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## Behind the Steele Curtain: An Empirical Study of Trademark Conflicts Law, 1952-2016

Tim W. Dornis

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# Behind the *Steele* Curtain: An Empirical Study of Trademark Conflicts Law, 1952–2016

Tim W. Dornis\*

## ABSTRACT

*The law on international trademark disputes is founded on precedent from 1952. Steele v. Bulova Watch Co. is the first and only Supreme Court decision addressing the question of how far the Lanham Act should be extended beyond the United States' national borders when international infringement is at issue. The decision laid the foundation for a three-pronged test that focuses on the factors of defendant nationality, effects on US commerce, and conflicts with foreign law. Although international trademark conflicts have multiplied dramatically—particularly throughout the last decade—there has been no systematic and comprehensive account of the actual state of the law. Courts and commentators continue to rely only on a small set of leading cases—Steele and a handful of appellate court opinions—when testing the territorial scope of the Lanham Act, thus ignoring the landscape of lower courts' decision-making. To address this blind spot, an empirical study of the field's case law from its inception in 1952 until 2016 was undertaken. The results,*

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\* Professor of Law, Leuphana Law School, Germany; Dr. iur., Ph.D., University of Tübingen; J.S.M., Stanford University; Attorney-at-Law, New York. This Article profited immensely from presentations at the Max Planck Institute for Innovation and Competition (Munich, Germany); in the Oxford Intellectual Property Discussion Group at Oxford University (Oxford, UK); at the Center of Intellectual Property and Information Law (CIPIL) at Cambridge University (Cambridge, UK); in the Colloquium Recht & Ökonomie at the University of Kassel (Germany); and at the Intellectual Property Scholars Conference 2017 at Benjamin N. Cardozo School of Law (New York, USA). I especially thank Graeme W. Austin, Barton Beebe, Lionel Bently, Graeme Dinwoodie, Jane C. Ginsburg, Henning Grosse Ruse-Khan, Florian Kessenich, Annette Kur, Mark A. Lemley, Poorna Mysoor, Deniz Karaman Örsal, Bettina Scherg, Marketa Trimble, Georg von Wangenheim, and Thomas Wein for helpful comments. In addition, I want to thank the editors of the *Vanderbilt Journal of Entertainment & Technology Law* for their excellent work. Any remaining errors are mine alone. Portions of this Article also appear in my recent book, TIM W. DORNIS, TRADEMARK AND UNFAIR COMPETITION CONFLICTS: HISTORICAL-COMPARATIVE, DOCTRINAL, AND ECONOMIC PERSPECTIVES (2017), which is available as an Open Access Resource on the Cambridge University Press website.

*presented in this Article, reveal that much of the conventional wisdom regarding the state of judge-made law in trademark conflicts cases is questionable, if not incorrect. This Article not only provides new and unexpected insights into the actual extension of US trademark law beyond national territory but also explains which factors drive the outcome of extraterritoriality testing in practice, how these factors interact with one another, and how each factor has been shaped over time. Based on these findings, this Article suggests several corrections to existing doctrine. More succinctly put, in the interest of aligning judicial practice with the realities of socioeconomic globalization, the current overextension of the Lanham Act must be curbed. The doctrine of trademark extraterritoriality that has evolved in the wake of Steele is an anticompetitive detriment rather than a rights holder panacea.*

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## I. INTRODUCTION

Protecting intellectual property rights in a world of globalized economies and societies is complicated. The legal environment may have seemingly become increasingly friendly toward rights holders. Public international law protection has been on the rise since the nineteenth century, and most national regimes have increased their protection standards for intellectual property. Nonetheless, outside the United States, protection levels are often not as comprehensive and litigation in foreign jurisdictions is often not as effective. Therefore, it is not surprising that suing “at home” remains the main tool for US rights holders seeking protection from cross-border and transnational infringements. In this regard, examining the categories of intellectual property reveals a peculiarity: intellectual property law in the United States is generally governed by the so-called “territoriality principle”; this principle provides for a limitation of laws, implying a corresponding limitation of rights.<sup>1</sup> Within the

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1. Trademarks are treated under the same rules as copyrights and patent, design, and *sui generis* rights. See Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT’L L. 505, 507 (1997); see, e.g., *Pers.’s Co. v. Christman*, 900 F.2d 1565,

umbrella of intellectual property, however, copyright and patent law seem to follow a different path from trademark law. While the former are perceived to be strictly territorial, trademark law is said to extend across national borders, and, to a certain extent, individual rights seem to be protectable “extraterritorially.”<sup>2</sup> The usual explanation for this difference dates back to 1952, when the Supreme Court handed down its ruling in *Steele v. Bulova Watch Co.*<sup>3</sup>—the Court’s only precedent on this issue. In *Steele*, the Court’s majority set the stage for extraterritoriality by emphasizing the “broad jurisdictional grant in the Lanham Act” as well as the “Act’s sweeping reach into ‘all commerce which may lawfully be regulated by Congress.’”<sup>4</sup> A conventional view further refers to the fact that subsequent courts have interpreted *Steele* as establishing a three-pronged test—considering nationality, effects on US commerce, and conflicts with foreign law—that must be balanced in order to determine the scope of the Lanham Act as the federal trademark statute.<sup>5</sup> In essence, current doctrine seems to have evolved from a single precedent establishing both a wide extension of US rights and a clear-cut formulaic test structure.

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1568–69 (Fed. Cir. 1990); see also Graeme B. Dinwoodie, *Trademarks and Territory: Detaching Trademark Law from the Nation-State*, 41 HOUS. L. REV. 885, 891–907 (2004); TIM W. DORNIS, TRADEMARK AND UNFAIR COMPETITION CONFLICTS: HISTORICAL-COMPARATIVE, DOCTRINAL, AND ECONOMIC PERSPECTIVES, 193–200 (2017). For other jurisdictions (e.g., the European Union and Germany), see, for example, Regulation (EC) No. 864/2007 of the European Parliament and of the Council of 11 July 2007 on the Law Applicable to Non-Contractual Obligations (Rome II), 2007 O.J. (L 199) 40, 42 [hereinafter EC Regulation No. 864/2007]; Karl Kreuzer, in 10 MÜNCHENER KOMMENTAR ZUM BÜRGERLICHEN GESETZBUCH art. 38 EGBGB app. II, ¶ 56 et seq. (Kurt Rebmann & Jürgen Säcker eds., 3d ed. 1998).

2. See, e.g., *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) (“Our patent system makes no claim to extraterritorial effect . . .”); *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 249 (4th Cir. 1994) (“[T]he power [i.e., extraterritorial reach] is more extensive under the Lanham Act than under the Copyright Act . . .”); *Subafilms, Ltd. v. MGM-Pathe Commc’ns Co.*, 24 F.3d 1088, 1093 (9th Cir. 1994) (copyright territoriality); see also Bradley, *supra* note 1, at 520–31.

3. *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952).

4. *Id.* at 286–87. For court wisdom and commentary, see, for example, *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247, 271 n.11 (2010) (citing *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 252 (1991) (“[W]e have since read [*Steele*] as interpreting the statute at issue—the Lanham Act—to have extraterritorial effect . . .”)); *McBee v. Delica Co.*, 417 F.3d 107, 110 (1st Cir. 2005) (“It has long been settled that the Lanham Act can, in appropriate cases, be applied extraterritorially.”); J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 29:57 (5th ed., 2017) (“The *Bulova Watch* case results in an extra-territorial reach for the trademark laws which is considerably broader than that of the patent and copyright laws.”).

5. See, e.g., *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 642–43 (2d Cir. 1956); Dan L. Burk, *Trademark Doctrines for Global Electronic Commerce*, 49 S.C. L. REV. 695, 727 (1998); see also MCCARTHY, *supra* note 4, § 29:58.

However, upon closer scrutiny, the assumption that *Steele* established a well-founded, streamlined, and plaintiff-friendly doctrine begins to falter. Above all, it is far from clear whether the revered paradigm of extraterritoriality conforms to the realities of actual court practice. To date, no one has examined the *Steele* progeny on their overall test outcomes. Thus, it remains to be seen whether courts actually extend—or even overextend—the Lanham Act. Moreover, even if it originates from the Supreme Court, a single precedent can barely account for the six-decade evolution of legal doctrine across thirteen US Courts of Appeals. Likewise, it is not much more plausible that the current status of the law can be explained by reference to a few leading appellate cases and their respective interpretations of the Supreme Court’s three-pronged test.<sup>6</sup> Nevertheless, this is precisely the conventional wisdom told by legal scholars and commentators who rely on a few handpicked appellate court decisions to describe the overall state of the law.<sup>7</sup> The reality is that empirical studies are nonexistent, and the actual legal landscape remains highly vague and subjective. In the words of Karl Llewellyn, the situation is “pathological”<sup>8</sup>: depending on the deciding judge’s or commenting academic’s ideas, perceptions, and preferences, the case law will appear in a light that is different from the reality of day-to-day court practice.

This Article, which represents the first empirical study of case law on the issue of Lanham Act extraterritoriality, seeks to address these concerns and offer a solution that avoids falling prey to conventional wisdom. The content analysis is based on a data set of 159 federal and state court opinions, from 1952 until the end of 2016, that made use of the Supreme Court’s *Steele* opinion or any of the circuit courts’ extraterritoriality tests that evolved in its wake.<sup>9</sup> The analysis proceeds as follows: Part II offers insight into the current doctrine of Lanham Act extraterritoriality, which comprises scholarly theory and appellate courts’ practice concerning cases with cross-border and transnational elements of trademark infringement. In addition to the *Steele* test, the Article examines both the tests

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6. For the different test versions, see *infra* notes 28–58 and 101–04 and accompanying text.

7. See *infra* Part II.B.

8. KARL N. LLEWELLYN, THE BRAMBLE BUSH: ON OUR LAW AND ITS STUDY 58 (1930).

9. For a description of the method of so-called “content analysis,” see, for example, Fred Kort, *Content Analysis of Judicial Opinions and Rules of Law*, in JUDICIAL DECISION-MAKING 133 (Glendon Schubert ed., 1963); Mark A. Hall & Ronald F. Wright, *Systematic Content Analysis of Judicial Opinions*, 96 CALIF. L. REV. 63 (2008); Reed C. Lawlor, *Fact Content Analysis of Judicial Opinions*, 8 JURIMETRICS J. 107 (1968).

developed by different circuits since 1952 and the conventional wisdom applied in scholarly and practical commentary.

The descriptive Sections of Part III present the results of the empirical analysis in several steps. Section A starts with a general overview of the *Steele* progeny, including the distribution of cases over time, the cases' venues, and the courts' test variants. That Section also explores the impact of external influences on the case law at hand—such as the globalization of trade and commerce, public international law developments around intellectual property protection, and the digitization of communication. Section B unveils the actual scope of the Lanham Act. In addition to explaining the higher-than-average rate of Lanham Act application, that Section provides information that can help correct conventional wisdom on the various appellate court tests' relevance and evolution over time. In Section C, the empirical picture presents new insights into the interrelations among the factors in extraterritoriality testing, thereby determining whether nationality, effects on US commerce, or conflicts with foreign law ultimately drive the outcome. Section D examines the evolution of each test factor over time, assessing how each factor has been modified and remodeled by the courts. Results in that Section provide the most unexpected and counterintuitive results of this inquiry. Notably, the development of “effects on US commerce” into the most influential test element and its widely overlooked foundation in pre-Lanham Act common law doctrine can be explained as one of the most determinative features of current law.

The findings in Parts II and III provide a rich groundwork for a structured economic analysis in Part IV. That Part's normative analysis is oriented toward the future: it addresses the regulatory aspects of trademark extraterritoriality and the fact that theory and practice still seem oblivious to the “hidden economics” of trademark conflicts law.

## II. BACKGROUND

When a US trademark seems to be infringed in an international transaction, the owner has two options. First, she may sue abroad. The case will then likely be subject to the application of foreign trademark law.<sup>10</sup> Alternatively, she may sue in a US federal

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10. See, e.g., EC Regulation No. 864/2007, *supra* note 1, at 45. On European choice of law, see DORNIS, *supra* note 1, at 190–200.

court.<sup>11</sup> The second option is usually preferred since the level of rights protection and the procedural setting are more inviting in the United States.<sup>12</sup> Because federal courts will generally not apply foreign trademark law, they will either rely on the Lanham Act to grant protection, or they will dismiss the case.<sup>13</sup> This explains why the Act's territorial scope is of the essence.<sup>14</sup> Although there is a general presumption under the Constitution that US law is to be applied territorially,<sup>15</sup> the vigor of this presumption varies. In *Steele*, the Supreme Court set sail for an extension of the Lanham Act, weakening the presumption.<sup>16</sup> In the wake of this ruling, circuit

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11. Cases concerning the extraterritorial application of the Lanham Act are primarily filed in federal courts. As the summary statistics reveal, only 2 out of 159 opinions were issued by state courts. See *infra* Part III.A.1.

12. Xuan-Thao N. Nguyen, *The Digital Trademark Right: A Troubling New Extraterritorial Reach of United States Law*, 81 N.C. L. REV. 483, 491 (2003); Thomas Berner, Case Note, *Wells Fargo & Company v. Wells Fargo Express Company*, 556 F.2d 406 (9th Cir. 1977), 18 COLUM. J. TRANSNAT'L L. 173, 173-74 (1979); Brendan J. Witherell, Note, *Trademark Law—The Extraterritorial Application of the Lanham Act: The First Circuit Cuts the Fat from the Vanity Fair Test*, 29 W. NEW ENG. L. REV. 193, 204 (2006).

13. Bradley, *supra* note 1, at 576-77.

14. More recently, it has been debated whether the scope of the Lanham Act is an issue of subject matter jurisdiction or a merits question. Notably, the US Court of Appeals for the Ninth Circuit has held that the reach of the Lanham Act is a merits question. See *Trader Joe's Co. v. Hallatt*, 835 F.3d 960, 966-68 (9th Cir. 2016); *Philippe Charriot Int'l Ltd. v. A'lor Int'l Ltd.*, 611 F. App'x 890, 891-92 (9th Cir. 2015); *La Quinta Worldwide LLC v. Q.R.T.M., S.A. de C.V.*, 762 F.3d 867, 872-73 (9th Cir. 2014). This holding is based on recent Supreme Court case law addressing federal courts' subject matter jurisdiction with respect to employment law, see *Arbaugh v. Y&H Corp.*, 546 U.S. 500, 512-16 (2006), and securities regulation, see *Morrison v. Nat'l Austl. Bank Ltd.*, 561 U.S. 247, 253-54 (2010). None of these opinions, however, concerned the Lanham Act, and many courts and commentators still treat extraterritoriality as a "jurisdictional" issue. See, e.g., *Steele v. Bulova Watch Co.*, 344 U.S. 280, 283-85 (1952). In addition, there has been no Supreme Court decision on Lanham Act extraterritoriality since 1952, when the issue was expressly considered "jurisdictional." See *id.* For examples of a jurisdictional characterization, see *Commodores Entertainment Corp. v. McClary*, 648 F. App'x 771, 778 (11th Cir. 2016); *Sturm v. Armscor Precision International, Inc.*, No. 14-CV-194-SM, 2016 WL 4385886, at \*4 (D.N.H. Aug. 17, 2016); *Toyo Tire & Rubber Co. v. Kabusikiki Kaisha Tokyo Hihoon Rubber Corp.*, No. 2:14-CV-01847-JAD-VCF, 2015 U.S. Dist. LEXIS 77142, at \*3-5 (D. Nev. June 15, 2015); *JMC Rest. Holdings, LLC v. Pevida*, No. 14 Civ. 6157(WFK)(VMS), 2015 WL 2240492, at \*2 (E.D.N.Y. May 12, 2015). For legal commentary on subject matter jurisdiction, see, for example, MCCARTHY, *supra* note 4, § 29:58. In any event, characterization of Lanham Act extraterritoriality does not change the substance of this Article's analysis. It will thus refer to the issue as "extraterritoriality."

15. See, e.g., *Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. 108, 115 (2013); *Equal Emp't Opportunity Comm'n v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991); *Am. Banana Co. v. United Fruit Co.*, 213 U.S. 347, 355 (1909).

16. See *Steele*, 344 U.S. at 286.



courts have developed and remodeled the three-pronged *Steele* test, creating their own, mostly further extended, variants.<sup>17</sup>

### A. Lanham Act Extraterritoriality

The question of how far federal trademark law can be extended beyond national borders first emerged in 1952 in the *Steele* case.<sup>18</sup> Sidney Steele, the primary defendant, was a US citizen residing in Texas. Plaintiff Bulova Watch Company, one of the largest watch manufacturers at the time, had a US trademark registration for its watches under the name “Bulova” but did not have any Mexican trademarks. Taking advantage of this vacuum, Steele procured a trademark registration for “Bulova” in Mexico. He bought watch parts in Switzerland and in the United States. However, he assembled the parts, stamped the watches with the mark, and sold the watches solely in Mexico. Contesting Steele’s actions, Bulova filed a lawsuit in Texas.<sup>19</sup> The district court dismissed the case on the ground that it lacked subject matter jurisdiction.<sup>20</sup> The US Court of Appeals for the Fifth Circuit reversed,<sup>21</sup> and the Supreme Court affirmed.<sup>22</sup> As the majority explained:

“[T]he United States is not debarred by any rule of international law from governing the conduct of i[t]s own citizens upon the high seas or even in foreign countries when the rights of other nations or their nationals are not infringed.” . . . [The defendant’s] operations and their effects were not confined within the territorial limits of a foreign nation. He bought component parts of his wares in the United States, and spurious “Bulovas” filtered through the Mexican border into this country; his competing goods could well reflect adversely on Bulova Watch Company’s trade reputation in markets cultivated by advertising here as well as abroad. Under similar factual circumstances, courts of the United States have awarded relief to registered trademark owners, even prior to the advent of the broadened commerce provisions of the Lanham Act.<sup>23</sup>

Stating that, in the meantime, Mexican courts had canceled Steele’s Mexican “Bulova” registration, the majority concluded that

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17. See, e.g., *McBee v. Delica Co.*, 417 F.3d 107, 110–11 (1st Cir. 2005); *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass’n*, 701 F.2d 408, 414 (5th Cir. 1983); *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 428 (9th Cir. 1977); *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 642–43 (2d Cir. 1956).

18. *Steele*, 344 U.S. at 281.

19. *Id.* at 281–82, 284–85.

20. *Id.* at 282.

21. *Id.*; *Bulova Watch Co. v. Steele*, 194 F.2d 567, 572 (5th Cir.), *aff’d*, 344 U.S. 280 (1952).

22. *Steele*, 344 U.S. at 289.

23. *Id.* at 285–87 (quoting *Skiriotes v. Florida*, 313 U.S. 69, 73 (1914)).

there was no conflict with foreign law that could impede the application of the Lanham Act.<sup>24</sup>

*Steele* has been interpreted as establishing two different bases for extraterritoriality. First, even though buying spare parts in the United States did not constitute an infringement, the Court described these purchases as “essential steps in the course of business consummated abroad” and added that “acts in themselves legal lose that character when they become part of an unlawful scheme.”<sup>25</sup> In addition, the Court described the “filtering” of counterfeits into the United States as an impairment of the owner’s goodwill; more concretely, the Court emphasized that “competing goods could well reflect adversely on Bulova Watch Company’s trade reputation in markets cultivated by advertising here as well as abroad.”<sup>26</sup> This last aspect not only made domestic effects an element of regulation but also set the stage for a transformation of traditional common law rights doctrine—notably the conception of use-based rights—into a paradigm of transnational goodwill extension.<sup>27</sup>

Most courts have subsequently interpreted *Steele* as establishing three factors: (1) the defendant’s nationality or citizenship, (2) effects on US commerce, and (3) conflicts or potential conflicts with foreign law (“*Bulova* factors”).<sup>28</sup> A variety of different circuit tests have emerged from these factors. Most prominently among them are the Second Circuit’s *Vanity Fair* formula,<sup>29</sup> the Fifth Circuit’s *American Rice* variant,<sup>30</sup> and the Ninth Circuit’s *Wells Fargo* rule of reason.<sup>31</sup> In addition, and more recently, the First Circuit has established a new test variant in *McBee v. Delica Co.*<sup>32</sup>

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24. See *id.* at 289.

25. *Id.* at 287. This unlawful-scheme paradigm would develop into a characteristic of the *Steele* progeny. See *infra* Part III.D.4.a.

26. *Steele*, 344 U.S. at 286.

27. See *infra* Part III.D.4.a.

28. See, e.g., MCCARTHY, *supra* note 4, § 29:58 (including further reference to case law in the circuits). For an early interpretation in scholarly commentary, see Jack J. Rappeport, *Trade-Mark and Unfair Competition in International Conflict of Laws: An Analysis of the Choice of Law Problem*, 20 U. PITT. L. REV. 1, 16 (1958). For clarity, note that the order of the test factors is not uniform. See, e.g., *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 642 (2d Cir. 1956) (ordering effects before defendant nationality and conflicts); *Hong Leong Fin. Ltd. (Singapore) v. Pinnacle Performance Ltd.*, No. 12 Civ. 6010(JMF), 2013 WL 5746126, at \*4 (S.D.N.Y. Oct. 23, 2013) (explaining nationality and conflicts as the first and second factors, and effects as the third). However, for this analysis, I will use the conventional explanation of the order of the factors as established in court practice and scholarly commentary. See, e.g., MCCARTHY, *supra* note 4, § 29:57.

29. *Vanity Fair*, 234 F.2d at 642–43.

30. *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass’n*, 701 F.2d 408, 414 (5th Cir. 1983).

31. *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 428 (9th Cir. 1977).

32. *McBee v. Delica Co.*, 417 F.3d 107, 110–11 (1st Cir. 2005).

In *Vanity Fair*, the Second Circuit became the first US Court of Appeals to apply the *Bulova* factors.<sup>33</sup> The plaintiff in that 1956 case was a Pennsylvania corporation that sold women's underwear under the mark "Vanity Fair" in the United States (since 1914) and Canada (since 1917). The defendant was a Canadian corporation that had been granted a Canadian trademark registration for "Vanity Fair" for similar products, which it began selling in 1915. Due to the defendant's prior rights, the plaintiff was denied registration in Canada. When the defendant started selling both the plaintiff's "Vanity Fair" products and its own merchandise under the same brand, the plaintiff sought an injunction against the defendant's use in both Canada and the United States.<sup>34</sup> In its ruling, the Second Circuit began by analyzing the Supreme Court's *Bulova* factors and then offered its own interpretation: First, the defendant's conduct needed to have a "substantial" effect on US commerce. Second, the defendant had to be a US citizen. And finally, conflicts with foreign law were to be avoided.<sup>35</sup> In *Vanity Fair*, the Second Circuit rejected extraterritorial relief since the defendant was considered to be a foreign citizen acting under a valid foreign trademark.<sup>36</sup> For more than two decades, this remained the only interpretation of the *Bulova* factors.

