, but also foreign patents are infringed, and that both patentees and (potential) defendants should be aware that such far-reaching jurisdiction of courts must always be taken into consideration.

By contrast, the dissent argued that the majority opinion was based upon an erroneous statutory interpretation of § 1367(c), and its worries about comity, national patent policy, fairness, and the Act of State doctrine were misguided. The dissent took a similar position to that in London, that is, it would treat claims for the infringement of foreign patents as “transitory” causes of action that may be heard in U.S. courts. To do so would violate neither patent law’s territoriality principle nor principles of international comity or sovereignty. Moreover, the doctrine of international comity may actually favor such jurisdiction. Undeniably, there are good reasons for allowing the *infringement* of foreign patents under certain circumstances, excluding formal determinations of validity, especially when doing so results in a more efficient and fair resolution of a case.

But why did the Federal Circuit decide as it did? The Court has long displayed a wariness, if not outright hostility to foreign patent law. This hostility stands in direct contrast to the more permissive attitude taken by other federal courts toward other areas of federal law, such as copyright law. In *Voda* the Federal Circuit misconstrued the jurisdictional issue in charactering patents as quasi-local actions that can be brought only where

⁸¹ 476 F.3d 887 (2007).

the subject matter of the controversy exists. The Court has erected a *per se* rule that ignores the practicalities of the global marketplace.

(d) Choice of Law Rules: Regarding Ownership and Infringement

(1) Introduction

The choice of law to be made will be a function of the largely unwritten rules prevailing in the particular forum.⁸² Similar to Berne, the U.S. Copyright Act provides no guidance on choice of law rules. Given the lack of statutory direction, the courts have found it necessary to fill the interstices of the Act by developing a *de facto* federal common law on the conflicts issue.

Conflicts of law in copyright cases often involve issues regarding the applicable law in determining ownership and infringement.⁸³ As for ownership, copyright is regarded as a form of property and the usual rule is that the interests of the parties in the property are determined by the law of the state with the most significant relationship to the property and the parties.⁸⁴ Under this doctrine, the “country of origin” is the appropriate country for purposes of choice of law concerning ownership.⁸⁵ By contrast, the governing conflicts principle is usually the *lex loci delicti* (where the infringing activity occurred), the doctrine generally applicable to torts.

(2) *Itar-Tass Russian News Agency v. Russian Kurrier, Inc.*

Conflict of law rules regarding ownership and infringement issues are illustrated by *Itar-Tass Russian News Agency v. Russian Kurrier, Inc.*⁸⁶ In

⁸² “Rights and the Private International Law of Copyright,” 22 Colum.-VLA J.L. & Arts 165 (1998). See Berne Convention Article 5(2). For an overview, see Jane C. Ginsburg, “Ownership of Electronic Rights and the Private International Law of Copyright,” 22 Colum.-VLA J.L. & Arts 165 (1998).

⁸³ These issues are examined comprehensively in Paul Edward Geller, “Conflicts of Laws in Copyright Cases: Infringement and Ownership Issues,” 51 J. Copyright Law Soc’y, U.S.A. 315 (2004). See also Raquel Xalabarder, “Choice of Law and Jurisdiction in the Digital Age,” 8 Ann. Surv. Int’l & Comp. L. 79 (2002).

⁸⁴ See Restatement (Second) of Conflict of Laws § 222. In fact, the Restatement recognizes the applicability of this principle to intangibles as a “literary idea.”

⁸⁵ See 17 U.S.C. § 104. See also Berne Convention Article 5(4) (country of origin).

⁸⁶ 3 F.3d 82 (2d Cir. 1998).

Itar-Tass, defendant Russian Kurrier published a weekly Russian-language newspaper in New York that contained original articles from the Russian press. Russian publishers and newspapers sued Russian Kurrier for copyright infringement. Since U.S. law permits suits only by owners of an exclusive right under copyright,⁸⁷ it must first be determined whether any of the plaintiffs own an exclusive right. The court held that the choice of law rule for ownership questions is to be determined by the law of the state with the “most significant relationship” to the property and the parties. Here, ownership is to be decided under Russian law, because the works at issue were created by Russian nationals and first published in Russia. Under Russian law, *Itar-Tass*, a press agency, was deemed to be the owner of the copyright interests in the articles written by its employees. Alternatively, the newspaper plaintiffs owned no exclusive right in the works copied because they were specifically denied benefits under the Russian version of the work made for hire doctrine. The infringement issue was easier to decide. The court held that the place of the tort, the United States, determines the applicable law. Thus, *Itar-Tass* and the other publisher plaintiffs were entitled to injunctive relief and damages for copyright infringement.