In the 1970s, the Ninth Circuit developed another test variant. In *Wells Fargo & Co. v. Wells Fargo Express Co.*, the appellate court formulated a then-novel rule of reason approach for assessing Lanham Act extraterritoriality.<sup>37</sup> The plaintiff used its registered trademark "Wells Fargo" throughout the United States. The defendant, a foreign corporation, was using the same trademark in the United States and Europe.<sup>38</sup> After the district court rejected subject matter jurisdiction under *Vanity Fair*,<sup>39</sup> the Ninth Circuit vacated that ruling and developed a circuit-specific test based on the "jurisdictional rule of reason" already established in the circuit's international antitrust precedent in *Timberlane Lumber Co. v. Bank of America*.<sup>40</sup> This test

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33. *Vanity Fair*, 234 F.2d at 641-42.

34. *Id.* at 637-38.

35. *See id.* at 642.

36. *Id.* at 643.

37. *See Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 428 (9th Cir. 1977).

38. *Id.* at 411.

39. *Id.* at 411-12; *Wells Fargo & Co. v. Wells Fargo Express Co.*, 358 F. Supp. 1065, 1076-78 (D. Nev. 1973).

40. *Timberlane Lumber Co. v. Bank of Am. N.T. & S.A.*, 549 F.2d 597, 613 (9th Cir. 1976). For the "jurisdictional rule of reason" terminology, see also *Wells Fargo & Co.*, 556 F.2d at 427-28, 431.

required only “some” effects on US commerce,<sup>41</sup> along with an additional balancing of seven comity factors:

[1] the degree of conflict with foreign law or policy, [2] the nationality or allegiance of the parties and the locations or principal places of business of corporations, [3] the extent to which enforcement by either state can be expected to achieve compliance, [4] the relative significance of effects on the United States as compared with those elsewhere, [5] the extent to which there is explicit purpose to harm or affect American commerce, [6] the foreseeability of such effect, and [7] the relative importance to the violations charged of conduct within the United States as compared with conduct abroad.<sup>42</sup>

The Ninth Circuit’s balancing approach has been interpreted as standing “in stark contrast” to the Supreme Court’s and Second Circuit’s allegedly bright-line tests.<sup>43</sup> Whereas the two latter tests require consideration of three test factors, the *Timberlane* formula seems to establish a more sophisticated analysis, providing for significant leeway in interpretation.<sup>44</sup>

The First Circuit developed the most recent test in the 2005 case *McBee v. Delica Co.*<sup>45</sup> The plaintiff there, an American jazz musician, sued a Japanese clothing retailer that adopted the trademark “Cecil McBee” (identical to the plaintiff’s name) for its young women’s clothing line. The retailer held a Japanese trademark. Although the company did not market its products outside of Japan, it did display the trademark on its website.<sup>46</sup> After the plaintiff’s unsuccessful attempt to have the trademark invalidated in the Japanese trademark registry, he filed a complaint asserting trademark dilution and unfair competition.<sup>47</sup> The district court found *Vanity Fair* persuasive, but the First Circuit formulated a new test: Under the *McBee* standard, an inquiry into the defendant’s nationality is the mandatory first step of a two-pronged analysis.<sup>48</sup> If the defendant is not a US national, “substantial effects” on commerce will become the determinative factor.<sup>49</sup> Similar to the *Wells Fargo* standard, this test borrows from international antitrust law.<sup>50</sup> However, it diverges from both *Vanity Fair* and *Wells Fargo* in one

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41. *Wells Fargo & Co.*, 556 F.2d at 428.

42. *Id.* at 428–29 (quoting *Timberlane Lumber Co.*, 549 F.2d at 614–15).

43. *See, e.g.*, Witherell, *supra* note 12, at 211. For conventional wisdom on the differences between the tests, see *infra* Part III.C.2.

44. For arguments that the Ninth Circuit’s test would offer more options for manipulating the facts and, thus, ultimately result in legal uncertainty, see *infra* Part III.B.

45. *McBee v. Delica Co.*, 417 F.3d 107, 111 (1st Cir. 2005).

46. *Id.* at 111–15.

47. *Id.* at 113, 115.

48. *Id.* at 116, 121.

49. *Id.*

50. *Id.* at 119–23.

important aspect: a separate comity analysis is undertaken only in order to determine whether the jurisdiction that has been found to exist should be exercised.<sup>51</sup>

Among the cases decided in other circuits,<sup>52</sup> the Fifth Circuit stands out in its *American Rice* decision, which involved a remarkable extraterritorial extension of rights protection.<sup>53</sup> The Fifth Circuit first formulated this test in 1983. Although similar to *Vanity Fair* in its requirement of three test factors, the test limits the quantitative inquiry to “some effect”—that is, “more than an insignificant effect”—thereby replicating the Ninth Circuit’s approach.<sup>54</sup> In *American Rice*, both parties were US farmers’ marketing cooperatives acting in the United States and abroad.<sup>55</sup> The defendant was selling rice in Saudi Arabia under a trademark similar to the plaintiff’s US registration.<sup>56</sup> Even though the sales at issue occurred solely in Saudi Arabia and “none of [the] products found their way back into the United States,” the court applied the Lanham Act.<sup>57</sup> Effects on US commerce were seen in the defendant’s Saudi Arabian sales, particularly on the basis that the processing, packaging, transportation, and distribution of US-produced rice constituted activities “within commerce.”<sup>58</sup>

### B. Scholarly Debate and Conventional Wisdom

Scholarly debate does not challenge the theory that the Lanham Act’s broad jurisdictional scope has resulted in a significant extension of rights. Indeed, this assumption is widely shared.<sup>59</sup> The battle is fought on a different field. Roughly speaking, there are two opposing camps. One argues that protection should be oriented along the lines of political territoriality, and the other demands extended

51. *Id.* at 121.

52. For an overview, see, for example, MCCARTHY, *supra* note 4, § 29:58; Gary D. Feldon, Comment, *The Antitrust Model of Extraterritorial Trademark Jurisdiction: Analysis and Predictions After F. Hoffmann-La Roche*, 20 EMORY INT’L L. REV. 651, 660–73 (2006).

53. See *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass’n*, 701 F.2d 408, 410 (5th Cir. 1983).

54. *Id.* at 414 & n.8.

55. *Id.* at 410–11.

56. *Id.*

57. *Id.* at 410, 414.

58. *Id.* For later affirmation, see *American Rice, Inc. v. Producers Rice Mill, Inc.*, 518 F.3d 321, 325 (5th Cir. 2008).

59. See, e.g., MCCARTHY, *supra* note 4, § 29:55.25; Bradley, *supra* note 1, at 527; Roger E. Schechter, *The Case for Limited Extraterritorial Reach of the Lanham Act*, 37 VA. J. INT’L L. 619, 627 (1997).

protection—notably of US right owners—by means of extraterritoriality.

Most prominent among the territorialists is Curtis A. Bradley, who proposes to distinguish between territoriality and extraterritoriality based on whether the law at issue concerns the protection of private rights or caters to the regulation of the whole economy.<sup>60</sup> Accordingly, he distinguishes intellectual property law on one side from antitrust and securities law on the other. The latter areas of regulation, he explains, are designed to protect the public interest and the economy as a whole.<sup>61</sup> Extraterritoriality is inherent.<sup>62</sup> Quite differently, he considers intellectual property rights to benefit society by “conferring particular property rights on individuals and companies.”<sup>63</sup> Thus, the scope of intellectual property rights should remain national and there should be no extraterritoriality. Ultimately, Bradley suggests applying foreign laws to conduct that occurs abroad.<sup>64</sup>

Roger E. Schechter represents the extraterritorialist counterapproach.<sup>65</sup> In explaining his idea of “domestic extraterritoriality,” he distinguishes trademarks from copyrights and patents. Neither copyright nor patent law extends the geographical scope of preexisting common law rights. Copyrights and patents were always conceived of as being nationwide. Accordingly, the copyright and patent statutes did not change the territorial character of these rights. The perception was different, however, for the Lanham Act. As Schechter explains, “trademark law was originally grounded on an explicitly territorial foundation.”<sup>66</sup> Furthermore, since use-based common law rights were territorial, he concludes the Lanham Act’s nationwide extension of rights established an *extraterritorial* scope of rights.<sup>67</sup> In addition to this extraterritoriality-by-statute paradigm, Schechter asserts a pragmatic argument in favor of extending the

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60. Bradley, *supra* note 1, at 568–69.

61. *Id.* at 568.

62. *See id.*

63. *Id.* at 569.

64. *Id.* at 576, 582. For commentary on whether foreign law should be applied to conduct that occurs abroad, see also Robert Alpert, *The Export of Trademarked Goods from the United States: The Extraterritorial Reach of the Lanham Act*, 81 TRADEMARK REP. 125, 148 n.105 (1991); Graeme B. Dinwoodie, *Developing a Private International Intellectual Property Law: The Demise of Territoriality?*, 51 WM. & MARY L. REV. 711, 716–17 (2009); Pamela E. Kraver & Robert E. Purcell, *Application of the Lanham Act to Extraterritorial Activities: Trend Toward Universality or Imperialism?*, 77 J. PAT. & TRADEMARK OFF. SOC’Y 115, 115–16 (1995).

65. *See* Schechter, *supra* note 59, at 620.

66. *See id.* at 627.

67. *See id.*

scope of trademark protection—the need to protect US rights holders from harmful activities that occur abroad.<sup>68</sup>

Specifically, Schechter's differentiation between use-based and registered rights<sup>69</sup>—the former territorial, the latter extraterritorial—may appear to be somewhat dubious. After all, a registered right is confined to the national territory, making it a *territorial* right by definition.<sup>70</sup> According to Graeme B. Dinwoodie, however, two elements of trademark territoriality—intrinsic territoriality and political territoriality<sup>71</sup>—must be differentiated. Common law rights may extend extraterritorially through the rights holders' foreign-based activity and use of a trademark in the marketplace.<sup>72</sup> Accordingly, their “territoriality is rooted in social and commercial practices, which increasingly transcend national borders.”<sup>73</sup> Registered rights, on the other hand, are by definition inextricably tied to lawmakers' power and authority. This confines the scope of their protection to the political territory. Seen in this light, it is evident that any approach to the issue of extraterritoriality must focus on the common law foundations of US trademark law. All rights—no matter whether they are registered or use based—may be considered to be political. Yet the idea of a close correlation between marketplace extension and the scope of rights still dominates legal theory in the field.<sup>74</sup> Indeed, as the analysis below reveals, it actually is the intrinsic extraterritoriality of common law rights—their tendency to transcend political borders both within the United States and internationally—that still determines the practice of trademark conflicts law.<sup>75</sup>

Moreover, the debate is not limited to the doctrinal-theoretical plane. Indeed, many scholarly commentators have set their feet on swampy ground when addressing the more mundane questions regarding how courts are *actually* deciding trademark conflicts. Most

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68. *Id.* at 624, 628; see also Feldon, *supra* note 52, at 680. For an approval in practice of a pragmatic approach, see, for example, *McBee v. Delica Co.*, 417 F.3d 107, 125 (1st Cir. 2005). For a critique, see *infra* Part IV.B.2.a.

69. See Schechter, *supra* note 59, at 625–26.

70. See *id.* at 626.

71. Dinwoodie, *supra* note 1, at 885, 901, 908; see also Dinwoodie, *supra* note 64, at 725 n.49. For a similar and very appropriate distinction founded on a trademark's “legal territoriality” and the counterpart of “collective ‘consumer consciousness’” that easily crosses national borders, see Graeme W. Austin, *The Story of Steele v. Bulova: Trademarks on the Line*, in *INTELLECTUAL PROPERTY STORIES* 395, 420, 422 (Jane C. Ginsburg & Rochelle Cooper Dreyfuss eds., 2006).

72. See Dinwoodie, *supra* note 1, at 900.

73. *Id.*

74. See DORNIS, *supra* note 1, at 127–51.

75. See *infra* Part III.D.4.

generally, scholarly commentary claims that US courts have a penchant for applying the Lanham Act extraterritorially.<sup>76</sup> A more specific facet of this wisdom suggests that courts tend to favor US plaintiffs over foreign defendants in an attempt to compensate for the lack of protection for domestic rights holders abroad.<sup>77</sup> Furthermore, because the Supreme Court has provided little interpretative guidance, commentators assume that the circuit courts produce erratic interpretations and varying outcomes that ultimately favor forum shopping.<sup>78</sup> In fact, commentators have even lamented an “enormous inconsistency in the tests” rather than labeling the variants a “circuit split.”<sup>79</sup> Indeed, the tests from the Second and Ninth Circuits—*Vanity Fair* and *Wells Fargo’s Timberlane* rule, respectively—have been described as fundamentally different.<sup>80</sup> Scholarly analyses explain *Vanity Fair* as “restrictive” and “narrow,” notably for its requirement that effects be “substantial” and its allowance for jurisdiction to be refused if one test prong fails.<sup>81</sup> The Ninth Circuit’s “balancing

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76. See, e.g., Alpert, *supra* note 64, at 125 (“[C]ourts have taken an expansive view on the extraterritorial reach of the Lanham Act.”); Erika M. Brown, *The Extraterritorial Reach of United States Trademark Law: A Review of Recent Decisions Under the Lanham Act*, 9 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 863, 864 (1999) (“[R]ecent case law from the Second, Ninth, and Fifth Circuits reflects a trend toward a broadened application of the Lanham Act.”); Kraver & Purcell, *supra* note 64, at 116, 137 (“U.S. courts possess the commendable attitude that where there is a wrong, there should be a remedy. . . . U.S. courts are exceedingly quick to determine the appropriate remedies according to U.S. laws and to use the power and authority of the U.S. courts to enforce those remedies.”); Nguyen, *supra* note 12, at 494 (“*Bulova* signaled a judicial trend of extending the application of the Lanham Act extraterritorially.”); Anna R. Popov, Note, *Watering Down Steele v. Bulova Watch Co. to Reach E-Commerce Overseas: Analyzing the Lanham Act’s Extraterritorial Reach Under International Law*, 77 S. CAL. L. REV. 705, 707 (2004) (“[T]hrough the evolution of case law, the extraterritorial reach of the Lanham Act over trademarks on the Internet may be overextensive and unjustified under international legal principles.”).

77. See Popov, *supra* note 76, at 722.

78. See, e.g., Bradley, *supra* note 1, at 529; Feldon, *supra* note 52, at 673.

79. See Feldon, *supra* note 52, at 653.

80. See, e.g., MCCARTHY, *supra* note 4, § 29:58 & n.6; Bradley, *supra* note 1, at 529; Schechter, *supra* note 59, at 635; Berner, *supra* note 12, at 190; Robert Butts, Note, *Trademark Law: Interpreting the Congressional Intent of the Extraterritorial Application of the Lanham Trademark Act*, 8 FLA. J. INT’L L. 447, 463, 467–68 (1993); Susan Lutinger, Recent Decision, World Book v. International Business Machines Corp. 354 F. Supp.2d 451 (S.D.N.Y. Feb. 3, 2005), 19 N.Y. INT’L L. REV. 163, 167 (2006); Sarah Thomas-Gonzalez, Comment, *Extraterritorial Jurisdiction of the Lanham Act: American Rice, Inc. v. Arkansas Ricegrowers Cooperative Ass’n*, 11 BROOK. J. INT’L L. 411, 419, 431 (1985); Jason Webster, Case Comment, *McBee v. Delica Co., Ltd.*, 417 F.3d 107 (1st Cir. 2005), 30 SUFFOLK TRANSNAT’L L. REV. 263, 267–68; Witherell, *supra* note 12, at 211–12; Kathryn Zeitung, Case Note, *Lanham Act Imperialism: A Case Note*, 12 J. CONTEMP. LEGAL ISSUES 408, 413 (2001).

81. See Bradley, *supra* note 1, at 529; Brown, *supra* note 76, at 881; Nguyen, *supra* note 12, at 497 n.70; Serge G. Avakian, Comment, *Global Unfair Competition in the Online Commerce*



approach," by contrast, is seen as giving the courts "more latitude in extending jurisdiction."<sup>82</sup> With general skepticism toward open-ended balancing approaches, the *Timberlane* rule of reason is even said to have "created uncertainty where certainty existed."<sup>83</sup>

Yet other views exist. Specifically, courts themselves seem to harbor a perspective of harmony, if not uniformity. For example, a district court in the Seventh Circuit described the Second and Ninth Circuit tests as "very similar" and producing "the same results when applied."<sup>84</sup> Some voices in scholarly commentary even expect the Ninth Circuit to be more deferential to internationalist concerns, therefore limiting the reach of US law, granting more discretion, and resulting in "better" results in terms of justice.<sup>85</sup>

Finally, it is no surprise that commentators dispute which *Bulova* factor—nationality, effects on US commerce, or conflicts with foreign law—drives the test's outcome. In this regard, for instance, it has been contended that the qualification of effects—as "substantial," "significant," or "some"—will determine the ultimate reach of the Lanham Act.<sup>86</sup> Furthermore, the interplay among the three factors seems to make a difference: Overall, there is no doubt that courts do "balance" the factors,<sup>87</sup> but the implications of such balancing are still widely unexplored. Most interestingly, although effects on US commerce is sometimes perceived as the most important factor<sup>88</sup>—and courts in the *Vanity Fair* line expressly adhere to a doctrine of nationality-and-conflicts dominance<sup>89</sup>—there are no detailed

*Era*, 46 UCLA L. REV. 905, 923–24 (1999); Berner, *supra* note 12, at 190; Popov, *supra* note 76, at 716, 718, 720; Thomas-Gonzalez, *supra* note 80, at 431, 434; Witherell, *supra* note 12, at 212.

82. Popov, *supra* note 76, at 716; *see also* Avakian, *supra* note 81, at 923; Butts, *supra* note 80, at 469; Thomas-Gonzalez, *supra* note 80, at 431; Witherell, *supra* note 12, at 211–12.

83. Berner, *supra* note 12, at 192; *see also* Brown, *supra* note 76, at 883; James W. Dabney, *On the Territorial Reach of the Lanham Act*, 83 TRADEMARK REP. 465, 478 (1993).

84. *Thomas & Betts Corp. v. Panduit Corp.*, 71 F. Supp. 2d 838, 842 (N.D. Ill. 1999) ("The Ninth Circuit test is merely a more detailed version of the *Bulova* test. Therefore, this Court will analyze this case based on the *Bulova* test as amplified by the Second, Fifth and Ninth Circuits in the absence of a Seventh Circuit decision.").

85. *See* Witherell, *supra* note 12, at 212; Brown, *supra* note 76, at 882–83.

86. *See, e.g.*, Brown, *supra* note 76, at 880–82; Dabney, *supra* note 83, at 478.

87. *See, e.g.*, Bradley, *supra* note 1, at 527–28 ("[Courts] have applied a variety of balancing tests to limit the Lanham Act's extraterritorial effect."); Dinwoodie, *supra* note 64, at 780–81.

88. *See, e.g.*, *Atl. Richfield Co. v. Arco Globus Int'l Co.*, 150 F.3d 189, 192 n.4 (2d Cir. 1998) ("Indeed, we have never applied the Lanham Act to extraterritorial conduct absent a substantial effect on United States commerce."); *see also* *Lithuanian Commerce Corp. v. Sara Lee Hosiery*, 47 F. Supp. 2d 523, 536 (D.N.J. 1999).

89. *See* *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 643 (2d Cir. 1956) ("[T]he Lanham Act . . . should not be given an extraterritorial application against foreign citizens acting under presumably valid trade-marks in a foreign country."). For more recent case law, *see, for*

explorations into the relevance and impact of single factors. As a result, it remains unclear which factor or combination of factors drives the extraterritoriality tests.

### III. EMPIRICAL ANALYSIS

As revealed in Part II, a wide array of assumptions exists not only with regard to legal doctrine but also with respect to the practical aspects of trademark extraterritoriality. This polyphonic concert shall be the starting point. The formulaic structure of the test variants, as well as most courts' adherence to this structure, provides a convenient ground for a systematic study. This Part accordingly presents the data to substantiate—though mostly to dispel—many of the assumptions developed under and upheld by conventional wisdom.<sup>90</sup>

#### A. Summary Statistics

##### 1. Overall Population

From 1952 to the end of 2016, federal courts (and two state courts) produced 159 database-accessible opinions (from 133 actual disputes)<sup>91</sup> that made substantial<sup>92</sup> use of the three test factors or one of the circuit court test variants.<sup>93</sup> This produces an average of 2.05 disputes per year during the period under study. On its face, this number seems low.<sup>94</sup> Upon closer scrutiny, however, the outcome is not too perplexing. After all, this study is concerned with a fraction of

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example, *Gelicity UK Ltd. v. Jell-E-Bath, Inc.*, No. 10 Civ. 5677(ILG)(RLM), 2013 WL 3315398, at \*4 (E.D.N.Y. July 1, 2013).

90. For some analyses in the following Part, the opinions were grouped in accordance with the actual dispute at bar (i.e., the court litigation with identical (or almost identical) parties). Each district court opinion and the corresponding appellate court decision were thus counted as a single dispute only. The majority of the analyses, however, derived from *all* of the sampled opinions. In the interest of achieving a sufficiently large sample of observations, it was not further differentiated with regard to procedural posture.

91. The empirical data presented throughout Parts III and IV are on file with the Author and are available upon request. See *infra* Appendix.

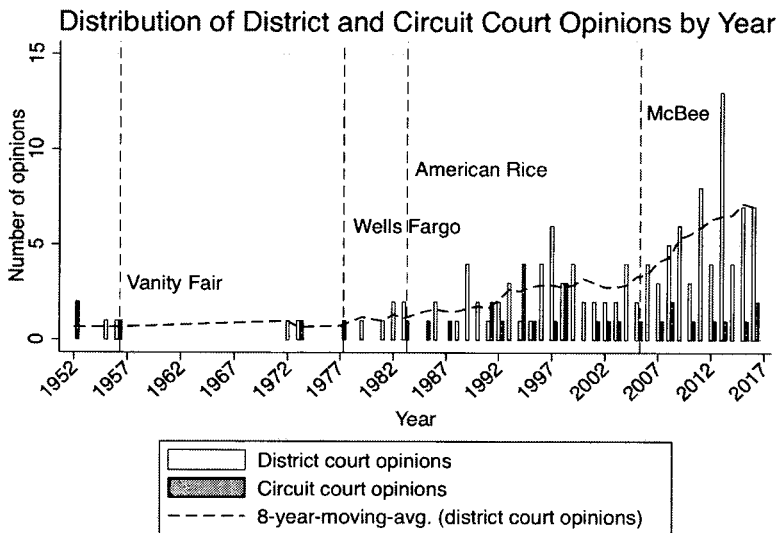
92. For an explanation of “substantial,” see *infra* Appendix.

93. The population includes reported and unreported opinions, including 155 lower federal court cases, see *infra*, Figure 2, two state high court cases, and two opinions from the US Supreme Court. For limitations to the precedential effect of unreported opinions, see Jason B. Binimow, *Precedential Effect of Unpublished Opinions*, 105 AM. L. REPS. 5th 499 (2003). For a description of the case selection and coding methodology, see *infra* Appendix.

94. This is the case particularly if the numbers are compared with the overall amount of trademark disputes in the same time span. A cursory Westlaw search for “trademark infringement” yields over 9,000 cases between 1952 and 2016. For an overview of intellectual property litigation numbers in the United States, see also Matthew Sag, *IP Litigation in U.S. District Courts: 1994 to 2014*, 101 IOWA L. REV. 1065 (2016).

the universe of trademark conflicts. Litigation occurs only rarely, since most cases are settled or not “disputed” at all.<sup>95</sup> More complexities of the composition of litigated cases will be addressed later on.<sup>96</sup> Another aspect is interesting to note: As can be seen in Figure 1, a constant rise in case numbers has occurred.<sup>97</sup> Yet unlike what was predicted throughout the 1990s, the ascent was never extraordinarily steep.<sup>98</sup> Only toward the end of the observation period did the case numbers grow significantly. More than a third of all disputes were decided in 2010 or after, yielding exactly 7.0 disputes per year. It is thus not overly daring to suggest that the issue of Lanham Act extraterritoriality is not only here to stay for some time but also may require more attention in the near future.

**Figure 1.**



95. This fact accounts for the specific composition of cases that are actually litigated. See *infra* Part III.B.1.

96. See *infra* Part III.B.1.

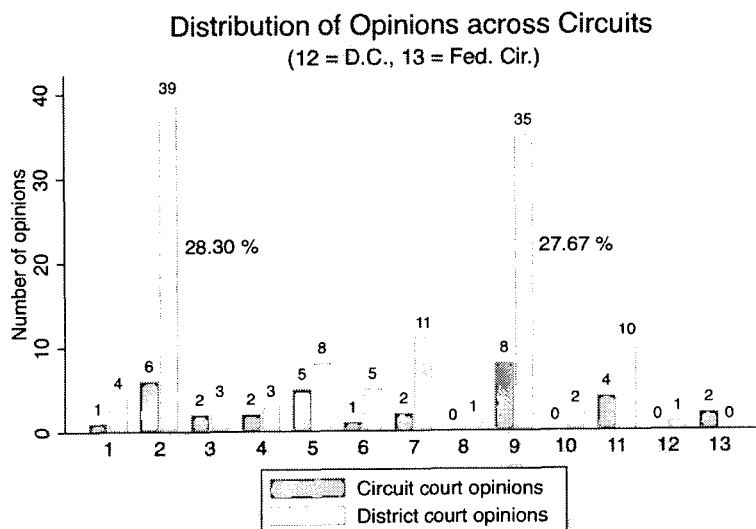
97. See *infra* Figure 1.

98. See, e.g., Kraver & Purcell, *supra* note 64, at 115; Bradley, *supra* note 1, at 506; Burk, *supra* note 5, at 729–31; Richard L. Garnett, *Trademarks and the Internet: Resolution of International IP Disputes by Unilateral Application of U.S. Laws*, 30 BROOK. J. INT’L L. 925, 926 (2005); Nguyen, *supra* note 12, at 490–91; Avakian, *supra* note 81, at 913; Popov, *supra* note 76, at 706; Webster, *supra* note 80, at 269.

## 2. Circuit and District Courts

Examining the numbers in the circuit and district courts highlights some peculiarities. As Figure 2 illustrates, 55.97% of all opinions were issued by courts of the Second and Ninth Circuits. The Second Circuit leads with 28.30% (45 opinions), closely followed by the Ninth Circuit's 27.67% (44 opinions). All other circuits number in the single digits.<sup>99</sup> Among US district courts, the US District Court for the Southern District of New York is the uncontested champion. This court alone accounts for 20.75% of all opinions (33 out of 159). The Central and Northern Districts of California follow with 11 and 10 opinions, respectively (6.92% and 6.29%), followed by the Northern District of Illinois (5.66%, or 9 opinions) and the District of Nevada (3.77%, or 6 opinions).<sup>100</sup>

**Figure 2.**



99. Courts of the Eleventh Circuit decided 8.81% of the opinions studied (14 opinions) and courts of the Fifth and Seventh Circuits each decided 8.18% (13 opinions). Courts of the Third Circuit account for 3.77% of the opinions (6 opinions) and courts of the First and Fourth Circuits each decided 3.14% (5 opinions). Courts of the Tenth Circuit delivered 2 opinions (1.26%), and the Federal Circuit delivered 2 opinions (majority and dissent) on 1 dispute (1.26%). Finally, the Eighth and DC Circuits each account for only 1 opinion (0.63%). See *infra* Figure 2.

100. The Southern and Middle Districts of Florida account for 3.14% and 2.52% of the total number of opinions studied (5 and 4 opinions, respectively), and the Southern District of Texas also delivered 4 opinions (2.52%). Among the other districts, none produced more than 3 opinions. See *infra* Figure 2.

### 3. Test Variants

Focusing on the proliferation of test variants outside their “mother” circuit provides another interesting insight. In this regard, the Second Circuit’s *Vanity Fair* test clearly dominates the picture. Overall, 35.22% of all opinions (56 out of 159) applied the *Vanity Fair* test—including 37 opinions issued by the Second Circuit and 19 opinions by other circuits. Looking at all three-pronged test variants—including *American Rice* and other unspecified variants—the data show that 52.20% of all opinions (83 out of 159) followed either *Vanity Fair* or one of its variants. The Ninth Circuit’s test variant has populated other circuits as well, albeit to a much smaller extent. Among 41 opinions (25.79%), courts in three other circuits have made use of the *Timberlane* rule of reason.<sup>101</sup>

In addition, the Second and Ninth Circuits provide a rich source of citations for other courts.<sup>102</sup> Even though a circuit’s case output as such may not be very meaningful on its own, the precedential significance of this output can help measure these cases’ intercircuit importance.<sup>103</sup> The Supreme Court’s *Steele* decision illustrates this effect, as 72.90% of the 155 subsequent lower court opinions have cited to that case. Interestingly, 71.11% of the opinions issued by the Second Circuit and only 52.27% of those issued by the Ninth Circuit cited to *Steele*—compared to 87.88% of cases in all other circuits.

The Second Circuit’s case law has had a remarkable impact across all other circuits. Of all post-1956 opinions, 57.89% cited to *Vanity Fair* or other Second Circuit precedent; outside the Second Circuit, the rate was 43.12%. After its inception in 1977, the Ninth Circuit’s *Wells Fargo* test was cited in 48.65% of opinions across all circuits, and 29.91% outside the Ninth Circuit. Considering the test’s younger age, it was more frequently referred to than its 1956 counterpart. While *Vanity Fair* was cited approvingly an average of 1.466 times per year, *Wells Fargo*’s rule of reason achieved an average of 1.846 yearly references after its founding.

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101. See *Alcar Grp., Inc. v. Corp. Performance Sys., Ltd.*, 109 F. Supp. 2d 948, 951 (N.D. Ill. 2000); *Reebok Int’l Ltd. v. Sebelen*, 930 F. Supp. 720, 723 (D.P.R. 1996); *Playboy Enters. v. Chuckleberry Pub., Inc.*, 511 F. Supp. 486, 495–96 (S.D.N.Y. 1981).

102. This analysis looks only at citations that have “precedential” quality, disregarding citations to the lower court (or courts) in the same dispute, as well as obvious nonprecedential citations (such as “but see” or another kind of rejection). Multiple citations to the same case were counted only once. For a similar approach, see William A. Landes & Richard A. Posner, *Legal Precedent: A Theoretical and Empirical Analysis*, 19 J.L. & ECON. 249, 251 (1976).

103. See Landes & Posner, *supra* note 102, at 293.

The Fifth Circuit's impact, meanwhile, has been quite surprising. Even though that circuit's raw output constitutes a mere 8.18% of all opinions, its *American Rice* precedent was referred to in 34.04% of all post-1983 opinions, with an average of 1.455 citations per year. Also remarkable with respect to the rate of citations per year, the First Circuit's *McBee* precedent had 1.7273 annual references. Finally, worth mentioning—for it reflects the low impact of academic legal thought—is the fact that, overall, only 10.69% of all opinions (17 out of 159) cited to a scholarly resource, such as a law review article or legal treatise.<sup>104</sup>

#### 4. Communication Means, Subject Matter, and Geography

Predictably, modern communication has played a dominant role in recent case law.<sup>105</sup> Throughout the last fifteen years, the number of opinions concerning disputes in which the alleged infringement occurred through websites or emails has constantly grown. Prior to 2000, all infringements alleged by the plaintiffs occurred in an offline environment. Between 2000 and 2006, 31.58% of opinions involved the use of online media. In opinions issued after that time, the proportion of online-media infringements rose to 72.73%.

With respect to the kinds of products at issue in international trademark disputes, the manufacturing, advertising, and sale of allegedly counterfeited “tangibles” (i.e., goods) continue to account for the bulk of cases. Overall, among 133 total disputes, 117 (73.58%) dealt only with allegedly infringing goods, while 36 (22.64%) concerned services only. Interestingly, over time the proportion of products involved has changed. Prior to 2000, 81.48% of cases concerned goods and 11.11% concerned services. After 2004, by contrast, 65.22% of cases concerned goods and 31.88% concerned services.

Finally, with respect to the jurisdictions involved, the case population illustrates the globalization of world trade in recent decades. Whereas infringements occurring in either Canada or Mexico made up 85.71% of all litigation before 1979, the location of infringing activities litigated in US courts began shifting in the 1980s. From 1979 until the end of 1999, infringements in Canada, Mexico,

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104. Among the circuit courts, the rate of citation to scholarly sources was 21.21% (7 out of 33); at the district court level, it was 7.38% (9 out of 122).

105. The following analysis is based primarily on the sample of actual disputes.

and Europe accounted for 22.22% of all opinions.<sup>106</sup> Asian countries were involved in 26.67% of the cases,<sup>107</sup> and 40.00% dealt with alleged infringements in multiple jurisdictions on different continents. Interestingly, from 2000 forward, these numbers did not change too much. By 2016, North America and Europe together accounted for 29.63% of all cases,<sup>108</sup> while Asia accounted for 27.16%. Claims concerning multiple jurisdictions could be found in 33.33% of all opinions.<sup>109</sup>

### 5. Reversal, Dissent, and Appeal Rates

Viewing the case population in light of the fact that only one Supreme Court case speaks to this issue, the field is far less in flux than might be expected. Indeed, the actual numbers facially contradict the conventional wisdom that *Steele* left the lower courts “struggling” with too many issues.<sup>110</sup> Among the 122 district court opinions, 24 were appealed (for an appeal rate of 19.67%): Among these, 19 opinions (15.57%) were affirmed and 5 (4.1%) were reversed. These numbers roughly correspond to data in other areas.<sup>111</sup> In copyright fair use opinions, for instance, the appeal rate between 1978 and 2005 was 25.1%, with an affirmation rate of 16.6% and a reversal rate of 8.5%.<sup>112</sup>

This observation holds at the appellate level as well. Overall, the population consisted of 33 circuit court opinions, of which 3 were dissenting opinions (9.09%). There were no concurring opinions. Of the 30 majority opinions, 6 reversed the lower court’s opinion (for a

106. About 6.67% of disputes originated from infringing activity occurring in North America, while about 15.56% originated from activity in Europe.

107. This comparatively modest proportion somewhat contrasts with reports on pervasive infringements in Asia. See, e.g., Feldon, *supra* note 52, at 651 n.1 (“Two-thirds of counterfeit goods intercepted by the U.S. customs service come from China.” (citing Sarah Schafer, *A Piracy Culture: Beijing Continues to Defy U.S. and European Efforts to Stop IP Theft*, NEWSWEEK INT’L, Jan. 16, 2006, at 35)).

108. Out of that percentage, 11.11% of the cases concerned Europe and 18.52% concerned North America.

109. South America, Australia, Oceania, and Africa never played a significant role, together accounting for only 4.44% (South America only) between 1979 and 2000 and 4.93% (South America and Australia) after 2000.

110. *But see* Bradley, *supra* note 1, at 528.

111. See, e.g., Theodore Eisenberg, *Appeal Rates and Outcomes in Tried and Nontried Cases: Further Exploration of Anti-Plaintiff Appellate Outcomes*, 1 J. EMPIRICAL LEGAL STUD. 659, 664 tbl.1 (2004) (showing a 10.9% appeal rate for all district court cases and a 21.0% appeal rate for all district court cases with a judgment for the plaintiff or defendant between 1987 and 1996).

112. Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, 156 U. PA. L. REV. 549, 575 (2008).

reversal rate of 20%). Here as well, the numbers do not diverge drastically from those in other areas of litigation: among all circuit courts, the reversal rate appears to be around 30%, with dissents appearing in 6%–10% of all cases.<sup>113</sup> By comparison, the reversal rate for copyright fair use cases is 33.8%, with dissenting opinions occurring in 14.1% of those cases.<sup>114</sup>

### B. Extraterritoriality Rate

One of the most interesting characteristics of this case population is the win rate on Lanham Act extraterritoriality—in other words, how often courts actually applied the Lanham Act in cross-border and transnational trademark conflicts. This “extraterritoriality rate” can be seen from different perspectives.<sup>115</sup> The most basic perspective examines the composition of cases litigated in US courts. Variations of the rates over time, communication means, circuits, test variants, and the treatment of national and foreign parties provide interesting insights as well.

#### 1. Theories and Practice of Win-Rate Analysis

Starting with the plain numbers, across the case population courts found in favor of Lanham Act application in 60.67% of all opinions (91 out of 150).<sup>116</sup> This win rate seems to support the idea that US judges prefer to extend domestic law rather than disappoint US rights holders.<sup>117</sup> However, a closer look reveals a different picture.

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113. See, e.g., Kevin M. Scott, *Understanding Judicial Hierarchy: Reversals and the Behavior of Intermediate Appellate Judges*, 40 LAW & SOC'Y REV. 163, 177 tbl.1 (2006) (showing summary statistics regarding reversals in each circuit from 1980 to 2002); see also DONALD R. SONGER, REGINALD S. SHEEHAN & SUSAN B. HAIRE, CONTINUITY AND CHANGE ON THE UNITED STATES COURTS OF APPEALS 105 tbl.5.1 (2000); Burton Atkins, *Interventions and Power in Judicial Hierarchies: Appellate Courts in England and the United States*, 24 LAW & SOC'Y REV. 71, 83–93 (1990) (discussing rates of reversal by UK and US appellate courts); Sean Farhang & Gregory Wawro, *Institutional Dynamics on the U.S. Court of Appeals: Minority Representation Under Panel Decision Making*, 20 J.L. ECON. & ORG. 299, 306 (2004).

114. See Beebe, *supra* note 112, at 574.

115. To be precise, the “extraterritoriality rate” is the fraction of wins on the issue of Lanham Act application, regardless of whether the issue arises as part of the plaintiff's claim or the defendant's counterclaim.

116. Nine opinions out of the 150 did not decide whether the Lanham Act should apply, thereby leaving the issue unresolved. The result is statistically significant ( $p < 0.05$  (t-test)). A slight variation between the district court and the circuit court extraterritoriality rates exists (61.21% and 60.00%) but is not statistically significant.

117. See *supra* Part II.B.



*a. Case-Selection Hypothesis*

The win-rate theory was first formulated by George Priest and Benjamin Klein.<sup>118</sup> Their explanation of the case “selection effect” has two facets. First, they describe court dockets as collecting pits for pathological cases, pointing out that actual court decisions do not represent a random sample of real-world disputes.<sup>119</sup> In fact, for economic reasons, most disputes never reach the litigation stage: if litigation is more costly than an out-of-court solution, the case will generally be settled.<sup>120</sup> In other words, where applicable law clearly favors either the plaintiff’s or the defendant’s case, both sides can save costs by settling rather than litigating toward a result they both anticipate.<sup>121</sup> Such selection mechanics are set in motion even before considering litigation, such as when violations pass unnoticed or are tolerated by rights holders.<sup>122</sup>

For a smaller group of disputes, the results may differ. These cases with an uncertain outcome are brought to court by the parties’ rational cost-benefit calculations: the parties’ divergent expectations cause the negotiations to fail, and litigation then becomes the only way to resolve the dispute.<sup>123</sup> Viewed in this light, it is obvious that the composition of court-litigated cases is skewed and therefore unrepresentative of the real world.

The second facet of the Priest-Klein theory has become famous under the shorthand “50 percent hypothesis.”<sup>124</sup> Priest and Klein argue that plaintiffs should win approximately half of their lawsuits.<sup>125</sup> Since cases “selected” for litigation are the ones with the most uncertain outcomes, litigation is akin to tossing a coin.<sup>126</sup>

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118. See George L. Priest & Benjamin Klein, *The Selection of Disputes for Litigation*, 13 J. LEGAL STUD. 1, 30 (1984); see also Daniel P. Kessler et al., *Explaining Deviations from the Fifty Percent Rule: A Multimodal Approach to the Selection of Cases for Litigation*, 25 J. LEGAL STUD. 233, 233 (1996).

119. See Priest & Klein, *supra* note 118, at 4, 6.

120. See *id.* at 4.

121. For the economic model, see, for example, RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 779–84 (9th ed., 2014).

122. See Frederick Schauer, *Legal Realism Untamed*, 91 TEX. L. REV. 749, 758 (2013).

123. See Priest & Klein, *supra* note 118, at 12–16.

124. See Kessler et al., *supra* note 118, at 236.

125. Priest & Klein, *supra* note 118, at 17–20.

126. Kevin M. Clermont & Theodore Eisenberg, *Do Case Outcomes Really Reveal Anything About the Legal System? Win Rates and Removal Jurisdiction*, 83 CORNELL L. REV. 581, 588 (1998); Theodore Eisenberg, *Testing the Selection Effect: A New Theoretical Framework with Empirical Tests*, 19 J. LEGAL STUD. 337, 341 (1990).

Apart from the fact that it is supported by mixed empirical proof,<sup>127</sup> this hypothesis also has some theoretical limitations. First, where the parties' stakes are uneven, their willingness to settle differs.<sup>128</sup> Win rates will vary correspondingly. Since the party with the higher stakes (e.g., reputational interests beyond the concrete dispute) tends to settle earlier, the stream of litigated cases ultimately contains a larger fraction of cases where the higher-stakes party possesses a relatively better chance of winning.<sup>129</sup> Information asymmetry can also cause unequal win rates.<sup>130</sup> Finally, the legal standard that is applied at trial may exert some impact: as Priest and Klein themselves recognize, a change in the legal standard in favor of one side might ultimately decrease the other side's chances of success.<sup>131</sup> Yet, more radically, it has also been suggested that, depending on which substantive law standard is applied, any frequency of success could be possible.<sup>132</sup>

#### *b. Intellectual Property-Specific Theories*

Win-rate theories have also been formulated in intellectual property-specific variants. William Landes explains that intellectual property disputes are often settled even when going to court might be successful.<sup>133</sup> Having higher stakes due to the risk of invalidation or narrowing of their rights, wary rights holders tend to litigate only waterproof cases. Accordingly, win rates are high.<sup>134</sup> But Landes's model has been challenged on the basis of an antithetical characterization of intellectual property owners as "aggressive" litigants. Under this majoritarian counterconcept, rights holders are believed to litigate even those cases with dim prospects in order to avoid defendants raising defenses (e.g., laches or acquiescence) and to

127. For a critique, see, for example, Eisenberg, *supra* note 126, at 339–40, 355; Kessler et al., *supra* note 118, at 249–51; Steven Shavell, *Any Frequency of Plaintiff Victory at Trial Is Possible*, 25 J. LEGAL STUD. 493, 494–95 (1996).

128. Clermont & Eisenberg, *supra* note 126, at 589; Eisenberg, *supra* note 126, at 338–39; Kessler et al., *supra* note 118 at 237, 242; Priest & Klein, *supra* note 118, at 24–29.

129. See, e.g., Clermont & Eisenberg, *supra* note 126, at 589; Priest & Klein, *supra* note 118, at 40.

130. See, e.g., Clermont & Eisenberg, *supra* note 126, at 589–90; Keith N. Hylton, *Asymmetric Information and the Selection of Disputes for Litigation*, 22 J. LEGAL STUD. 187, 189, 199 (1993); Kessler et al., *supra* note 118, at 242–43.

131. See Priest & Klein, *supra* note 118, at 18–24; see also, e.g., Kessler et al., *supra* note 118, at 244–45.

132. See, e.g., Shavell, *supra* note 127, at 493–94.

133. William M. Landes, *An Empirical Analysis of Intellectual Property Litigation: Some Preliminary Results*, 41 HOUS. L. REV. 749, 750–75 (2004).

134. *Id.* at 771–72.

establish a reputation for being aggressive.<sup>135</sup> The aim is to create a “chilling effect” on actual and potential infringers.<sup>136</sup> In the end, since even shaky cases are litigated, win rates should be low.