The *Itar-Tass* decision illustrates the difference between national treatment and choice of law rules. It reveals that courts will have to apply principles of foreign law in instances where they have jurisdiction over the case. In addition, *Itar-Tass* reveals that the application of foreign law, particularly on the question of ownership, may lead to a result different from one based on U.S. law. True, copyright laws around the world are converging toward universal norms, but the laws themselves are hardly uniform and may sometimes vary significantly.

6. COLLATERAL ESTOPPEL, THE ENFORCEMENT OF FOREIGN JUDGMENTS AND ANTI-SUIT INJUNCTIONS

(a) Collateral Estoppel Effect of Foreign Judgments

Despite the history of the principle of independence, a growing number of people view the principle as outdated and unnecessary. Specifically, these critics want rejection of the independence of patents in infringement suits. They argue that a court’s finding of patent infringement in one country should be binding on the courts of other countries. Requiring

⁸⁷ 17 U.S.C. § 501(b).

the parties to go through another round of litigation only wastes time. For these critics, the following two district court cases exemplify the problem.

(1) *Cuno Inc. v. Pall Corp.*⁸⁸

Cuno sued Pall in New York alleging that Pall's patent on a nylon filter was invalid. While the parties were gathering evidence for trial, Pall sued Cuno in Great Britain alleging that its patent on the filter was valid and that Cuno's products had infringed its patent. The British found infringement, and Cuno appealed. Meanwhile, based upon the favorable results of the British trial, Pall moved for summary judgment on grounds that the British judge's opinion was binding on the parties and required that the court find that its patent was valid. After researching the matter, Judge Weinstein concluded that based upon the cases codifying the principle of the independence of patents, a finding of infringement by a foreign court could not be the basis for summary judgment in a U.S. patent case.

However, to Judge Weinstein the principle of independence of patents needed to be reconsidered because it yielded results that were absurd. Judge Weinstein failed to understand why

a well and thoroughly reasoned decision reached by a highly skilled and scientifically informed ... Patent Court ... of Great Britain after four weeks of trial must be ignored and essentially the same issues with the same evidence must now be retried by American jurors with no background in science or patents, whose average formal education will be no more than high school.⁸⁹

In fact, Judge Weinstein was so unconvinced by the result that near the end of his Opinion he warned Cuno that should the U.S. trial jury decide in a way inconsistent with the United Kingdom court's decision the court could, after the trial, grant what would be in effect a delayed summary judgment motion.

(2) *Vas-Cath Inc. v. Marhurkar*

Not all courts have followed *Cuno's* strict adherence to the independence of patents when doing so would be an affront to judicial efficiency. This more practical view was taken in *Vas-Cath, Inc. v. Marhurkar*,⁹⁰ the facts of which are similar to those of *Cuno*. In this case, Marhurkar was

⁸⁸ 729 F. Supp. 234 (E.D.N.Y. 1989).

⁸⁹ Id. at 239.

⁹⁰ 935 F. 2d 1555 (Fed. Cir. 1991).

granted a patent for a specific type of catheter both in the United States and in Canada. After its principal competitor, Vas-Cath, began selling similar products, Marhurkar sued for patent infringement in Canada. Vas-Cath argued that Marhurkar's patent was invalid on a variety of grounds, all of which were rejected by the Canadian court, which found that Vas-Cath actions infringed Marhurkar's Canadian patent. Upset by the results of the Canadian case, Vas-Cath sued Marhurkar in the United States, alleging that Marhurkar's U.S. patent was invalid because Marhurkar stole the idea for its patent from Vas-Cath. Marhurkar moved for summary judgment based on the results of the Canadian case. Vas-Cath, relying on *Cuno*, responded by arguing that the decision of the Canadian court could have no effect on litigation in the courts of the United States.

Like Judge Weinstein in *Cuno*, Judge Easterbrook did not understand why patent litigation about the same invention should be required to start over simply because the parties moved to a different country. He reasoned that requiring the parties to re-litigate the case only wastes judicial resources and reduces the return on investment the patent system was designed to produce. However, Judge Easterbrook was not willing to accept Judge Weinstein's notion that he was required by prior cases to ignore the foreign court's rulings. Specifically, he stated that:

Judge Weinstein believes that the Federal Circuit is so hostile to preclusion in patent cases that a district court must decline to give effect to a foreign judgment even on questions of fact extensively litigated ... I do not read the ... cases as compelling courts of the United States to ignore informed decisions rendered abroad If a foreign court renders judgment on a question of fact with significance in each system of law, there is no reason not to take over that decision. Despite Judge Weinstein's omens, I propose to do just that: to examine the Canadian judgments, to learn what has been decided, and to apply those decisions to this litigation to the extent – and only to the extent – they are legally relevant, and the findings are free of influences of legal differences.⁹¹

To Judge Easterbrook, the fact that patents were identical and the ideals of “cost-saving and decision-expediting devices” outweighed any benefits deriving from the principle of the independence of patents. The doctrine of international comity, or mutual respect of sovereigns, requires courts of one nation to avoid, where possible, interfering with courts of another. However, the realities of the marketplace and the outrageous complexity

⁹¹ *Id.* at 525–26.

and cost of multinational patent litigation must be taken into account in any rational system for our current age.