None of these more specific theories provides a satisfying explanation for the case population’s high extraterritoriality rate in this Article’s analysis. Indeed, the population’s higher-than-average win rate for extraterritoriality openly defies the paradigm of an aggressive litigant. Besides, Landes’s high-stakes paradigm is hardly compatible with the realities of *international* disputes, even though it could explain a rate beyond 50 percent. There, it is unlikely that rights holders routinely decide against litigation for fear of setting an unfavorable precedent. Rather, this is a secondary concern when policing international trademark infringements. Of course, the plaintiff and rights holder may lose on the issue of extraterritoriality. But this does not affect the assets’ validity or risk a significant limitation to the trademark’s licensing value.

### *c. A Weak “Weak-Defense Phenomenon”*

Two aspects of international trademark litigation deserve closer scrutiny. The first concerns the merit of a “defense” of undue extraterritoriality.<sup>137</sup> In international trademark litigation, some defendants may find it convenient to plead “undue Lanham Act extraterritoriality” regardless of the actual merits of such a claim. In many cases, therefore, the defense may be weak or even frivolous. Accordingly, a low success rate and a high extraterritoriality rate should be expected. One way to test this hypothesis is by comparing the extraterritoriality rate with the opinions’ word count devoted to the issue—the assumption being that, if the defense is weak, the court will not spend too much time or effort on the issue. And indeed, as Figure 3 illustrates, only a weak relation between word count and outcome exists. The strong fluctuation of extraterritoriality rates (i.e., proportions) among the bars of the graph and the low slope of the prediction plot illustrate this nicely.<sup>138</sup> This result is not too

135. See Beebe, *supra* note 112, at 579–80; see also Jane C. Ginsburg, *How Copyright Got a Bad Name for Itself*, 26 COLUM. J.L. & ARTS 61, 61 (2002) (“I have a theory about how copyright got a bad name for itself, and I can summarize it in one word: Greed.”). See generally LAWRENCE LESSIG, *FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY* (2004).

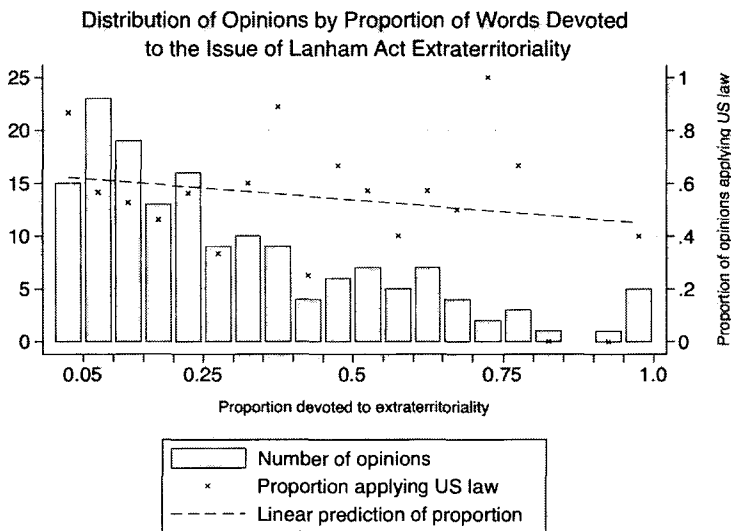
136. Beebe, *supra* note 112, at 579–80.

137. This analysis borrows heavily from Barton Beebe’s innovative approach and findings on the issue of fair use in domestic copyright infringement cases. See *id.* at 580–81.

138. See *infra* Figure 3. It is important to note that the plot does not give regard to the number of opinions in each bar. The coefficient for correlations between word count and extraterritoriality rate was -0.2545 ( $p < 0.05$ ).

surprising when seen from a practical angle: for most defendants, extraterritoriality is a win-or-lose issue. Many disputes feature straightforward scenarios of piracy, counterfeiting, or other kinds of evidently infringing conduct. Accordingly, an assertion of “undue extraterritoriality” is not just one among several available defenses, but the *only* one. If this is true, however, one should suggest rational defendants to settle weak cases out of court rather than try to defend their cases half-heartedly on the basis of a weak extraterritoriality argument.<sup>139</sup>

**Figure 3.**



*d. Preselection by Concurrence of Personal Jurisdiction and Extraterritoriality*

Thus, it is a different characteristic that accounts for the population’s higher-than-average extraterritoriality rate. As a closer analysis shows, the courts’ current tendency to extend the Lanham Act—contrary to what has been suggested<sup>140</sup>—actually *disfavors* domestic parties vis-à-vis their foreign counterparts. This is due to the fact that, in litigation practice, personal jurisdiction and Lanham Act extraterritoriality are closely related issues.

139. See *supra* Part III.B.1.a.

140. See, e.g., Popov, *supra* note 76, at 722 (explaining the pro-US-plaintiff tendency as a reaction to the lack of protection abroad).

Relief under the Lanham Act requires more than subject matter jurisdiction and extraterritorial reach of the law.<sup>141</sup> The court must also have personal jurisdiction. In order for a court to duly exercise personal jurisdiction over a defendant, she must be a US resident or have at least “minimum contacts” with the forum state or with the United States.<sup>142</sup> On this basis, US residents and US-based entities—no matter what markets they target—are subject to personal jurisdiction. Many international trademark “infringements,” however, are committed by non-US parties that act abroad at a secure distance from the reach of US authorities and courts. One need only imagine the great number of actors necessary to cause the billions of dollars in losses that result from intellectual property counterfeiting in international trade and commerce.<sup>143</sup> Summoning this class of potential defendants to a US court is much more difficult than summoning US-domiciled or US-incorporated parties. US rights holders experience challenges not only with service of process abroad<sup>144</sup> but also with establishing the necessary minimum contacts with the forum state or the United States.<sup>145</sup> Therefore, foreign actors are more likely to escape litigation—at least with respect to the United States.

Conversely, US nationals and entities can be expected to crowd the defendant's bench. Figure 4 verifies this assumption: The majority of disputes (68.43%) featured at least one US national or entity on the defendant side. More concretely, 31.58% (42 out of 133) of cases involved only US nationals or entities as defendants, and 36.84% (49 out of 133) involved at least one US defendant together with foreign individuals or entities. Only 17.29% (23 out of 133) of the disputes featured a defendant bench comprised solely of foreign individuals or corporations.<sup>146</sup>

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141. See *supra* Part II.A.

142. For the minimum contacts requirement as an element of constitutional due process, see, for example, *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 291 (1980); *International Shoe Co. v. Washington*, 326 U.S. 310, 316–17 (1945).

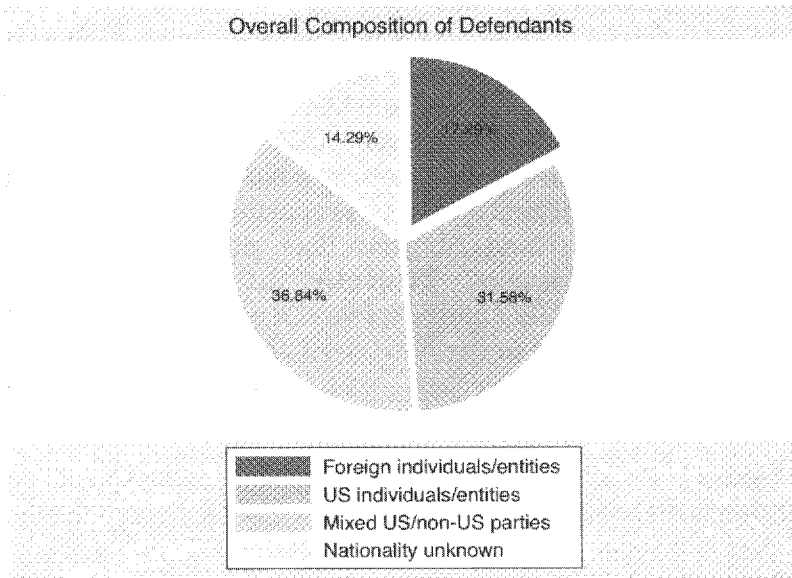
143. For an overview and for estimates of the damages, see, for example, HEMA VITHLANI, OECD, *THE ECONOMIC IMPACT OF COUNTERFEITING* (1998).

144. For a discussion of the international service of process in general, see, for example, GARY B. BORN & PETER B. RUTLEDGE, *INTERNATIONAL CIVIL LITIGATION IN UNITED STATES COURTS* 867–964 (5th ed. 2011). For a discussion of service for international trademark litigation, see Dabney, *supra*, note 83, at 471.

145. See FED. R. CIV. P. 4(k); see also Leslie M. Kelleher, *The December 1993 Amendments to the Federal Rules of Civil Procedure—A Critical Analysis*, 12 *TOURO L. REV.* 7, 29–60 (1995).

146. See *infra* Figure 4. In 19 disputes (14.29%), defendant nationality was unclear or indeterminate.

Figure 4.



Predictably, this lopsided defendant composition also predetermines the outcome of extraterritoriality testing. The reason is doctrinal: if personal jurisdiction exists, the dispute may in many cases automatically fulfill one or more of the factors for Lanham Act extraterritoriality under the various circuit tests. US nationals, in particular, will pass both the personal jurisdiction threshold and the nationality test, implying a tilt toward application of the Lanham Act. Likewise, several of the effects-on-commerce subfactors imply personal jurisdiction over the alleged infringer—notably when focused on either activity within the United States or the occurrence of intra-US marketplace impact.<sup>147</sup>

Consequently, US nationals and entities are more likely to be subject to personal jurisdiction *and* face Lanham Act extraterritoriality than foreign parties. Indeed, observing extraterritoriality rates in light of the defendants' nationalities may dispel the aforementioned assumption that courts favor US parties. When the defendant side comprised only US nationals or entities, the Lanham Act was applied in 65.85% of all opinions. Courts similarly applied the Lanham Act in 61.70% of all cases in which the defendant side consisted of both US and foreign parties. Yet in cases where the

147. For the effects subfactor analysis, see the discussion *infra* Part III.D.4.

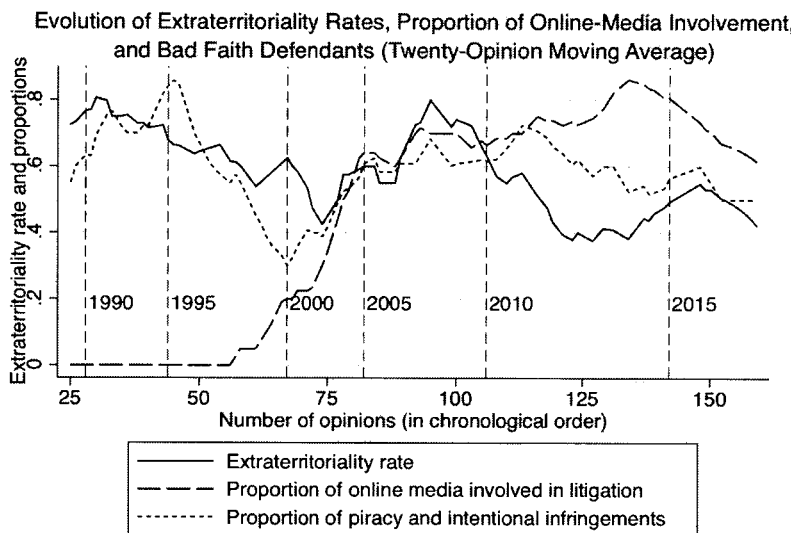
defendants comprised solely foreign nationals or entities, US law was applied in only 32.00% of the opinions.<sup>148</sup>

As a result, with respect to the higher-than-average extraterritoriality rate, the concurrence of personal jurisdiction and extraterritoriality testing can be considered an effective preselection mechanism. We can thus conclude that, due to the close nexus between jurisdictional power and territoriality, the stream of disputes reaching the courts contains a higher proportion of cases fulfilling the extraterritoriality test standards than does the complete universe of actual and potential disputes. Evidently, the federal judiciary is far less a Shangri-La for US rights holders than for foreign infringer-defendants—which works to the detriment of US foreign commerce.<sup>149</sup>

## 2. Variation over Time

Figure 5 illustrates the temporal movement of the extraterritoriality rate and the movement of two evolving external factors: the incidence of bad faith defendants and the involvement of online media in the case population.

**Figure 5.**



148. It is important to note that there is a statistically significant relationship between nationality and Lanham Act application *only* for cases in which the defendants comprised solely foreign nationals or entities (Pearson  $\chi^2(1) = 14.1597$ ,  $p < 0.01$ ).

149. The aspect of hidden foreign-party favoritism reveals a significant defect in the variants of the *Bulova* test as currently applied. See *infra* Part IV.B.2.

Two time periods in the movement of extraterritoriality rates invite closer scrutiny. With regard to the first phase—the constant decline starting shortly after 1990 and lasting until the early 2000s—one striking finding is that from 1995 forward there was a largely parallel downward movement in bad faith scenarios. In other words, the courts' penchant for extending the Lanham Act appears to shrink with the decrease of cases in which defendants acted in bad faith (e.g., counterfeiters). Conventional wisdom, without empirical proof, has explained that courts tend to find extraterritoriality proper “whenever they view the defendant's conduct as ‘unfair’ or ‘inequitable.’”<sup>150</sup> This Article addresses the overall importance of a defendant's bad faith in more detail below.<sup>151</sup> For now, this Subsection focuses on the years 1990 to 2002, which were characterized by a strong correlation between defendant bad faith and extraterritoriality.<sup>152</sup>

One might be tempted to explain this parallel decline by referring to the development of international intellectual property law. Around the mid-1980s, the US government began to negotiate bilateral agreements, primarily with countries in Asia and Latin America, in order to ratchet up protection for intellectual property rights.<sup>153</sup> In addition, from the mid-1990s onward, intellectual property protection levels in many countries, notably former pirate and copycat havens, increased as a result of the implementation of the North American Free Trade Agreement (NAFTA)<sup>154</sup> and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).<sup>155</sup> If these efforts, combined with threats of trade sanctions, had been fully effective, enforcement abroad might have become more attractive for US rights holders, particularly in cases of piracy and counterfeiting. Consequently, court dockets would have reflected a more balanced defendant population, thereby bringing down the proportions of bad faith scenarios and success rates. Still, contemporary reports about the effectiveness of local enforcement

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150. Alpert, *supra* note 64, at 136.

151. The overall correlation between defendant bad faith and extraterritoriality is strong. See *infra* Part III.C.3.

152. The period's correlation coefficient for extraterritoriality and defendant bad faith is 0.6495 ( $p < 0.05$ ).

153. Emery Simon, *GATT and NAFTA Provisions on Intellectual Property*, 4 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 267, 271–73 (1993).

154. North American Free Trade Agreement, Can.-Mex.-U.S., Dec. 17, 1992, 32 *I.L.M.* 289 (1993).

155. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 *U.N.T.S.* 299.



options in important developing nations are mixed.<sup>156</sup> Thus, musing about a correlation of this kind—although an interesting pastime—must remain somewhat speculative. Further qualitative research beyond the focus of this inquiry is necessary.

With respect to the second time period, from 2000 to 2008, another correlation appears to emerge. For these initial years following the introduction of digital communication,<sup>157</sup> one might observe a steady increase of online-media involvement in litigation alongside the rising extraterritoriality rate. Nevertheless, the data do not confirm a correlation.<sup>158</sup> In any case, after 2010, the extraterritoriality rate was also visibly uncoupled from online-media involvement. Therefore, in this regard, scholarly prophets may have missed the mark by claiming courts had to face a “critical phase in the law of cyberspace.”<sup>159</sup> There was never an apparent correlation between “Internet cases” and extraterritorial Lanham Act application.

Finally, from 2010 onward, it seems as though the extraterritoriality rate regressed somewhat to a lower mean. Below, the Article addresses the overall characteristics of the *Steele* progeny as an example of common law evolution.<sup>160</sup> Here, suffice it to say that the handling of Lanham Act extraterritoriality was far less subject to external impacts than one might expect.

### 3. Variation by Circuit

Another aspect that deserves examination concerns the variations among different circuits’ extraterritoriality rates. As seen above, there is a lively debate regarding which circuit test provides for the most wide-reaching extension of the Lanham Act.<sup>161</sup> Keeping in mind that case numbers are still relatively small, some general

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156. See, e.g., Glenn R. Butterton, *Pirates, Dragons and U.S. Intellectual Property Rights in China: Problems and Prospects of Chinese Enforcement*, 38 ARIZ. L. REV. 1081, 1093 (1996) (discussing pre-TRIPS-accession problems); Christopher Heath, *Gewerblicher Rechtsschutz in Südostasien – Ein Überblick*, 46 GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT – INTERNATIONALER TEIL [GRUR INT.] 187 (1997) (providing an overview of the obstacles of implementing effective protection structures in Southeast Asia); Graziella M. Sarno, Comment, *Viet Nam or Bust: Why Trademark Pirates Are Leaving China for Better Opportunities in Viet Nam*, 14 DICK. J. INT’L L. 291, 298 (1996) (discussing the inefficiencies of enforcement in Asian countries); Thomas E. Volper, Note, *TRIPS Enforcement in China: A Case for Judicial Transparency*, 33 BROOK. J. INT’L L. 309, 322–26 (2007) (discussing post-TRIPS-accession lack of compliance).

157. See *supra* Part III.A.4.

158. The correlation coefficient was 0.0791 (p = 0.717).

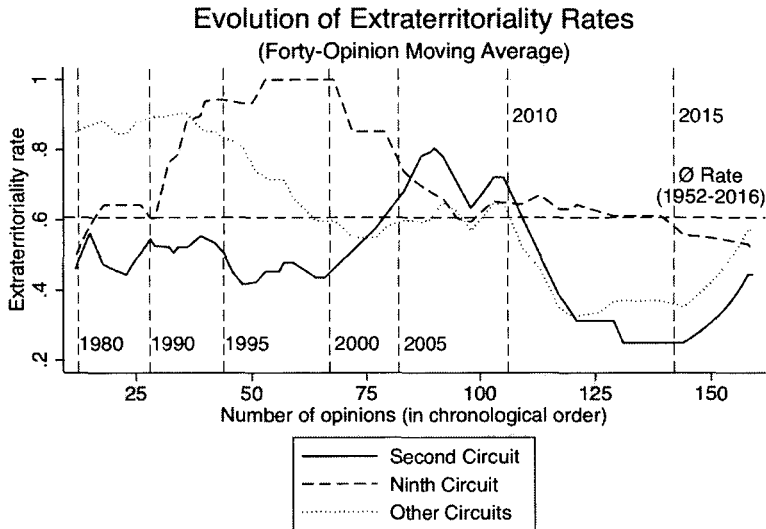
159. Avakian, *supra* note 81, at 908; see, e.g., Burk, *supra* note 5, at 730.

160. See *infra* Part IV.

161. See *supra* Part II.B.

tendencies can be observed, yielding a few nonconventional and counterintuitive results.

**Figure 6.**



By looking at a tendency that verifies conventional wisdom, Figure 6 shows that the Second Circuit is far from being the spearhead of extraterritoriality. While that circuit remains the champion with regard to case numbers, its extraterritoriality rate (48.84%) is below the overall average of 60.67%.<sup>162</sup> This number is particularly dramatic when compared with the Fifth Circuit, which applied the Lanham Act extraterritorially in almost all of the opinions decided there—12 out of 13 opinions, or 92.31%.<sup>163</sup>

In addition—and quite contrary to conventional wisdom—the Ninth Circuit fails to meet its reputation as a rights holder’s haven. Of course, its overall extraterritoriality rate is 65.85%.<sup>164</sup> With respect to the evolution of this rate over time, however, the circuit has exhibited a regressive transformation, as seen in Figure 6. Starting in

162. See *supra* Figure 6; see also *supra* Part II.B. This divergence is significant at  $p = 0.0662$  (t-test).

163. The significance of this result is at  $p < 0.05$  (t-test). The only formal outlier (pre-*Steele*) in the Fifth Circuit is the dissenting appellate opinion in *Bulova Watch Co. v. Steele*, 194 F.2d 567 (5th Cir.), *aff'd*, 344 U.S. 280 (1952), which was decided long before the *American Rice, Inc. v. Arkansas Rice Growers Cooperative Ass'n*, 701 F.2d 408 (5th Cir. 1983) dispute (litigated in 1982 and 1983).

164. See *supra* Part II.B. The circuit’s divergence from the overall average was not significant ( $p = 0.2467$  (t-test)).

the 1990s (at a rate of 57.14%), the Ninth Circuit seems to have constantly increased its affection for US trademark holders. Toward the end of the century, its extraterritoriality rate was close to 100%. Thereafter, however, this rate steadily declined until 2016, where it was close to the overall average. This drastically contradicts conventional wisdom.<sup>165</sup>

And even a cursory glance at actual cases—which allows for a more nuanced perspective—reveals that scholarly commentary was always more hypothetical than evidence based. From the birth of the *Timberlane* test in 1977 until 2002, only 10 disputes were litigated in the Ninth Circuit (with a total of 12 opinions).<sup>166</sup> Between 1992 and 2006, in the era of increased extraterritoriality, only 4 disputes were litigated—with all 5 opinions therefrom applying US law.<sup>167</sup> After 2006, however, the number of actual disputes rose to 25 (with 29 opinions) and the extraterritoriality rate went down to 62.96%.

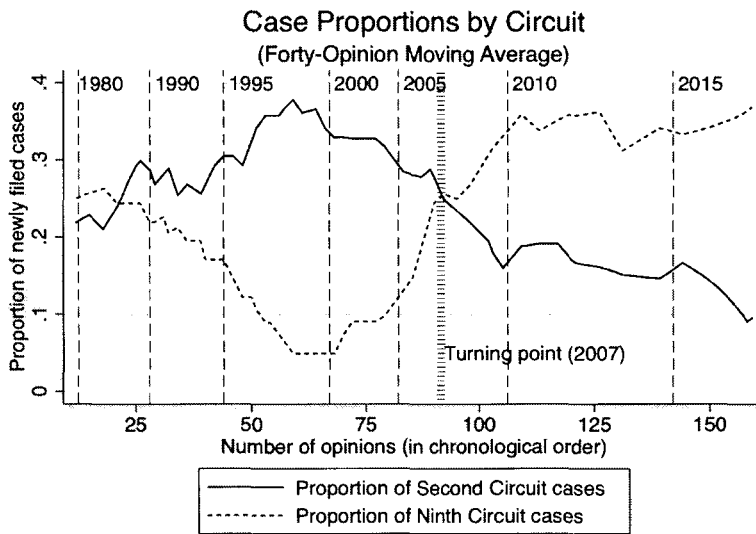
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165. See *supra* Part II.B.

166. See *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 899–900 (9th Cir. 2002); *Reebok Int'l Ltd. v. Marnatech Enters.*, 970 F.2d 552, 557 (9th Cir. 1992); *Ocean Garden, Inc. v. Marktrade Co.*, 953 F.2d 500, 503 (9th Cir. 1991); *Star-Kist Foods, Inc. v. P.J. Rhodes & Co.*, 769 F.2d 1393, 1396 (9th Cir. 1985); *Mattel, Inc. v. MCA Records, Inc.*, 28 F. Supp. 2d 1120, 1129 (C.D. Cal. 1998); *Leatherman Tool Grp. Inc. v. Cooper Indus. Inc.*, 47 U.S.P.Q.2d 1045, 1997 WL 910013, at \*1–2, (D. Or. Nov. 17, 1997); *Winterland Concessions Co. v. Fenton*, 835 F. Supp. 529, 531 (N.D. Cal. 1993); *Zenger-Miller, Inc. v. Training Team, GmbH*, 757 F. Supp. 1062, 1070 (N.D. Cal. 1991); *Van Doren Rubber Co. v. Marnatech Enters.*, CIV. A. No. 89-1362 S BTM, 1989 WL 223017, at \*5 (S.D. Cal. Oct. 17, 1989); *Reebok Int'l Ltd. v. Marnatech Enters.*, 737 F. Supp. 1515, 1518–19 (S.D. Cal. 1989); *Reebok Int'l Ltd. v. Am. Sales Corp.*, 11 U.S.P.Q.2d 1229, 1989 WL 418625, at \*2, (C.D. Cal. Jan. 26, 1989); *Vespa of Am. Corp. v. Bajaj Auto Ltd.*, 550 F. Supp. 224, 229 (N.D. Cal. 1982).

167. See *Mattel*, 296 F.3d at 900, 906; *Reebok*, 970 F.2d at 558, 559; *Mattel*, 28 F. Supp. 2d at 1142; *Leatherman*, 47 U.S.P.Q.2d 1045, 1997 WL 910013, at \*4; *Winterland Concessions*, 835 F. Supp. at 553.

Figure 7.



That last aspect also raises the question of whether a diversity of test variants might have spurred a certain type of forum shopping. Throughout recent decades, courts in California have been at the forefront with respect to national trademark litigation numbers.<sup>168</sup> Yet, as Figure 7 illustrates, the drastic changes in *international* trademark cases that occurred around the turn of the century appear to be extraordinary. Regarding the number of newly filed cases, the Ninth Circuit actually took the lead from the Second Circuit in 2007. Of course, it cannot be concluded with certainty that scholarly wisdom on plaintiff favoritism in the Ninth Circuit, and a widespread belief that a plaintiff's chances of winning are higher there, actually caused this development.<sup>169</sup> In any event, however, the Ninth Circuit is now the preferred forum.

### *C. Interfactor Analysis*

Of the many issues left open by the Supreme Court in *Steele*, lower courts found most problematic the lack of guidance regarding which factor outcomes were essential (if any) or how the factors were to be weighed (if at all).<sup>170</sup> As we have seen, courts and commentators

168. Sag, *supra* note 94, at 1088.

169. For a discussion on conventional wisdom, see *supra* Part II.B.

170. Bradley, *supra* note 1, at 528.

adhere to a number of seemingly ironclad tenets.<sup>171</sup> This Section unveils the relations between factors and clarifies some of the existing wisdom.

### 1. Overview: Average Word Count per Factor

**Figure 8.**

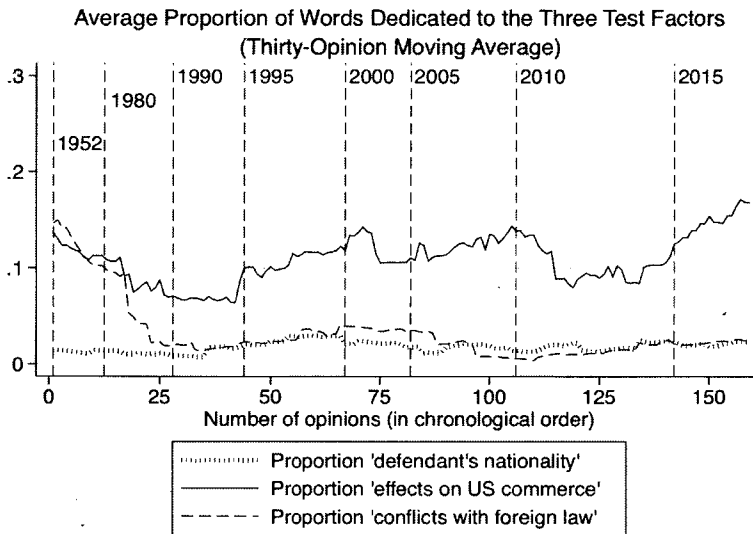


Figure 8 depicts the proportion of words dedicated to each *Bulova* factor in the sample of opinions applying a three-pronged test. Among those opinions, the nationality factor never received much attention. While this is not too surprising—after all, nationality does not usually require much analysis—the conflicts factor’s sharp decline following *Steele* is somewhat startling. Among the three factors, that one started with the highest relative proportion of judges’ attention. Starting in the late 1980s, however, it moved backstage. Over time, the effects factor became judges’ favorite plaything, with more than twice as many words dedicated to it than to nationality and conflicts combined.<sup>172</sup>

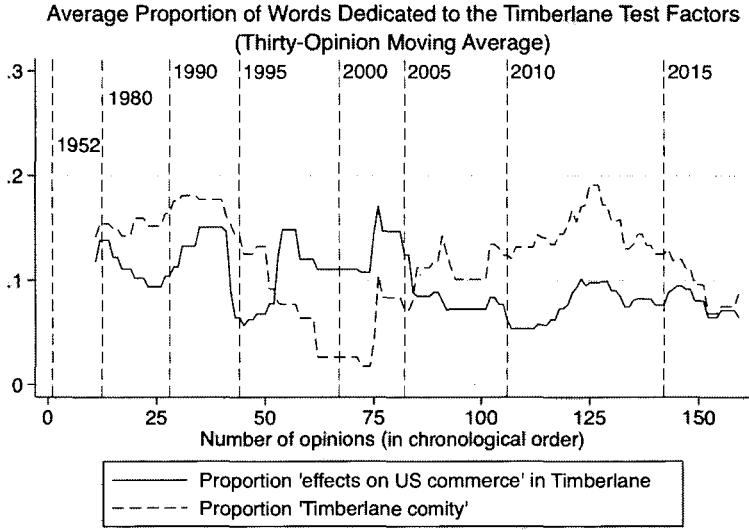
The picture differs with respect to the group of *Timberlane* opinions, as seen in Figure 9. Here, the seven-factor comity prong—including, *inter alia*, subfactors on nationality and conflicts—took the lead in terms of word count. In addition, the

171. See *supra* Part II.B.

172. The average word count for effects was 490 per opinion; nationality and conflicts accounted for only 96 and 129 words, respectively.

effects factor—which finished only second in the Ninth Circuit—drew less attention in these courts than in circuits applying a three-pronged test.<sup>173</sup>

**Figure 9.**



## 2. Details: Interrelations Among Factors

*Steele* did not clarify the interrelations among factors. In principle, therefore, any of the *Bulova* factors could be determinative and dominant—either alone or in combination with another factor. Court rhetoric and scholarly commentary on these interrelations abound. Yet the discussion seems to be driven by judicial instinct rather than by empirically tested facts.

### *a. Bulova Rhetoric: Factor Dominance or Balancing?*

*Vanity Fair* seemed to provide guidance where the *Steele* majority had remained silent. The initial test version that Judge Waterman suggested in 1956 was straightforward, establishing what can be characterized as a presumption of nationality-and-conflicts prevalence in scenarios where both factors are conjointly disfavoring extension of the Lanham Act:

173. The effects factor received an average of 397 words. For comity, the courts dedicated an average of 643 words.

[T]he Supreme Court [in *Steele*] . . . stressed three factors: (1) the defendant's conduct had a substantial effect on United States commerce; (2) the defendant was a United States citizen[;] . . . and (3) there was no conflict with trade-mark rights established under the foreign law . . . . Only the first factor is present in this case. . . . [W]e think that the rationale of the [*Steele*] Court was so thoroughly based on the power of the United States to govern "the conduct of its own citizens . . . when the rights of other nations or their nationals are not infringed", that the absence of one of the above factors might well be determinative and that the absence of both is certainly fatal.<sup>174</sup>

The Supreme Court had not mentioned a requirement of effects "substantiality."<sup>175</sup> In addition, a strict analysis of *Steele* would have required the three factors to exist cumulatively and without exception. Therefore, Judge Waterman's tinkering with a possible "absence of one of the above factors" set the stage for an extension—not to say distortion—of the initial doctrine.

Indeed, *Vanity Fair* has regularly been misunderstood. Until today, the test has been described as prescribing application of the three factors in a "mechanical fashion."<sup>176</sup> In addition, courts and commentators uphold an idea of test "uniformity."<sup>177</sup> But *Vanity Fair*'s initial clear-cut rule on factor relevance began to dissipate quite some time ago. In 1977, *Wells Fargo*<sup>178</sup> provided an initial strong impulse for change, explaining that "the absence of one of the factors is not necessarily determinative of the issue. Rather, each factor is just one consideration to be balanced in the 'jurisdictional rule of reason' of comity and fairness adopted by [the court] in *Timberlane*["]<sup>179</sup>

In 1983, the Fifth Circuit's *American Rice*<sup>180</sup> precedent extended the flexibility of factor interplay, implying that any single factor—and maybe even two—might be dispensable: "The absence of any one of these is not dispositive. Nor should a court limit its inquiry exclusively to these considerations . . . . Rather, these factors will necessarily be the primary elements in any balancing analysis."<sup>181</sup>

That same year, the Western District of New York reintroduced this out-of-circuit twist to *Vanity Fair* by holding that "the application

174. *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 642-43 (2d Cir. 1956).

175. *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 428 (9th Cir. 1977).

176. *See, e.g.*, *Feldon*, *supra* note 52, at 664.

177. *See, e.g.*, *Atl. Richfield Co. v. Arco Globus Int'l Co.*, 150 F.3d 189, 192 (2d Cir. 1998); *C-Cure Chem. Co. v. Secure Adhesives Corp.*, 571 F. Supp. 808, 820 (W.D.N.Y. 1983); *see also* MCCARTHY, *supra* note 4, § 29:58 ("Courts in the Second Circuit have uniformly used these three factors in deciding if extraterritorial application is appropriate.").

178. *Wells Fargo & Co.*, 556 F.2d at 428.

179. *Id.*

180. *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass'n*, 701 F.2d 408, 414 (5th Cir. 1983).

181. *Id.*

or absence of one of these factors to [the defendant] is not dispositive of Lanham Act jurisdiction.”<sup>182</sup> The Southern District of New York’s 1992 *King v. Allied Vision* and 1994 *Warnaco v. VF Corp.* decisions followed.<sup>183</sup> Notably, *Warnaco* clarified that “[n]one of these three criteria is dispositive of the analysis concerning the Lanham Act’s extraterritorial effect, and a court must employ a balancing test of all three factors to determine whether the statute is properly implicated.”<sup>184</sup>

This lenient balancing standard was accepted in other circuits,<sup>185</sup> and it is no surprise that modern commentary describes the law across all circuits as a “variety of balancing tests.”<sup>186</sup> Some commentators have even gone so far as to explain the “implication of balancing” as a technique where “a lesser effect on commerce may be offset by a lower degree of conflict with foreign trademark law.”<sup>187</sup> In addition, courts and commentators have bent *Vanity Fair* far enough to interpret the test as requiring at least a strong showing of two of the factors in order to overcome the absence of one.<sup>188</sup> Ultimately, it appears the factors of nationality and conflicts, as well as their combination—the latter of which began as a virtually indispensable element of extraterritoriality testing—were reduced in rank and subjected to a widely discretionary evaluation and balancing test.

The courts’ rhetoric—particularly in the Second Circuit—is also interesting with respect to the effects factor. The 1998 *Atlantic Richfield Co.* decision provides one example in which the court insisted on the effects factor’s exceptionalism, declaring that “[i]ndeed, we have never applied the Lanham Act to extraterritorial conduct

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182. *C-Cure Chem.*, 571 F. Supp. at 821.

183. *Warnaco Inc. v. VF Corp.*, 844 F. Supp. 940, 950 (S.D.N.Y. 1994); *King v. Allied Vision, Ltd.*, 807 F. Supp. 300 (S.D.N.Y.), *aff’d in part, rev’d in part on other grounds*, 976 F.2d 824 (2d Cir. 1992).

184. *Warnaco*, 844 F. Supp. at 950. For a recent example in the Second Circuit, see *Juicy Couture, Inc. v. Bella International Ltd.*, 930 F. Supp. 2d 489, 505 (S.D.N.Y. 2013).

185. See, e.g., *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 251 (4th Cir. 1994) (“The process is a balancing one: no one factor is dispositive, but all must be considered. The object of the balancing is to determine whether ‘the contacts and interests of the United States are sufficient to support the exercise of extraterritorial jurisdiction.’” (internal citations omitted)).

186. Bradley, *supra* note 1, at 528–29, 528 n.126.

187. Butts, *supra* note 80, at 467.

188. See, e.g., *Totalplan Corp. of Am. v. Colborne*, 14 F.3d 824, 831 (2d Cir. 1994); *Software AG, Inc. v. Consist Software Sols., Inc.*, No. 08 Civ. 389(CM)(FM), 2008 WL 563449, at \*14 (S.D.N.Y. Feb. 21, 2008), *aff’d*, 323 F. App’x 11 (2d Cir. 2009); see also, e.g., Avakian, *supra* note 81, at 922 n.96; Butts, *supra* note 80, at 468; Feldon, *supra* note 52, at 665 (devising a rule that requires “effect on U.S. commerce” to exist and “one of the other factors” to be met); Webster, *supra* note 80, at 267.



absent a substantial effect on United States commerce.”<sup>189</sup> Other decisions have subscribed to this “no effects, no Lanham Act application” paradigm, sometimes further suggesting that not only effects’ absence but also their presence may be what ultimately determines the outcome.<sup>190</sup> In the same vein, finally, scholarly commentary demands a focus on effects as the most determinative among all factors.<sup>191</sup>

In sum, practical and scholarly wisdom oscillates between different versions of “factor mechanics.” *Steele* did not imply a laissez-faire handling of the three factors. Yet there is virtual agreement on the fact that a single factor’s absence does not preclude extraterritoriality. Moreover, while the result of the effects factor test—regardless of its direction—seems to be essential to some, others qualify effects as one of three equally important factors and, accordingly, as not necessarily indispensable. Finally, with respect to the *Timberlane* test, it is the void of conventional wisdom on the factors’ interplay that is most puzzling. One might attribute this to the fact that scholarly analyses continue to focus mainly on the three-pronged test variants, especially the *Vanity Fair* test, since these tests populate the majority of opinions. But considering the growing relevance of the Ninth Circuit’s adjudication, a closer analysis is needed.

### b. Actual Numbers: A Tale of Effects

The question of which factor or combination of factors drives the results can be approached from different perspectives. First, it is noteworthy that courts often neglect to consider certain factors—unlike the way they handle multifactor tests in other areas of the law.<sup>192</sup> Here, the “effects on US commerce” factor dominated the

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189. *Atl. Richfield Co. v. Arco Globus Int’l Co.*, 150 F.3d 189, 192 n.4 (2d Cir. 1998). For a more recent case, see *Rodgers v. Wright*, 544 F. Supp. 2d 302, 313 (S.D.N.Y. 2008) (“Indeed, the Second Circuit has noted that it has *never* applied the Lanham Act to extraterritorial conduct absent a substantial effect on U.S. commerce.” (emphasis in original) (citing *Atl. Richfield*, 150 F.3d at 192 n.4)).

190. See, e.g., *Software AG*, 2008 WL 563449, at \*14; *Tommy Hilfiger Licensing, Inc. v. Costco Cos.*, No. 99 Civ. 3894(LMM), 2001 WL 55735, at \*2 (S.D.N.Y. Jan. 23, 2001); *Lithuanian Commerce Corp. v. Sara Lee Hosiery*, 47 F. Supp. 2d 523, 536 (D.N.J. 1999); *Piccoli A/S v. Calvin Klein Jeanswear Co.*, 19 F. Supp. 2d 157, 170 (S.D.N.Y. 1998).

191. See, e.g., *Brown*, *supra* note 76, at 868–69; *Feldon*, *supra* note 52, at 664–65; *Webster*, *supra* note 80, at 269–70; *Witherell*, *supra* note 12, at 196.

192. The numbers diverge from the handling of other multifactor tests, such as in the fair use doctrine in copyright law. As Barton Beebe has shown, courts there usually consider all four factors. Failure to consider single factors ranges between 6.9% and 17.7%. See *Beebe*, *supra* note 112, at 563–64 & n.58.

courts' inquiry. Courts only failed to discuss or apply that factor in 14.47% of all opinions (23 out of 159). Quite surprisingly, of opinions that did not make use of the Ninth Circuit's *Timberlane* test, "nationality" and "conflicts with foreign law" were completely untouched, or a decision was left open, in 43.22% and 49.15%, respectively. The comity factor in *Timberlane*, by contrast, was neglected, or the decision left undecided, in only 19.51% (8 of 41) of all opinions.

Below, Tables 1 and 2 illustrate the number and proportion of opinions holding that each of the *Bulova* factors favored or disfavored Lanham Act extraterritoriality, as well as the opinions' extraterritoriality rates. Table 2 lists results for the group of opinions making use of the *Timberlane* rule of reason. Table 1, meanwhile, provides the data lumped together for all other test variants.<sup>193</sup> Taking the effects factor in Table 1 as an example, one can observe that, among 63 opinions that found the result of the effects test to favor extraterritoriality, courts applied the Lanham Act 96.83% of the time. An even more powerful example can be found in Table 2, in which the *Timberlane* comity factor appears to be fully determinative, both when favoring and when disfavoring extraterritoriality.

In addition, a look at typical factor scenarios provides more insights. Among the non-*Timberlane* opinions, 112 ultimately decided for or against extraterritoriality.<sup>194</sup> Within this group, 97 made an express decision on the effects factor.<sup>195</sup> Among these, 34 opinions featured a negative test outcome for the effects factor, all of which ultimately rejected application of the Lanham Act. Of the 63 opinions where effects favored application of the Lanham Act, 61 voted for extraterritoriality. Only 2 opinions—each with both the nationality and the conflicts factor disfavoring Lanham Act application—fell out of line with regard to effects' dominance.<sup>196</sup> This makes a divergence rate of 2.06%. Interestingly, effects' dominance is lower in the *Timberlane* group. Among the opinions where an express decision had been made on the effects test (36 out of 38<sup>197</sup>), 3 did not apply the

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193. Since 9 opinions did not decide on the application or nonapplication of the Lanham Act, leaving the issue unresolved, Tables 1 and 2 cover 150 opinions.

194. Six opinions left a decision on the application or nonapplication of the Lanham Act open.

195. Fifteen opinions left the factor test open or found effects irrelevant to the outcome.

196. *United Air Lines, Inc. v. United Airways, Ltd.*, No. 09-CV-4743 (KAM)(JMA), 2013 WL 1290930, at \*11 (E.D.N.Y. Mar. 4, 2013); *C-Cure Chem. Co. v. Secure Adhesives Corp.*, 571 F. Supp. 808 (W.D.N.Y. 1983).

197. Three of the 41 opinions in the *Timberlane* sample did not make a decision on the applicable law. See *Wells Fargo & Co. v. Wells Fargo Exp. Co.*, 556 F.2d 406, 431 (9th Cir. 1977); *Openwave Messaging, Inc. v. Open-Xchange, Inc.*, No. 16-cv-00253-WHO, 2016 U.S. Dist. LEXIS

Lanham Act despite a positive finding of effects, providing for a divergence rate of 8.33%.<sup>198</sup>

**Table 1: Factor Impact (Non-*Timberlane* Tests).**

Factor	Outcome	Distribution by Outcome		
		N	%	Extraterritoriality rate
Nationality	Favors extraterritoriality	43	38.39	88.37%
	Disfavors extraterritoriality	22	19.64	9.09%
	Other	47	41.96	59.57%
Effects on US commerce (apart from <i>Timberlane</i> test)	Favors extraterritoriality	63	56.25	96.83%
	Disfavors extraterritoriality	34	30.36	0%
	Other	15	13.39	46.67%
Conflicts with foreign law	Favors extraterritoriality	45	40.18	88.89%
	Disfavors extraterritoriality	14	12.5	0%
	Other	53	47.32	52.83%
	Total opinions	112		
	Extraterritoriality rate	60.71%		
	Nonapplication rate	39.29%		

In the *Timberlane* group, by contrast, the comity test factor dominates. In this regard, the picture differs significantly from nationality and conflicts testing in the three-pronged-test group. In the latter group, an express finding for the nationality test in either direction was trumped by the other factor outcomes in 7 out of 65 opinions.<sup>199</sup> For the conflicts factor, an express finding was ineffective in 5 out of 59 opinions.<sup>200</sup> However, whenever the comity prong

61951, at \*1–2 (N.D. Cal. May 9, 2016); *Toyo Tire & Rubber Co. v. Kabusikiki Kaisha Tokyo Hihoon Rubber Corp.*, No. 2:14-cv-01847-JAD-VCF, 2015 U.S. Dist. LEXIS 77142, at \*6 (D. Nev. June 15, 2015). Two opinions did not decide on the outcome of the effects test. *See Vespa of Am. Corp. v. Bajaj Auto Ltd.*, 550 F. Supp. 224, 229 (N.D. Cal. 1982); *Playboy Enters. v. Chuckleberry Publ'g, Inc.*, 511 F. Supp. 486, 495–96 (S.D.N.Y. 1981).

198. *See Star-Kist Foods, Inc. v. P.J. Rhodes & Co.*, 769 F.2d 1393, 1396 (9th Cir. 1985); *Pinkberry, Inc. v. JEC Int'l Corp.*, No. CV 11-6540 PSG (PJWx), 2011 WL 6101828, at \*8 (C.D. Cal. Dec. 7, 2011); *Zenger-Miller, Inc. v. Training Team, GmbH*, 757 F. Supp. 1062, 1070, 1072 (N.D. Cal. 1991).