(b) Recognition and Enforcement of Foreign Judgments

(1) Introduction

The Internet and global e-commerce have led to ever more transnational litigation and judgments rendered in a multiplicity of jurisdictions. Suppose a monetary judgment is rendered in France against a U.S. company. Under what circumstances is the French judgment enforceable in state court, for example New York, where the defendant is domiciled? As a general rule, foreign judgments are enforced on the basis of reciprocity or participation in a treaty. The United States is not party to any international agreement regarding the mutual recognition of judgments and no federal statute covers the issue. State law governs recognition of foreign judgments unless the judgment resulted from a federal question case, such as one based on a U.S. patent.⁹² Some 31 states have enacted the 1962 Uniform Foreign Money Judgments Recognition Act.⁹³ Most of the pertinent state laws trace their origins to a 19th century decision in which the Supreme Court established basic principles of comity and reciprocity for the recognition and enforcement of foreign judgments.⁹⁴ Under the principles articulated by the court, a foreign judgment will be recognized if it included the opportunity for a fair trial abroad, a trial before a court of competent jurisdiction, and a trial conducted through regular proceedings.⁹⁵ The Court indicated that a U.S. court need not recognize a foreign judgment contrary to the forum's public policy.

Despite the recognition of foreign judgments under principles of comity, there are limitations for their mechanical enforcement. In judgments involving foreign IPR, a court can refuse recognition if the proceedings before the foreign court did not meet certain minimal standards. Much depends on where the foreign judgment originates. In general, U.S. courts appear more willing to enforce Western European judgments – and particularly English judgments – than those of other nations. Facial similarity between the foreign and the U.S. proceedings is

⁹² *Glaverbel SA v. Northlake Marketing & Supply Inc.*, 48 U.S.P.Q. 2d 1344, 1347 (N.D. Ind. 1998).

⁹³ See Unif. Foreign-Country Money Judgments Recognition Act, 13 U.L.A.; the Uniform Act was revised in 2005 and adopted by numerous states.

⁹⁴ *Hilton v. Guyot*, 159 U.S. 113 (1895).

⁹⁵ *Id.* at 202–03.

less important than the basic fairness of the foreign procedures.⁹⁶ For example, the lack of U.S.-style discovery in a Belgian patent infringement proceeding did not prevent the enforceability of the judgment in the United States.⁹⁷

In sum, the general principle of international law applicable in such cases is that a foreign state claims and exercises the right to examine judgments for four causes: (1) to determine if the court had jurisdiction; (2) to determine whether the defendant was properly served; (3) to determine if the proceedings were vitiated by fraud; and (4) to establish that the judgment is not contrary to the public policy of the foreign country.⁹⁸

(2) *Louis Féraud Int'l. v. Viewfinder, Inc.*

The public policy exception to the recognition of foreign judgments is illustrated in *Louis Féraud Int'l. v. Viewfinder, Inc.*⁹⁹ Féraud and Balmain, French fashion designers, sued the defendant in France, alleging copyright infringement of their dress designs by the defendant's photographs that were published on the Internet. The plaintiffs obtained a default judgment issued by the Tribunal de grande instance de Paris after the defendant failed to answer the complaint or to appear in the foreign proceeding. The plaintiffs sought to enforce a substantial monetary judgment under New York's Uniform Money Judgments Recognition Act.¹⁰⁰ The district court refused to enforce the French judgment because the judgment was repugnant to the public policy of New York as a violation of the defendant's First Amendment fair use rights.¹⁰¹ The Second Circuit reversed, finding that the district court was required to undertake a full fair use analysis and determine whether French law provided similar protection before ruling that the judgment was repugnant to public policy. The court appeared to concede, however, that the judgment could not be enforced if, on remand, the use was found to be fair under U.S. law. The court added that the "public policy" inquiry rarely results in refusal to enforce a judgment unless "it is inherently

⁹⁶ *Ingersoll Milling Mach. Co. v. Granger*, 833 F.2d 680, 688 (7th Cir. 1987).

⁹⁷ *Glaverbel SA v. Northlake Marketing & Supply Inc.*, 48 U.S.P.Q. 2d 1344, 1348 (N.D. Ind. 1998).

⁹⁸ Unif. Foreign-Country Money Judgments Recognition Act, 13 U.L.A. § 4; RESTATEMENT (SECOND) OF CONFLICTS OF LAWS § 117 Cmt. C.

⁹⁹ 489 F.3d 474 (2d Cir. 2007).

¹⁰⁰ N.Y. C.P.L.R. §§ 5302, 5303.