199. *Int'l Café, S.A.L. v. Hard Rock Café Int'l (U.S.A.), Inc.*, 252 F.3d 1274, 1279 (11th Cir. 2001); *Atl. Richfield Co. v. Arco Globus Int'l Co.*, 150 F.3d 189, 193 (2d Cir. 1998); *Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd.*, 152 F.3d 948, 1998 WL 169251, at \*3 (Fed. Cir. Apr. 13, 1998); *V'Soske, Inc. v. V'soske.com*, No. 00 CIV 6099 DC, 2002 WL 230848, at \*1–2 (S.D.N.Y. Feb. 15, 2002); *Tommy Hilfiger Licensing, Inc. v. Costco Cos.*, No. 99 Civ. 3894(LMM), 2001 WL 55735, at \*2 (S.D.N.Y. Jan. 23, 2001); *Libbey Glass, Inc. v. Oneida Ltd.*, 61 F. Supp. 2d 720 (N.D. Ohio 1999); *Atl. Richfield Co. v. Arco Globus Int'l Co.*, No. 95 CIV. 6361(JFK), 1997 WL 607488, at \*6 (S.D.N.Y. May 29, 1997).

200. *Groeneveld Transp. Efficiency, Inc. v. Lubecore Int'l, Inc.*, 730 F.3d 494, 537 (6th Cir. 2013) (White, J., dissenting); *Atl. Richfield*, 150 F.3d at 192–93; *Southco, Inc. v. Fivetech Tech. Inc.*, 982 F. Supp. 2d 507, 513–14 (E.D. Pa. 2013); *Tommy Hilfiger Licensing*, 2001 WL 55735, at \*2; *Atl. Richfield*, 1997 WL 607488, at \*6.

expressly pointed toward or against extraterritoriality, courts always followed. There was no divergence (0.00%).<sup>201</sup>

**Table 2: Factor Impact (*Timberlane* Test).**

Factor	Outcome	Distribution by Outcome		Extraterritoriality rate
		N	%	
Effects on US commerce ( <i>Timberlane</i> test)	Favors extraterritoriality	26	68.42	88.46%
	Disfavors extraterritoriality	10	26.32	0.00%
	Other	2	5.26	0%
<i>Timberlane</i> comity factors	Favor extraterritoriality	22	57.89	100%
	Disfavor extraterritoriality	10	26.32	0.00%
	Other	6	15.79	16.68%
Total opinions		38		
Extraterritoriality rate		63.16%		
Nonapplication rate		36.84%		

Furthermore, correlation analysis provides insight into the importance of single test factors and their interrelation with respect to the overall test outcome. Correlation analysis is an approach generally used whenever the relationship and interactions among different variables are at issue.<sup>202</sup> Depending on the strength of the extraterritoriality/factor correlation, the overall impact of single factors can be evaluated.<sup>203</sup> Nevertheless, it is important not to place too much weight on simple correlation analysis because the coefficients may underreport the strength of correlations between dichotomous variables.<sup>204</sup> It is critical to keep this fact in mind for the extraterritoriality/factor correlation, where the outcome for the overall test and for single factors was coded either as 1 or 0, depending on whether the test result pointed toward Lanham Act application.<sup>205</sup>

201. For a more qualitative analysis (albeit of a smaller part of the *Steele* progeny), see DORNIS, *supra* note 1, at 171–85.

202. See, e.g., JACOB COHEN ET AL., APPLIED MULTIPLE REGRESSION/CORRELATION ANALYSIS FOR THE BEHAVIORAL SCIENCES 1, 64 (3d ed. 2003).

203. Simply put, correlation analysis yields correlation coefficients for single variables that range between -1 and +1. If this coefficient is statistically significant, it demonstrates either a negative or a positive correlation between two variables. Any coefficient close to zero (0) indicates a weak relationship or no relationship at all.

204. That is, variables which are not continuous or quantitative (such as the amount of damages or the number of words in a decision). See, e.g., COHEN ET AL., *supra* note 202, at 53–55.

205. In addition, the correlations reported in the analysis are weakened by their failure to take outcomes other than 0 or 1 into account. In the Excel datasheet on file with the Author, each factor outcome is represented by a separate variable. It is coded with “0” or “1” depending on whether it “favors” or “disfavors” Lanham Act application. If a court did not discuss the factor, if it found the factor to be neutral or irrelevant, or if the finding was unclear, the variable was coded as “2,” “3,” or other values. See *infra* Appendix. For the correlation analysis, the original codes were translated into the variables “favors extraterritoriality” (coded as “1”) and “disfavors

Table 3 presents the correlation analysis for the group of non-*Timberlane* opinions. The effects factor most strongly correlates to the test's outcome, followed by conflicts and then nationality.<sup>206</sup> With regard to interfactor correlations, it is interesting to observe that nationality and conflicts were closely interrelated with each other—both when favoring and when disfavoring Lanham Act application (0.664/0.561). This somewhat verifies the prior finding that, albeit of little impact when considered alone, nationality and conflicts can override effects' power when marching together.

**Table 3: Factor Correlations (Non-*Timberlane* Tests).**

		LA applies/ extraterrit.	Defendant nationality		Effects on US commerce		Conflicts with foreign law	
			Favors	Disfav.	Favors	Disfav.	Favors	Disfav.
Nationality	LA applies/ extraterrit.	1.000						
	Favors	0.447*	1.000					
Effects	Disfavors	-0.523*	-0.383*	1.000				
	Favors	0.838*	0.424*	-0.357*	1.000			
Conflicts	Disfavors	-0.821*	-0.287*	0.283*	-0.717*	1.000		
	Favors	0.473*	0.659*	-0.231*	0.430*	-0.317*	1.000	
	Disfavors	-0.470*	-0.223*	0.531*	-0.308*	0.056	-0.293*	1.000

**Table 4: Factor Correlations (*Timberlane* Test).**

		LA applies/ extraterrit.	Effects on US commerce		Comity (7-factor test)	
			Favors	Disfav.	Favors	Disfav.
Effects	LA applies/ extraterrit.	1.000				
	Favors	0.841*	1.000			
Comity	Disfavors	-0.740*	-0.748*	1.000		
	Favors	0.947*	0.757*	-0.642*	1.000	
	Disfavors	-0.740*	-0.394*	0.339*	-0.642*	1.000

Table 4 presents the results of the correlation analysis for the *Timberlane* group. Unlike the results of the non-*Timberlane* opinions, these results pose a stronger challenge for conventional wisdom regarding the hypothesis of effects' dominance. As the correlation coefficients illustrate, comity is the factor that determines the test's outcome.

Finally, Table 5 contains the results of a logistic regression analysis. Regression analysis measures the influence that various independent variables have on a single dependent variable. This

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extraterritoriality" (coded as "0"). Observations in which the court did not decide on the factor outcome were also coded as "0." For a similar approach, see Beebe, *supra* note 112, at 584–85.

206. An asterisk signals that the correlation coefficients are significant at the  $p < 0.05$  level. In addition, it is important to note that the sum of the two correlation coefficients for each factor does not equal zero. This is due to the fact that the population contains opinions in which the court did not decide on the outcome for the factor tests in the sense of "favoring" or "disfavoring" application of the Lanham Act ("0" or "1," respectively). See *supra* note 205.

Article's analysis reports the overall finding for the extraterritoriality test as a function of the outcome of each of the single test factors. With a correct classification of 94.07% of test outcomes, the model provides a helpful rounding off for the foregoing analyses.<sup>207</sup>

Here as well, however, a few caveats are in order. First, one must keep in mind that the independent variables—in this case, the factor outcomes—may correlate *inter se*. If this is the case, a problem of so-called collinearity (or multicollinearity) exists.<sup>208</sup> For this study, while at first glance it appears that there might be collinearity between nationality and conflicts,<sup>209</sup> a further analysis of the data reveals that this is not the case.<sup>210</sup> Second, a concern exists that regression analysis for binary variables may pose the problem of so-called zero cell count. This means that the dependent variable (i.e., application of the Lanham Act) might be (and, in the study at hand, actually is) invariant for different values (0 and 1) of one or more of the independent variables. The prior analysis has already touched on the implications of this problem, explaining that certain results of the effects or comity tests predetermine the overall outcome, regardless of the status of the other factors.<sup>211</sup> Regression analysis in these cases may ultimately produce statistically insignificant and exaggerated regression coefficients and would, hence, be futile.<sup>212</sup> This is the case with the *Timberlane* group, where the dependent variable (overall test outcome) is largely invariant.<sup>213</sup> Accordingly, regression analysis will be limited to the non-*Timberlane* group.

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207. For the regression analysis, all factor outcomes were coded in the form of trinary variables. In other words, if the single-factor outcome favored extraterritoriality, it received a "1"; if it disfavored Lanham Act application, the code was "-1." All other results (e.g., "left open" or "unclear") were coded as "0."

208. See generally COHEN ET AL., *supra* note 202, at 419–30. In addition, one might challenge the validity of regression analysis in assessing the actual technique and process of decision-making in cases of judicial multifactor analyses. For a discussion of the heuristics issue, see *infra* Part III.D.3.

209. See *supra* Table 3.

210. A test for collinearity reveals VIF factors < 10 and hence helps to verify that there is no significant interdependence among the test factors.

211. See *supra* Tables 1 and 2.

212. See, e.g., SCOTT MENARD, APPLIED LOGISTIC REGRESSION ANALYSIS 75–80 (2d ed. 2002).

213. For general caveats to the interpretation of regression analysis results, see *id.* at 79. In addition, one must be aware of the fact that in regression analysis, small samples (<100 observations) must be treated carefully with regard to statistical significance of the results. See, e.g., FRED C. PAMPEL, LOGISTIC REGRESSION 30 (2000).

**Table 5: Regression Analysis (Non-Timberlane Tests).**

Dependent variable: Extraterritoriality found (1), extraterritoriality not found (0)		Number of observations = 118 LR $\chi^2(3) = 125.81$ Prob > $\chi^2 = 0.0000$ Pseudo $R^2 = 0.7823$				
Log likelihood = -17.5085		Correctly classified: 94.07%				
Extraterritoriality	Odds ratio	Std. err.	Z	P> z	[95% Conf. interval]	
Defendant nationality	10.04443	9.300965	2.49	0.013	1.635791	61.67695
Effects on US commerce	42.7801	35.05026	4.58	0.000	8.587009	213.1286
Conflicts with foreign law	5.769177	5.248664	1.93	0.054	.9698627	34.31764
Constant	.3566672	.1845912	-1.99	0.046	.1293387	.9835536

As Table 5 displays, the analysis provides more corroboration on factor relevance and interrelations. According to the odds ratio—that is, the likelihood of altering the overall result through a change in single-factor test outcomes—the effects factor is by far the most influential. With regard to the other factors, regression analysis appears to suggest that infringer nationality is slightly more relevant than conflicts with foreign law.

### 3. Behind the Scenes: Defendant's Bad Faith

With respect to the movement of extraterritoriality rates, this Article already mentioned that, for certain time periods, there is a correlation between application of the Lanham Act and a finding of bad faith on the side of the defendant.<sup>214</sup> Indeed, a large fraction of the case population involves piracy and counterfeiting<sup>215</sup> or comparably dishonest activities.<sup>216</sup> Overall, 57.89% (77 out of 133) of disputes involve a bad faith element on the defendant side. The extraterritoriality rate within this group—82.67%—is significantly higher than the mean (60.67%).<sup>217</sup>

Correlation analysis verifies these results. For the group of non-*Timberlane* opinions, the correlation coefficient for “bad faith

214. See *infra* Part III.B.2.

215. See, e.g., *Levi Strauss & Co. v. Sunrise Int'l Trading Inc.*, 51 F.3d 982, 984 (11th Cir. 1995); *Reebok Int'l Ltd. v. Marnatech Enters.*, 737 F. Supp. 1515, 1516, 1521 (S.D. Cal. 1989); *Reebok Int'l Ltd. v. Am. Sales Corp.*, No. 88-1210 (CBM), 11 U.S.P.Q.2d 1229, 1989 WL 418625, at \*1, \*3 (C.D. Cal. Jan. 26, 1989); *A.T. Cross Co. v. Sunil Trading Corp.*, 467 F. Supp. 47, 48, 51 (S.D.N.Y. 1979).

216. Examples include defamation, theft of trade secrets, or improper trademark use after termination of a license agreement. See, e.g., *Fun-Damental Too, Ltd. v. Gemmy Indus. Corp.*, 111 F.3d 993, 1007 (2d Cir. 1997); *Best W. Int'l, Inc. v. 1496815 Ont., Inc.*, No. CV 04-1194-PHX-SMM, 2007 WL 779699, at \*2, \*8 (D. Ariz. Mar. 13, 2007); *Amway Corp. v. Dyson*, No. 1:97-CV-295, 1997 U.S. Dist. LEXIS 15735, at \*2, \*17 (W.D. Mich. Sept. 24, 1997); *Gen. Motors Corp. v. Lopez de Arriortua*, 948 F. Supp. 684, 685, 692 (E.D. Mich. 1996).

217. This result is statistically significant below the  $p < 0.01$  level.

favors extraterritoriality” is 0.4898, whereas for “bad faith disfavors extraterritoriality” it is -0.4804. In the *Timberlane* group, the correlation is even stronger, with coefficients of 0.7797 (“favors”) and -0.6717 (“disfavors”).<sup>218</sup> In addition, regression analysis for the group of non-*Timberlane* opinions yielded an odds ratio of 2.8775, which is slightly above the ratio for “conflicts with foreign law” (2.8265) but still below “nationality” (4.0989) and “effects on US commerce” (44.1478).<sup>219</sup>

It is difficult to give definitive reasons for these numbers. Of course, many test variants implement intent-based elements, primarily as effects subfactors: *Steele* itself established the unlawful-scheme paradigm,<sup>220</sup> and the circuits developed further ramifications—such as the Ninth Circuit’s explanation of “orchestration” as a subfactor of “effects on US commerce,” which, among other things, requires intentional conduct.<sup>221</sup> To a certain extent, therefore, the bad faith/extraterritoriality correlation is naturally built in.

However, further indicia for causal explanatory factors remain difficult to find. Indeed, express reference to the defendant’s state of mind remains strangely rare in the opinions. Only a few cases openly show protectionist attitudes, such as by referring to “American companies” and losses due to foreign violators “avoiding legal authority” by acting and hiding abroad.<sup>222</sup> In any event, what can be concluded is the existence of a direct and strong correlation between a defendant’s bad faith actions and the court’s application of US law. Attentive counsel should take note.

#### D. Intrafactor Analysis

Having viewed the macro perspective, this Section explores the factor details. A closer look at the status quo, notably the mechanics that drive single-factor test outcomes, helps to further elucidate the operation of the overall test.

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218. All coefficients are statistically significant ( $p < 0.05$ ).

219. The *Timberlane* group does not yield meaningful results in regression analysis. See *supra* Part III.C.2.b.

220. See *supra* Part II.A.

221. See, e.g., *Ocean Garden, Inc. v. Marktrade Co.*, 953 F.2d 500, 504 (9th Cir. 1991).

222. See *Steele v. Bulova Watch Co.*, 344 U.S. 280, 287 (1952); *McBee v. Delica Co.*, 417 F.3d 107, 119 (1st Cir. 2005).



### 1. "Nationality" or Who Cares Where You Come From?

The *raison d'être* of the nationality factor is seldom called into question. After all, public international and municipal law both acknowledge nationality as a valid basis for jurisdiction.<sup>223</sup> Citizens and entities, wherever they act, can legitimately be subjected to the reach of their countries' laws. Yet, in recent times, the concept of nationality has been subject to critique. Critics rely primarily on the fact that today's actors in the global economy—often multinational corporate entities—are far less attached to political territories than their predecessors once were.<sup>224</sup> As a result, tying economic regulation to the formalities of citizenship seems anachronistic. Thus, although courts still pay lip service to the nationality factor, the law in action sings another tune.

Interestingly, the Supreme Court's majority handled the issue of nationality quite casually when it explained in *Steele* that "[t]he issue is whether a United States District Court has jurisdiction to award relief to an American corporation against acts of trade-mark infringement and unfair competition consummated in a foreign country by a citizen and resident of the United States."<sup>225</sup>

In a footnote to the following sentence, it continued: "Joined as parties defendant were S. Steele y Cia, S.A., a Mexican corporation to whose rights Steele had succeeded, and Steele's wife Sofia who possessed a community interest under Texas law."<sup>226</sup> In spite of the defendants' somewhat heterogeneous citizenship status, the Court continued to refer to Sidney Steele as a single petitioner and based its analysis on his US citizenship.<sup>227</sup> Clearly, the existence of a Mexican-registered corporation was not enough to change the outcome. However, it is worth mentioning that it was the Supreme Court majority itself that set the stage for a watering-down of nationality. Moreover, opinions after *Steele* further diluted the concept of nationality.

In particular, the Ninth Circuit's *Timberlane* decision opened the door for the consideration of factors other than strict nationality. According to the *Timberlane* test, a formal finding of US nationality is

223. See RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW § 402(2) (AM. LAW INST. 1987); SEAN D. MURPHY, PRINCIPLES OF INTERNATIONAL LAW 278 (2d ed. 2012); see also *Equal Emp't Opportunity Comm'n v. Arabian Am. Oil Co.*, 499 U.S. 244, 274 (1991) (Marshall, J., dissenting) (citing *Steele*, 344 U.S. at 285–87).

224. See, e.g., Avakian, *supra* note 81, at 925; Butts, *supra* note 80, at 470; Witherell, *supra* note 12, at 217–22.

225. *Steele*, 344 U.S. at 281.

226. *Id.* at 281 n.1.

227. *Id.* at 285–86.

not necessary.<sup>228</sup> Under this test's "allegiance" subfactor, the test may already point toward application of the Lanham Act if at least one among several defendants is a US citizen.<sup>229</sup> In addition, judges may consider a defendant's residence or domicile, the corporate ties between US and foreign defendants, and infringing acts committed by a foreign corporate defendant's subsidiaries.<sup>230</sup> Other circuits embraced this same kind of dissolution through their use of the term "constructive citizenship."<sup>231</sup> Under this paradigm, often combined with a bad faith element on the defendant's side, the test factor will be considered to point toward Lanham Act application already if one among several defendants is a US national or entity, or if a foreign defendant has US residence or corporate responsibility for a US entity.<sup>232</sup> A small group of opinions, finally, based the finding of nationality on the parties' prior agreement submitting to US law or jurisdiction.<sup>233</sup> Overall, 20.75% of the opinions (33 out of 159) incorporated the allegiance or constructive-citizenship paradigms, or similar arguments, in order to overcome the formalities of "nationality." The courts applied the Lanham Act in 31 of these opinions (93.94%).<sup>234</sup>

## 2. Raiding the "Conflicts" Fortress

The conflicts factor provides a similar picture of constant subsurface attrition. Similar to the nationality test prong, not only

228. *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 428 (9th Cir. 1977).

229. *See, e.g., Mattel, Inc. v. MCA Records, Inc.*, 28 F. Supp. 2d 1120, 1130 (C.D. Cal. 1998); *Van Doren Rubber Co. v. Marnatech Enters.*, No. 89-1362 S BTM, 1989 WL 223017, at \*6 (S.D. Cal. Oct. 17, 1989); *Reebok Int'l, Ltd. v. Marnatech Enters.*, 737 F. Supp. 1515, 1520 (S.D. Cal. 1989). For other circuits, *see, for example, Levi Strauss & Co. v. Sunrise International Trading, Inc.*, 51 F.3d 982, 985 (11th Cir. 1995); *TNT USA Inc. v. TrafiExpress, S.A. de C.V.*, 434 F. Supp. 2d 1322, 1328 (S.D. Fla. 2006); *Houbigant, Inc. v. Development Specialists, Inc.*, 229 F. Supp. 2d 208, 227 (S.D.N.Y. 2002).

230. *See, e.g., Reebok Int'l Ltd. v. Marnatech Enters.*, 970 F.2d 552, 556-57 (9th Cir. 1992); *Wells Fargo & Co.*, 556 F.2d at 419, 428-29.

231. *See, e.g., A.V. by Versace, Inc. v. Gianni Versace, S.p.A.*, 126 F. Supp. 2d 328, 337-38 (S.D.N.Y. 2001); *Calvin Klein Indus. v. BFK H.K., Ltd.*, 714 F. Supp. 78, 80 (S.D.N.Y. 1989).

232. *See, e.g., GAP, Inc. v. Stone Int'l Trading, Inc.*, 169 F.R.D. 584, 592 (S.D.N.Y. 1997); *Calvin Klein Indus.*, 714 F. Supp. at 80; *A.T. Cross Co. v. Sunil Trading Corp.*, 467 F. Supp. 47, 48, 50 (S.D.N.Y. 1979).

233. *See, e.g., Best W. Int'l, Inc. v. 1496815 Ont., Inc.*, No. CV-04-1194-PHX-SMM, 2007 WL 779699, at \*2, \*6, \*8 & n.13 (D. Ariz. Mar. 13, 2007); *Amway v. Dyson*, No. 1:97-CV-295, 1997 U.S. Dist. LEXIS 15735, at \*15 (W.D. Mich. Sept. 24, 1997); *Warnaco Inc. v. VF Corp.*, 844 F. Supp. 940, 952 (S.D.N.Y. 1994).

234. Under a  $\chi^2$  test of independence, this was statistically significant below the  $p < 0.01$  level (Pearson  $\chi^2(1) = 24.2826$ ). Of these opinions, 81.82% stem from the Second (11) and Ninth (16) Circuits.

has it been muted in interfactor relations<sup>235</sup> but its actual core of comity—in the sense of preventing conflicts with foreign lawmakers—has also been eroded at the micro level. The most drastic modification likely occurred in the Second Circuit. In *Vanity Fair*, as seen above,<sup>236</sup> Judge Waterman established an initially ironclad rule of conflicts avoidance: “[W]e do not think that Congress intended that 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.”<sup>237</sup>

Foreign trademark rights established an almost insurmountable obstacle for national rights holders vis-à-vis their foreign competitors’ extraterritorial activities. Yet the rise of international trade and communication broke this barrier. In 1994, the Second Circuit changed horses. In *Sterling Drug, Inc. v. Bayer AG*,<sup>238</sup> the plaintiff sought to enjoin a foreign defendant company from the use of its “Bayer” trademark, which the defendant had validly registered in Europe.<sup>239</sup> On this basis, the court cut down on *Vanity Fair* comity:

[I]f we applied the *Vanity Fair* test mechanically to the instant case, we would forbid the application of the Lanham Act abroad against a foreign corporation that holds superior rights to the mark under foreign law. But such an unrefined application of that case might mean that we fail to preserve the Lanham Act’s goals of protecting American consumers against confusion, and protecting holders of American trademarks against misappropriation of their marks. . . . While the stringent *Vanity Fair* test is appropriate when the plaintiff seeks an absolute bar against a corporation’s use of its mark outside our borders, that test is unnecessarily demanding when the plaintiff seeks the more modest goal of limiting foreign uses that reach the United States. Though Congress did not intend the Lanham Act to be used as a sword to eviscerate completely a foreign corporation’s foreign trademark, it did intend the Act to be used as a shield against foreign uses that have significant trademark-impairing effects upon American commerce.<sup>240</sup>

The consequences of the shield-and-sword metaphor are apparent: the fact that a defendant is not a US national and that there may be a conflict with foreign law does not bar application of the Lanham Act, provided that sufficient effects can be found. And the *Sterling Drug* doctrine reflects a general trait of the overall population: the conflicts factor has been constantly turned and twisted, if not grinded down. This doctrine provides for a large

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235. See *supra* Part III.C.2.b.

236. See *supra* Part II.B.

237. *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 642 (2d Cir. 1956).

238. *Sterling Drug, Inc. v. Bayer AG*, 14 F.3d 733 (2d Cir. 1994).

239. *Id.* at 736–39.

240. *Id.* at 746.

arsenal of divergent “definitions,” offering courts maximum leeway to either consider or avoid concerns of comity.

Analyzing the data, the conflicts factor suffers from a general lack of attention, in addition to its interfactor weakness and word-count decline.<sup>241</sup> Among the non-*Timberlane* opinions, 49.15% did not expressly decide on the conflicts prong at all.<sup>242</sup> Examining the entire case population, moreover, almost half (79 out of 159) contained no explanation or definition of what exactly would constitute a “conflict with foreign law.”<sup>243</sup> When a definition *was* given, the standard of conflicts determination was widely divergent. In 46 opinions (28.93%), for instance, the courts could not find a conflict unless an alleged defendant either held a foreign trademark registration or had applied for registration.<sup>244</sup> In 15 opinions (9.43%), the courts required an actual or potential inconsistency of litigation outcomes in the United States and abroad. They found or denied a conflict depending on whether foreign litigation was pending.<sup>245</sup> A small group of opinions required a previous ruling by a foreign court upholding the defendant’s legal right to use the mark at issue—not surprisingly, all of these opinions ultimately found for an application of the Lanham Act.<sup>246</sup> Interestingly, only a few opinions directly analyzed foreign trademark laws or other countries’ policies. Only 11 opinions (6.92%) considered a defendant’s argument that foreign law granted a nonformal right or justification (e.g., fair use defense) or that a foreign policy required nonapplication of the Lanham Act.<sup>247</sup> Finally, a single

241. See *supra* Part III.C.1.

242. See *supra* Part III.C.2.b.

243. “Conflicts” is both part of the tripartite test variants and an element of the *Timberlane* seven-factor comity prong. See *supra* Part II.A.

244. See, e.g., *Aerogroup Int’l, Inc. v. Marlboro Footworks, Ltd.*, 955 F. Supp. 220, 230 (S.D.N.Y. 1997); *Warnaco Inc. v. VF Corp.*, 844 F. Supp. 940, 952 (S.D.N.Y. 1994); *Calvin Klein Indus. v. BFK H.K., Ltd.*, 714 F. Supp. 78, 80 (S.D.N.Y. 1989).

245. See, e.g., *Int’l Café, S.A.L. v. Hard Rock Café Int’l (U.S.A.), Inc.*, 252 F.3d 1274, 1279 (11th Cir. 2001); *Star-Kist Foods, Inc. v. P.J. Rhodes & Co.*, 769 F.2d 1393, 1396 (9th Cir. 1985); *C-Cure Chem. Co. v. Secure Adhesives Corp.*, 571 F. Supp. 808, 821 (W.D.N.Y. 1983).

246. Overall, 7 opinions (4.4%) followed this approach. See, e.g., *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass’n*, 701 F.2d 408, 415–16 (5th Cir. 1983) (“Absent a determination by a Saudi court that [defendant] has a legal right to use its marks, and that those marks do not infringe [plaintiff’s] mark, we are unable to conclude that it would be an affront to Saudi sovereignty or law if we affirm the district court’s injunction prohibiting the defendant from injuring the plaintiff’s Saudi Arabian commerce conducted from the United States.”); *Reebok Int’l, Ltd. v. Marnatech Enters.*, 737 F. Supp. 1515, 1520 (S.D. Cal. 1989).

247. See, e.g., *Levi Strauss & Co. v. Sunrise Int’l Trading, Inc.*, 51 F.3d 982, 985 & n.1 (11th Cir. 1995); *Procter & Gamble Co. v. Colgate-Palmolive Co.*, No. 96 Civ. 9123(RPP), 1998 WL 788802, at \*67 (S.D.N.Y. Nov. 9, 1998); *Vespa of Am. Corp. v. Bajaj Auto Ltd.*, 550 F. Supp. 224, 229 (N.D. Cal. 1982) (“Any finding that [defendant] has no right . . . carries with it the potential for tremendous conflict with Indian policy. As evidenced by the Indian government’s

opinion took the parties' prior agreement as a basis for denying a conflict with foreign law.<sup>248</sup>

### 3. *Timberlane* "Comity": Just Some Icing on the Cake?

In light of the overall erosion of the nationality and conflicts test factors, the *Timberlane* rule of reason presents itself as an interesting object of analysis. If comity has been neglected everywhere, does the Ninth Circuit at least rescue it from extinction? As we can recall, expectations are high: *Wells Fargo* has been described as deferring to concerns of international law and comity, thus guaranteeing more just results.<sup>249</sup> Yet more detailed testing also implies more complications in adjudicating. Therefore, this Subsection begins with a glimpse at the psychological theory of judicial decision-making.

Jerome Frank famously suggested that the judging process is as flawed as any other,<sup>250</sup> and many recent empirical studies have proven him right: one strand of this theory, which is particularly important for this analysis, suggests that decision-makers, when confronted with a complex set of factors to be analyzed, tend to consider only a few of those factors.<sup>251</sup> They quickly reach a mental threshold where, once some determinants are analyzed, no additional information is considered.<sup>252</sup> This "core attributes heuristic" is part of a rational strategy to simplify and accelerate decision-making and, in some cases, even guarantee accuracy.<sup>253</sup> More concretely, it has been explained that decision-making is often reduced to a maximum of

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high level of involvement in this particular licensing arrangement, they have great interest in whether contracts which comport with their national policy of promoting industrial independence are viewed as valid in other countries.").

248. See *Amway Corp. v. Dyson*, No. 1:97-CV-295, 1997 U.S. Dist. LEXIS 15735, at \*15 (W.D. Mich. Sept. 24, 1997).

249. See *supra* Part II.B.

250. JEROME FRANK, *LAW AND THE MODERN MIND* 105–06 (1930).

251. See, e.g., R.N. Shepard, *On Subjectively Optimum Selections Among Multi-Attribute Alternatives*, in *DECISION MAKING* 257, 263–67 (Ward Edwards & Amos Tversky eds., 1967). For legal decision-making specifically, see, for example, Stephen M. Bainbridge & G. Mitu Gulati, *How Do Judges Maximize? (The Same Way Everybody Else Does—Boundedly): Rules of Thumb in Securities Fraud Opinions*, 51 *EMORY L.J.* 83, 112 (2002); Adam J. Hirsch, *Cognitive Jurisprudence*, 76 *S. CAL. L. REV.* 1331, 1337–42 (2003); Hillary A. Sale, *Judging Heuristics*, 35 *U.C. DAVIS L. REV.* 903, 905 (2002).

252. See Gad Saad & J. Edward Russo, *Stopping Criteria in Sequential Choice*, 67 *ORGANIZATIONAL BEHAV. & HUM. DECISION PROCESSES* 258, 261–69 (1996).

253. See, e.g., Jacob Jacoby, Donald E. Speller & Carol A. Kohn, *Brand Choice Behavior as a Function of Information Load*, 11 *J. MARKETING RES.* 63, 65–69 (1974); David A. Sheluga, James Jaccard & Jacob Jacoby, *Preference, Search, and Choice: An Integrative Approach*, 6 *J. CONSUMER RES.* 166, 171–76 (1979).

three factors; any analysis that is more complex will be simplified by input reduction.<sup>254</sup>

Another important psychological limitation to decision-making is so-called coherence-based reasoning. Whenever different variables are to be tested, the analysis starts with a mental representation of the task.<sup>255</sup> In all but the most straightforward scenarios, the aspects to be considered point in different directions. Each variable then functions as a constraint on the overall task, putting the decision-maker in a conundrum.<sup>256</sup> As Dan Simon explains, escape from such a state of inconsistency occurs in mental cycles: “Each and every constraint influences, and is influenced by, the entire network, so that every processing cycle results in a slightly modified mental model.”<sup>257</sup> In other words, the decision-maker will cycle through the mental model, repeatedly attempting to conform to the model’s constraints. Simon further explains that “[o]ver time, unsupported variables or those suppressed by other variables degrade and even die out, while those that are mutually supported gain strength.”<sup>258</sup> This process tends toward coherence. Therefore, whenever a state of formal coherence of decision-making has been reached, chances are that it reflects a set of initially divergent variables that have been bent and streamlined.<sup>259</sup>

Barton Beebe has found proof for both of these phenomena with regard to, as he calls it, factor “stampeding” in multipronged trademark infringement tests.<sup>260</sup> Since Lanham Act extraterritoriality analysis also implies multifactor testing, a closer look is needed. *Vanity Fair* and its related test variants may not be problematic, as they require consideration of only *three* factors.<sup>261</sup> Nevertheless, the *Timberlane* rule of reason, with its multifactor balancing approach,<sup>262</sup>

254. Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 CALIF. L. REV. 1581, 1601–02 (2006) (with further references).

255. Dan Simon, *A Third View of the Black Box: Cognitive Coherence in Legal Decision Making*, 71 U. CHI. L. REV. 511, 520 (2004).

256. *Id.* at 520–21.

257. *Id.* at 521.

258. *Id.*

259. *Id.* at 522; see also, e.g., Dan Simon, Daniel C. Krawczyk & Keith J. Holyoak, *Construction of Preferences by Constraint Satisfaction*, 15 PSYCHOL. SCI. 331, 335 (2004); Dan Simon, Lien B. Pham, Quang A. Le & Keith J. Holyoak, *The Emergence of Coherence over the Course of Decision Making*, 27 J. EXPERIMENTAL PSYCHOL.: LEARNING MEMORY & COGNITION 1250, 1257–58 (2001); Dan Simon, Chadwick J. Snow & Stephen J. Read, *The Redux of Cognitive Consistency Theories: Evidence Judgments by Constraint Satisfaction*, 86 J. PERSONALITY & SOC. PSYCHOL. 814, 816, 829–34 (2004).

260. See Beebe, *supra* note 254, at 1598–1622.

261. See *supra* Part II.A.

262. See *supra* Part II.A.

might invite both input reduction and factor streamlining. Indeed, while *Timberlane* has been praised as a test that includes “all relevant factors . . . yield[ing] the fairest results,”<sup>263</sup> commentators have raised doubts. Multifactor testing, critics contend, “permits courts under the guise of a well-reasoned opinion and in the name of equity to strike a ‘balance’ which justifies these courts’ view of the underlying merits of a case.”<sup>264</sup>

For this inquiry, the mean stampede score is defined as the difference between the numbers of relevant factors—that is, effects and seven comity subfactors—that favor and disfavor extraterritoriality, divided by the complete number of factors considered. The mean stampede score ranges from +1.0, where all factors that have been considered are also held to favor application of the Lanham Act, to -1.0, where all factors point toward nonapplication.<sup>265</sup> It is assumed that the larger the absolute value of the mean stampede score, the more stampeding there is—indicating some kind of simplification or other manipulation of the decision-making process.

Figure 10 displays a distribution of *Timberlane* opinions according to their mean stampede score. The bulk of cases reflect factor streamlining. Among the 40 opinions that actually applied the *Timberlane* rule of reason,<sup>266</sup> 30 display a mean stampede score of -0.75 and below or +0.75 and above (75.00%).

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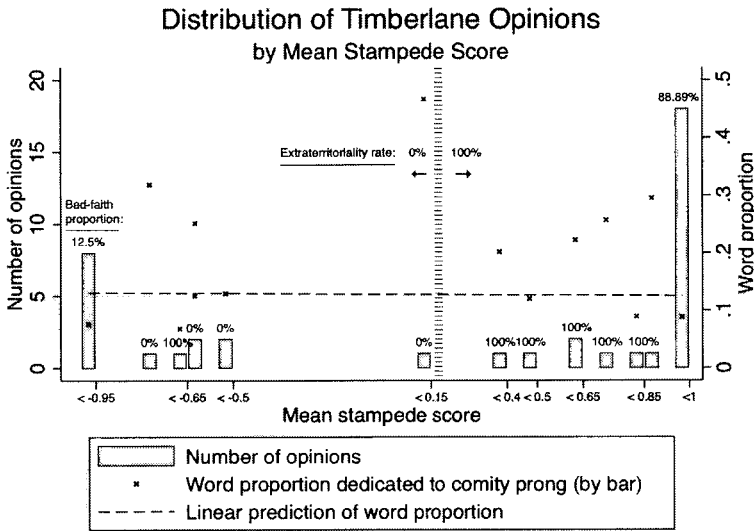
263. Avakian, *supra* note 81, at 923–24.

264. Alpert, *supra* note 64, at 145.

265. See Beebe, *supra* note 254, at 1598–622. When courts considered only a few factors and ignored the rest, the inquiry distinguishes between scenarios in which a court expressly considered a factor and found the test outcome to be “neutral,” and those in which the court did not give any regard to one or more factors. Factors in the former category were counted as a “factor considered,” hence contributing to the denominator without enlarging the numerator of the computation. Factors in the latter scenario were completely disregarded. Accordingly, an opinion in which the court considered only one factor (e.g., effects) and left all other factors unmentioned would account for a mean stampede score of 1/1 (or -1/1). Quite differently, for instance, if a court found three factors pointing toward Lanham Act application, one factor against it, and one “neutral” with the rest being unexplored, the mean stampede score would be 0.4 (= (3-1)/(3+1+1)).

266. Overall, 41 opinions in the population used the Ninth Circuit’s test. See *supra* Part III.A.3. In *Toyo Tire & Rubber Co. v. Kabusikiki Kaisha Tokyo Hihoon Rubber Corp.*, No. 2:14-cv-01847-JAD-VCF, 2015 U.S. Dist. LEXIS 77142, at \*6 (D. Nev. June 15, 2015), the court—even though substantially discussing the *Timberlane* test—did not apply the test to the facts.

Figure 10.



A first focus when searching for reasons behind this stampeding must be on the aforementioned issue of a weak-defense paradigm that might run through the *Timberlane* group.<sup>267</sup> Then, the word proportion devoted to a defense as an indicator of its strength must be accepted—in this case, it concerns the comity-based anti-extraterritoriality argument. As seen from the linear prediction plot,<sup>268</sup> however, there is hardly any association between stampeding and defense strength.<sup>269</sup>

Nevertheless, there is another trait of the population that deserves scrutiny. As the data indicate, stampeding is more strongly associated with certain *Timberlane* subfactors than with others. In addition to the effects factor, stampeding significantly correlates with the conflicts, nationality, and allegiance-of-the-parties subfactors.<sup>270</sup> The five remaining subfactors, however—concerning the purpose to

267. See *supra* Part III.B.1.c.

268. The linear prediction plot (for word proportions) is an almost horizontal line. Although the plot does not consider the number of opinions in each bar, a weighted approximation might not be too different. After all, in both bars with maximum stampeding (-0.95 and 1, with altogether 26 opinions), the word proportion per comity prong was close to the nonweighted prediction.

269. This result is not surprising if one expects both strong and weak cases to settle prior to litigation. See *supra* Part III.B.1.a.

270. Specifically, the conflicts factor possessed a correlation coefficient of nearly 0.5, and both the effects factor and the nationality/allegiance subfactor's correlation coefficients exceeded 0.6 (all with  $p < 0.05$ ).



harm US commerce, foreseeability of effects, their relative significance, the relative importance of the violations in the United States, and the extent to which enforcement by either state can be expected to achieve compliance—are less strongly correlated with factor stampeding.<sup>271</sup>

Unfortunately, the *Timberlane* group is still small. It is therefore necessary to delay testing for more reliable correlations until additional cases are decided in the future. A general trend toward stampeding does exist, however. This trend might be due to certain factors dominating the decision-making process and ultimately leading to the other factors being stampeded into their direction. Ultimately, reference to comity may sometimes represent more lip service than actual international friendliness and open-ended balancing.

#### 4. “Effects on US Commerce”: Global Rights in Disguise

In *Steele*, the Supreme Court did not expressly define “substantial” or “significant” effects.<sup>272</sup> The majority did mention “effects,” notably “unlawful consequences” of foreign-based activities and the concept of an “unlawful scheme,” which results in “forbidden effects.”<sup>273</sup> However, it did not specify the precise level or degree of effects required. This differed from the Fifth Circuit’s appellate decision in *Bulova Watch Co. v. Steele*, where the term “substantial economic effects” was used.<sup>274</sup> Judge Waterman in *Vanity Fair* adopted the Fifth Circuit standard,<sup>275</sup> and the requirement has been an element of the Second Circuit’s test ever since. Indeed, it has influenced the majority of all other circuits’ tests.<sup>276</sup> It was in the Ninth and Fifth Circuits where the effects standard was limited to “some effects.”<sup>277</sup> Other circuits subsequently invented slight variations.<sup>278</sup> The Fourth Circuit, for instance, has established a

271. All correlation coefficients for these factors were less than or equal to 0.4.

272. See Avakian, *supra* note 81, at 924; Berner, *supra* note 12, at 181; Butts, *supra* note 80, at 452, 463; Popov, *supra* note 76, at 711.

273. *Steele v. Bulova Watch Co.*, 344 U.S. 280, 286–88 (1952).

274. *Bulova Watch Co. v. Steele*, 194 F.2d 567, 570 (5th Cir.), *aff’d*, 344 U.S. 280 (1952).

275. *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 642 (2d Cir. 1956).

276. See *supra* Part III.A.3. For the Eleventh Circuit, see, for example, *International Café, S.A.L. v. Hard Rock Café International (U.S.A.), Inc.*, 252 F.3d 1274, 1278 (11th Cir. 2001); *Air Turbine Technology, Inc. v. Atlas Copco AB*, 295 F. Supp. 2d 1334, 1343 (S.D. Fla. 2003).

277. *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass’n*, 701 F.2d 408, 414 & n.8 (5th Cir. 1983); *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 428 (9th Cir. 1977).

278. For the Third Circuit, see, for example, *Scanvec Amiable Ltd. v. Chang*, 80 F. App’x 171, 181 (3d Cir. 2003) (leaving the decision open, instead speaking of a “commercial nexus requirement of *Steele*”); *Lithuanian Commerce Corp. v. Sara Lee Hosiery*, 47 F. Supp. 2d 523, 536

“significant effects” standard derived from the *Vanity Fair* three-pronged test.<sup>279</sup>

Conventional wisdom contends that a distinction between “some,” “substantial,” and “significant” effects would also make a difference in the outcome: specifically, a requirement of “substantiality” would seem to require a higher threshold than a simple reference to less qualified effects. Thus, the Fifth and Ninth Circuits’ tests are said to be more favorable to plaintiffs than the Second Circuit’s approach.<sup>280</sup> Indeed, at first sight, the data on courts’ rhetoric seem to support the idea that the effects’ quality determines extraterritoriality: Lanham Act application rates fall with the courts’ “verbal” requirements—from 92.31% in the Fifth Circuit to 65.85% in the Ninth Circuit and, finally, to 48.84% in the Second Circuit.<sup>281</sup> Nevertheless, at least with respect to the temporal development of extraterritoriality rates in the circuits, these numbers require more careful analysis.<sup>282</sup> Furthermore, as revealed by a closer look at the doctrinal underpinnings of *Steele* and its progeny, it is a so-far unexplored aspect that accounts for Lanham Act extraterritoriality.

#### *a. Trademark Universality “Common Law Style”*

Under the universality doctrine—a paradigm of nineteenth- and twentieth-century civil law—a trade symbol was assumed to signify the same producer of goods or services everywhere on the planet, at least if the rights holder had already made an investment in the marketplace.<sup>283</sup> In US trademark law, by contrast, universality never seems to have played a crucial role.<sup>284</sup> The Supreme Court, with its early twentieth century decisions in *Hanover Star Milling Co. v. Metcalf*<sup>285</sup> and *United Drug Co. v. Theodore Rectanus Co.*<sup>286</sup>—establishing the so-called *Tea Rose/Rectanus* doctrine—put an

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(D.N.J. 1999) (leaving the decision between the requirement of “some” and “substantial” effects open). For the Seventh Circuit, see, for example, *Thomas & Betts Corp. v. Panduit Corp.*, 71 F. Supp. 2d 838, 842–43 (N.D. Ill. 1999) (combining the Second, Fifth, and Ninth Circuits’ tests and requiring at least “some effects”).

279. *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 250–51 (4th Cir. 1994).

280. See Popov, *supra* note 76, at 711.

281. See *supra* Part III.A.3.

282. See *supra* Part III.B.3.

283. See, e.g., DORNIS, *supra* note 1, at 21–24, 53–63.

284. See, e.g., Bradley, *supra* note 1, at 542 (“[U]niversality theory was never embraced wholesale by U.S. courts.”).

285. *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 425–26 (1916).

286. *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 103–04 (1918).

end to prior concepts of universal rights in the interstate context.<sup>287</sup> Soon thereafter, on the international plane, the Court clarified that the principle of territoriality generally blocked the international extension of rights.<sup>288</sup> Yet, somewhat ironically, it was the domestic doctrine of *Tea Rose/Rectanus* that established the foundation for transborder trademark rights extension—first in the interstate context and later completed by *Steele* in international trademark conflicts.