¹⁰¹ N.Y. C.P.L.R. §§ 5304(b).

vicious, wicked, or immoral, and shocking to the moral sense.”¹⁰² Furthermore, “it is well established that more divergence from American procedure does not render a foreign judgment enforceable.”¹⁰³ Apparently, lack of a fair use equivalent in the jurisdiction would fall within these criteria.

Little U.S. case law exists on the issue of the enforcement of foreign judgments. Unfortunately, *Viewfinder* provides little guidance when the remedy may be invoked before U.S. courts. Clearly, the public exception doctrine offers a narrowly interpreted discretionary safety valve. It should be invoked only to protect against judgments that clearly violate fundamental notions of what is clearly offensive to public policy.

(c) Anti-suit Injunctions

In today’s global economy parallel litigation is often brought simultaneously in several countries. Litigants facing foreign proceedings rather than challenging proceedings in a potentially inconvenient and hostile foreign court often pursue preemptive remedies, such as anti-suit injunctions in domestic courts to enjoin the undesired foreign proceedings. This is an extraordinary remedy. Normally, parallel litigation occurs – the courts generally take the position that the same claim should be allowed to proceed concurrently until judgment is reached in one, which can then be plead as *res judicata* in the other. Thus, an anti-suit injunction that enjoins parties from prosecuting a foreign suit is an exception to the hands-off attitude that courts take in parallel litigation. They are issued sparingly.

The courts have found discretionary authority to impose an anti-suit injunction against parties over whom they have personal jurisdiction even though no statutory authority grants the federal court the power to do so. Despite their ability to impose anti-suit injunctions, the courts have never been unanimous as to what legal standards apply to justify this remedy. One group of courts favors international comity over the courts’ equitable power to issue anti-suit injunctions. These circuits require the movant to demonstrate that an injunction is necessary to protect the forum’s jurisdiction, or to prevent evasion of the important public policies of the forum. These circuits thereby elevate the doctrine of international comity to the virtual exclusion of all other considerations. Another group of courts applies a more relaxed standard in allowing an anti-suit injunction.

¹⁰² 489 F.3d at 479.

¹⁰³ *Id.*

These courts use a four-prong test and may enjoin a party from proceeding with a foreign action that is (1) against the public policy of the forum issuing the injunction; (2) vexatious or oppressive; (3) threatening to the issuing court's *in rem* or quasi *in rem* jurisdiction; or (4) prejudicial to other equitable considerations. These circuits emphasize the traditional equitable power of the court to enjoin a person within its jurisdiction from litigating abroad, whereas comity is set aside in the interests of the parties.

As a general rule, the United States federal courts have been uniformly reluctant to impose an anti-suit injunction even though the same parties may properly be before the court in another matter. In matters of intellectual property, U.S. courts have entertained the possibility of an anti-suit injunction but have rarely done so. The attitude expressed is that patents and trademarks represent distinct legal rights and that no public interest would be served by enjoining a foreign action involving different patents, trademarks, or copyrights granted by different sovereigns.¹⁰⁴ For example, in *Zynga v. Vostu USA, Inc.*, the court ruled that to obtain an anti-suit injunction, the applicant must demonstrate that the parties and issues are the same and that the first action is dispositive of the action to be enjoined. The court found that a U.S. copyright claim was not the same as a copyright claim arising under foreign law because copyright law is not extraterritorial. Moreover, a U.S. action could not dispose of any claims arising under Brazilian law because to do so would interfere with Brazilian public policy.¹⁰⁵

7. CONCLUSION

As stated at the outset, it is difficult to synthesize the multitude of issues concerning cross-border enforcement into a convenient set of summarizing propositions. At least for civil litigation the developing case law has shown that the courts are more willing than ever to contemplate extraterritorial application of U.S. intellectual property and to incorporate the realities of the global marketplace and the technological changes of the digital age. In addition, the gray market in U.S. law has become a quasi-international exhaustion system, at least in the case of copyright,

¹⁰⁴ *Western Electric Co. v. Milgo Electronic Corp.*, 450 F. Supp. 835 (S.D. Fla. 1978).

¹⁰⁵ 816 F. Supp. 2d 824 (N.D. Cal. 2011). *See also, Microsoft v. Lindows.com*, 319 F.Supp. 2d 1219 (W.D. Wash. 2004) (refusing an anti-suit injunction in a multinational trademark dispute).

and trademark. The decline of territoriality, however, has hardly been uniform. As we have seen, for the collateral estoppel effect of foreign judgment, a stricter territoriality is manifested in the case law, tempered by traditional concerns of comity. Moreover, for the enforcement of foreign judgments, jurisdiction is placed in the state court system, which uniformly contains public policy exceptions to the enforcement of foreign based judgments, reflecting a reluctance to incorporate decisions of foreign courts into domestic legal culture.