As the *Steele* majority explained, prior to the enactment of the Lanham Act, courts had already granted relief “[u]nder similar factual circumstances.”<sup>289</sup> Looking at decisions made by New York and New Jersey courts,<sup>290</sup> the majority concluded that the Act’s extension to “all commerce which may lawfully be regulated by Congress” could “not constrict prior law or deprive courts of jurisdiction previously exercised.”<sup>291</sup> As a result, the Lanham Act’s commerce provision became a conduit for incorporating common law doctrine into extraterritoriality testing. Two paradigms of the pre-Lanham Act common law were “transplanted.”

The first paradigm concerns the distinct consideration given to an alleged infringer’s bad faith. In the 1907 New Jersey case *Vacuum Oil Co. v. Eagle Oil Co.*,<sup>292</sup> the plaintiff held business ties to the United States and Europe. The defendant was purchasing barrels of oil in the United States and shipping them to Germany, among other places, for sale.<sup>293</sup> The defendant attached the plaintiff’s trademark to these barrels but not before their arrival in Germany. In condemning the defendant’s scheme, which was executed “to a material extent [in the United States],” the court declared that “[i]t cannot be that the arm of the court is too short to reach and stop this fraudulent conduct, or so much of it, at least, as is carried on in this country. . . . [E]ach

287. See DORNIS, *supra* note 1, at 76–110. For a discussion of the US Supreme Court’s and California Supreme Court’s foundations for and the ensuing doctrine of domestic rights’ universality, see *id.* at 90–93. See also *Kidd v. Johnson*, 100 U.S. 617 (1879); *Derringer v. Plate*, 29 Cal. 292 (1865).

288. See *A. Bourjois & Co. v. Katzel*, 260 U.S. 689, 691–92 (1923). For a more recent decision, see, for example, *American Circuit Breaker Corp. v. Oregon Breakers Inc.*, 406 F.3d 577, 581 (9th Cir. 2005) (“It is now generally agreed and understood that trademark protection encompasses the notion of territoriality. The Supreme Court ushered in this concept more than eighty years ago in [*Katzel*].”).

289. *Steele v. Bulova Watch Co.*, 344 U.S. 280, 286–87 (1952).

290. *George W. Luft Co. v. Zande Cosmetic Co.*, 142 F.2d 536, 542 (2d Cir. 1944); *Hecker H-O Co. v. Holland Food Corp.*, 36 F.2d 767, 768 (2d Cir. 1929); *Vacuum Oil Co. v. Eagle Oil Co.*, 154 F. 867, 876 (C.C.N.J. 1907); *Morris v. Altstedter*, 156 N.Y.S. 1103, 1103 (Sup. Ct. 1916).

291. *Steele*, 344 U.S. at 287.

292. *Vacuum Oil*, 154 F. at 868–69.

293. *Id.* at 870.

step in the transaction was part of a single fraudulent scheme . . . .”<sup>294</sup> This passage survived in *Steele*’s paradigm of sanctioning unlawful schemes.<sup>295</sup>

Furthermore, a paradigm of common law rights extension entered the majority opinion in *Steele* by reference to a 1944 Second Circuit case—*George W. Luft Co. v. Zande Cosmetic Co.*<sup>296</sup> In this case, the court classified the parties’ foreign-based business activities into the three categories:

[1] countries where both parties are doing business and the defendants have established their right by the local law to use the [trademark]; [2] countries where both parties are doing business and the defendants have not established such right; and [3] countries where the defendants are doing business and the plaintiff has not proved that it has ever done business or is likely to do it.<sup>297</sup>

It is in the latter two categories that the concept of domestic common law rights extension surfaces.

With its *Tea Rose/Rectanus* doctrine,<sup>298</sup> the Supreme Court had provided for a common law–based conception for nonregistered trademark rights acquisition and protection in the interstate context. The doctrine continues to apply today, even under the modern federal statute.<sup>299</sup> *Tea Rose/Rectanus* provides for a geographical restriction of unregistered rights to the territory in which the mark is known and recognized and, in addition, precludes the senior user of an unregistered mark from enjoining a good faith junior user in a territorially “remote” area of the United States from continued use.<sup>300</sup>

In fact, although largely unexplored, there is another crucial doctrinal characteristic regarding the international extension of trademark rights. In *Hanover Star*, the Supreme Court limited the scope of rights protection by reference to the market relevance of trademark functions: “In short, the trademark is treated as merely a protection for the good will, and not the subject of property except in connection with an existing business.”<sup>301</sup> In addition to the

294. *Id.* at 874.

295. *See supra* Part II.A.

296. *Steele*, 344 U.S. at 286–87 (citing *George W. Luft Co. v. Zande Cosmetic Co.*, 142 F.2d 536 (2d Cir. 1944)).

297. *George W. Luft*, 142 F.2d at 540.

298. *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916).

299. *See, e.g.*, *Spartan Food Sys., Inc. v. HFS Corp.*, 813 F.2d 1279, 1282 (4th Cir. 1987); *Radio Shack Corp. v. Radio Shack, Inc.*, 180 F.2d 200, 206 (7th Cir. 1950); *Pedi-Care, Inc. v. Pedi-A-Care Nursing, Inc.*, 656 F. Supp. 449, 454 (D.N.J. 1987).

300. For this discussion and further references, see MCCARTHY, *supra* note 4, § 26:2.

301. *Hanover Star*, 240 U.S. at 414.

market/rights connection, the Court presented a concept of interstate rights extension:

We agree with the court below . . . that "since it is the trade, and not the mark, that is to be protected, a trademark acknowledges no territorial boundaries of municipalities or states or nations, but extends to every market where the trader's goods have become known and identified by his use of the mark. But the mark, of itself, cannot travel to markets where there is no article to wear the badge and no trader to offer the article."<sup>302</sup>

This no-territorial-boundaries formulation by Justice Pitney, with its radical depoliticization and deterritorialization of trademark rights, has exerted a thus-far unexplored impact of the pre-Lanham Act common law on conflicts doctrine. Returning to *George W. Luft* and the Second Circuit's explanation that traditional common law under *Tea Rose/Rectanus* must be considered in the international arena:

There remains for consideration class (c) countries where the defendants are doing business but the plaintiff has not proved that it ever has done business or is likely to do it. . . . And it is well established that the right to a particular mark grows out of its use, not its mere adoption, and is not the subject of property except in connection with an existing business [reference to *Tea Rose/Rectanus*]. Hence if the defendants are doing business in Turkey, for example, but the plaintiff has never extended its trade to that country and there is no evidence that it is likely to do so, the plaintiff has not been damaged by the defendants' Turkish business and is not entitled to restrain its continuance or to an accounting for damages and profits with respect to sales made there.<sup>303</sup>

In their transnational projection of common law zones of protection, the judges paid little attention to the fact that *US* trademark rights, by definition, might not extend into foreign territories—notably into a civil law system like that of Turkey. In this regard, the court's arguments reflect a focus on rights/market universality that was set in the interstate context concerning intra-US trademark rights—that is, rights follow markets. Political boundaries are, at best, of secondary concern.<sup>304</sup>

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302. *Id.* at 416.

303. *George W. Luft Co. v. Zande Cosmetic Co.*, 142 F.2d 536, 541 (2d Cir. 1944). For a more recent reference to *Luft*, see, for example, *Aerogroup International, Inc. v. Marlboro Footworks, Ltd.*, 955 F. Supp. 220, 227 (S.D.N.Y. 1997) ("Since in *Bulova* the Supreme Court relied on *Luft* in analyzing the extraterritorial question presented to it, it remains appropriate to consider *Luft's* teaching. In *Luft* the Second Circuit found it appropriate to enjoin defendants' activities in the United States which would result in sales in countries abroad where the plaintiff is doing business and the defendants had not established superior trademark rights under local law, but not in countries where the plaintiff was not engaged in business or where the defendants had established trademark rights." (citations omitted)), *aff'd*, 152 F.3d 948 (Fed. Cir. 1998).

304. For the proposition that *Luft* is still good law and for a discussion of its practical results, see Feldon, *supra* note 52, at 660–61 ("This rule [*Luft*] functionally gives U.S. companies

Not only did the Fifth Circuit's majority in *Steele* argue along these lines<sup>305</sup> but the Supreme Court majority also based its ruling on the traditional doctrine of use-based and nonpolitical rights: First, it referred to an unlawful scheme on the part of the defendant. Since Sidney Steele had apparently acted with improper intent, it was easy for the Court to conclude that "[i]n sum, we do not think that petitioner by so simple a device can evade the thrust of the laws of the United States in a privileged sanctuary beyond our borders."<sup>306</sup> The Court also suggested international projection of the common law trademark principles. As the majority explained, the counterfeit watches filtering into the United States from Mexico "could well reflect adversely on Bulova Watch Company's trade reputation in markets cultivated by advertising here as well as abroad."<sup>307</sup> Protection was not founded simply on the defendant's activities and their effects *inside* the United States. In addition, a cross-border osmosis of common law rights provided the basis for enjoining injurious activities beyond the United States. In the end, the *Steele* majority laid the foundation for acknowledging both domestic *and* foreign-based goodwill as protectable subject matter. Ultimately, marketplace extension came to trump political territory.

In sum, therefore, three different stages or paradigms can explain the extension of common law trademark rights. These different stages are illustrated in Figure 11. The first stage of rights extension concerns the genuinely intrastate spread of goodwill—where the scope of the trademark's area of protection grows coextensively with the respective product's marketplace. Protection for a common law trademark ("TM" in Figure 11) is then granted within State A and as far as the intrastate's marketplace extends (i.e., the area of the small circle). The second stage concerns the extension of rights beyond the territory of the state where the right was initially acquired. This scenario squarely falls under the *Tea Rose/Rectanus* doctrine. Under this doctrine, the scope of common law trademark rights extends across at least one intra-US state border (between State A and State B). Here, as well, the right follows the extension of the marketplace (i.e., the small oval), and it does not halt at the

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the equivalent of a foreign trademark registration as soon as they are likely to do business in a foreign country unless their competitors get rights there first.").

305. *Bulova Watch Co. v. Steele*, 194 F.2d 567, 571 (5th Cir.) ("Bulova Watch Company, at vast expense, has built up an asset of good will in the use of its trade mark or trade name 'Bulova', that extends into if not throughout Mexico. If its watches are not actually being sold in that country now, Mexico may reasonably be expected to be within the normal expansion of its business."), *aff'd*, 344 U.S. 280 (1952).

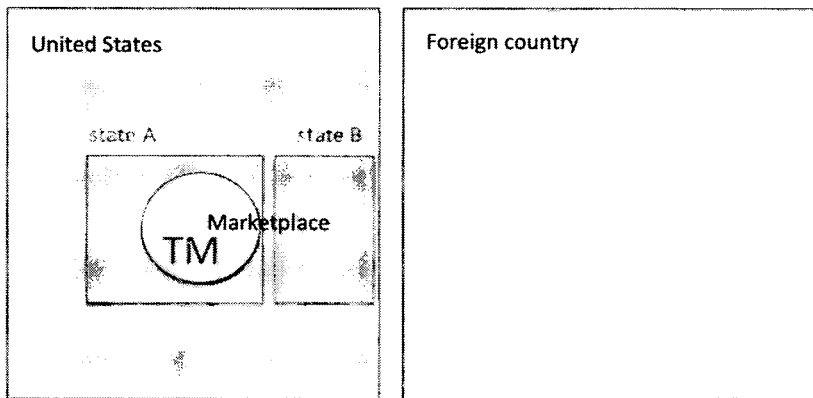
306. *Steele v. Bulova Watch Co.*, 344 U.S. 280, 287 (1952).

307. *Id.* at 286.

border between two states. This doctrine builds on an implicit understanding of the common law as being the same across the different states of the United States.<sup>308</sup> In this way, it propagates a concept of nonpolitical trademark rights. Finally, in the third stage, this concept of nonpolitical and extraterritorial trademark rights has been brought to an extreme. This is illustrated in the last part of Figure 11, which explains the *international* extension of common law rights under a conception of what we have characterized as the transnational goodwill paradigm. By ignoring political borders in international trademark conflicts, the *Steele* majority effectively “globalized” the *Tea Rose/Rectanus* doctrine. Ever since, trademark rights “travel” with the trade across any kind of border, interstate or international, and, accordingly, also protect their owners in marketplaces abroad (i.e., the large oval).

**Figure 11.**

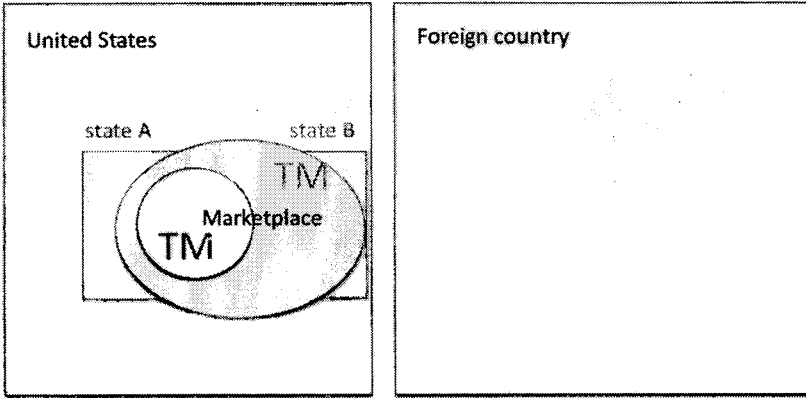
Stage 1: Intrastate rights extension.



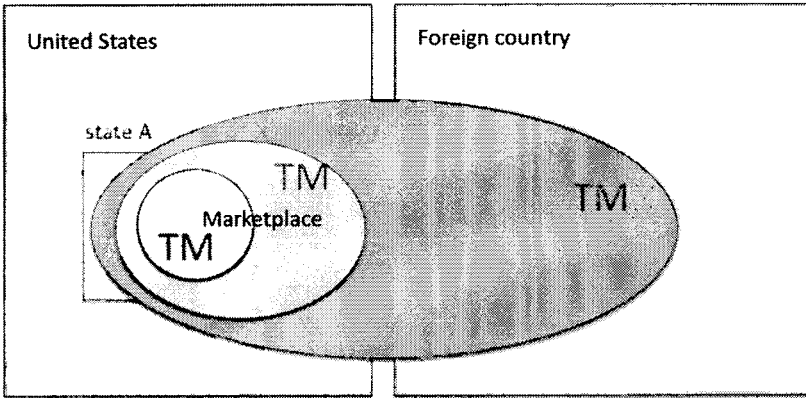
308. See *supra* Part III.D.4.a.

Figure 11 (continued).

Stage 2: Interstate (intra-US) rights extension (*Tea Rose/Rectanus*).



Stage 3: Transnational-goodwill paradigm (*Steele*).



*b. Stock-Taking: A Gene of Transnational-Goodwill Extension*

Returning to this study’s data, the use of the subfactors of “effects on US commerce” illustrates the proliferation of a transnational-goodwill paradigm throughout the *Steele* progeny. When testing for effects, a court will typically start by defining the Lanham Act’s substantive policies, particularly with respect to the prevention of consumer confusion and deception.<sup>309</sup> In addition to consumer confusion, injury to the trademark owner may indicate an

309. See, e.g., *McBee v. Delica Co.*, 417 F.3d 107, 121 (1st Cir. 2005).



effect on US commerce.<sup>310</sup> Both consumer confusion and injury to the trademark owner have been broken down into numerous subfactors.

Overall, between 1952 and 2017, 138 opinions (86.79%) considered one or more of the following subfactors:

- consumer confusion (63 opinions (39.62%))
- diversion or loss of sales (56 opinions (35.22%))
- damage to or adverse reflection on reputation or goodwill (54 opinions (33.96%))
- damage to the ability to conduct business or earnings and income that affected the value of plaintiff's holdings or caused monetary harm or losses to the rights holder in general (54 opinions (33.96%))
- domestic activities that direct foreign activities, provide material support for foreign trademark use, constitute essential steps within the United States in the course of business consummated abroad, or constitute the orchestration of foreign activities (50 opinions (31.45%))
- sale or offering of goods abroad with subsequent entering into the United States (35 opinions (22.01%))
- using or putting goods into the stream of US commerce, making physical use of the US commerce stream, using instrumentalities of US commerce, or availing oneself of business opportunities inside the United States (12 opinions (7.55%))
- misrepresentation (without further specification) (11 opinions (6.92%))
- a few more uncommon factors, such as loaning funds or transacting bank business in the United States (7 opinions (4.4%)), the financial gain of a US entity (i.e., defendant) received from abroad (5 opinions (3.14%)), misappropriation or tarnishing of trademark rights or goodwill (5 opinions (3.14%)), and defendant's violation of fair competition rules (2 opinions (1.26%))

This list can be further specified and categorized. In a first category, several subfactors can be traced to *Steele's* unlawful-scheme paradigm.<sup>311</sup> These subfactors cover activities that provide "material support for foreign trademark use or business activity," undertake "essential steps [within the United States] in the course of business consummated abroad," or involve the defendant's "orchestration of foreign activities." In addition, other subfactors in the first category reflect a specific aim to protect the rights holder's financial assets or

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310. *Id.*

311. *See supra* Part II.A.

her business in general. This is the case with the above-mentioned subfactors concerning “using or putting goods into the stream of US commerce,” “making physical use of the US commerce stream,” “using instrumentalities of US commerce,” or “availing oneself of business opportunities inside the United States,” as well as tests for “damage to the ability to conduct business” or “earnings and income that affected the value of plaintiff’s holdings” or “caused monetary harm or losses to the rights holder.”

A second category of subfactors focuses on goodwill protection. This category covers the subfactor “sale or offering of goods abroad with subsequent entering into the United States” as a direct descendant of the Supreme Court’s post-sale confusion argument in *Steele*.<sup>312</sup> Whereas this subfactor is expressly limited to the plaintiff’s *domestic* goodwill, this is not the case for the remainder of the list:

- consumer confusion
- diversion or loss of sales
- damage to or adverse reflection on reputation or goodwill
- misrepresentation
- misappropriation or tarnishing of trademark rights or goodwill
- violation of fair competition rules

As a look at this study’s data reveals, a remarkable number of opinions based on these subfactors followed what can be characterized as a transnational-goodwill approach and as a consequence of the *Steele* common law pedigree. In these opinions, courts applied the Lanham Act on the basis of the occurrence of one or more subfactors *abroad* or both in the United States *and abroad*. Both domestic and foreign-based goodwill were considered to be the actual substance of the trademark to be protected against invasion and misappropriation. Some concrete examples below set the stage for a quantitative analysis.

The *Steele* majority found effects in potential damage to the plaintiff’s goodwill that extended across the United States *and Mexico*.<sup>313</sup> By connecting the Lanham Act’s jurisdictional grant with effects on commerce and then connecting effects on commerce with an apolitical concept of rights that covers all geographic areas where the owner’s goodwill exists, the majority established the basis on which later courts built extraterritoriality. A number of different aspects of such common law extensions can be distinguished. The first concerns the extension of policies underlying domestic trademark and unfair competition law. This particularly concerns the subfactors “consumer

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312. See *supra* Part II.A.

313. See *supra* Part II.A.; see also Austin, *supra* note 71, at 412.

confusion” and “misrepresentation.” As courts in the Ninth and Fifth Circuits have assumed, the Lanham Act’s policies extend internationally. One example is the Southern District of California’s 1989 decision in *Van Doren Rubber Co. v. Marnatech Enterprises, Inc.*:

The Lanham Act imposes upon this Court “the duty to protect the entire gamut of purchasers, including non-English-speaking purchasers, in various countries throughout the world to which the defendants intend to export their [counterfeits].” . . . Moreover, “Congress has the power to prevent unfair trade practices [even] in foreign commerce by citizens of the United States, although some of the acts are done outside the territorial limits of the United States.”<sup>314</sup>

This ruling also illustrates the diversion-of-sales subfactor as another instrument of rights extension. In *Van Doren*, the court found a diversion of the plaintiff’s foreign-based sales (in Mexico) and a resulting “decrease [in] the value of the American plaintiff’s consolidated holdings,” as well as direct damage to the “plaintiff’s goodwill not only in Mexico but in the United States.”<sup>315</sup> In *Reebok International Ltd. v. Marnatech Enterprises, Inc.*, the Ninth Circuit explained:

[The defendant’s] sales of counterfeit REEBOK shoes decreased the sale of genuine REEBOK shoes in Mexico and the United States and directly decreased the value of Reebok’s consolidated holdings. . . . [The defendant’s] activities thus affect American foreign commerce in a manner which causes an injury to Reebok cognizable under the Lanham Act.<sup>316</sup>

More recently, the Southern District of New York openly drew a direct line from the diversion-of-sales subfactor to the *Steele* conception of transnational goodwill:

U.S. consumer confusion or harm to the plaintiff’s goodwill in the U.S. certainly suffices. Financial harm to an American trademark owner whether from the loss of foreign sales or the damage to the trademark owner’s reputation abroad is at the

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314. *Van Doren Rubber Co. v. Marnatech Enters.*, CIV. A. No. 89–1362 S BTM, 1989 WL 223017, at \*3 (S.D. Cal. Oct. 17, 1989) (citations omitted) (quoting *Steele v. Bulova Watch Co.*, 344 U.S. 280, 286 (1952); and *R. J. Reynolds Tobacco Co. v. Va. Int’l Exp., Inc.*, 220 U.S.P.Q. 712, 1982 WL 52136, at \*4 (E.D. Va. Aug. 19, 1982)). For the entire-gamut-of-purchasers argument, see *Babbitt Electronics, Inc. v. Dynascan Corp.*, 38 F.3d 1161, 1180 (11th Cir. 1994); *Reebok International, Ltd. v. American Sales Corp.*, 11 U.S.P.Q.2d 1229, 1989 WL 418625, at \*2 (C.D. Cal. Jan. 26, 1989). See also *Pearl Brewing Co. v. Trans-USA Corp.*, No. CIV. 3:96-CV-3020-H, 1997 WL 340940, at \*2 (N.D. Tex. June 12, 1997) (“The extraterritorial reach of the Lanham Act is intended to prevent foreign consumers from being confused and American producers from losing valuable goodwill in their marks abroad.”).

315. *Van Doren*, 1989 WL 223017, at \*5.

316. *Reebok Int’l, Ltd. v. Marnatech Enters.*, 970 F.2d 552, 555 (9th Cir. 1992); see also, e.g., *Best W. Int’l, Inc. v. 1496815 Ont., Inc.*, No. CV-04-1194-PHX-SMM, 2007 WL 779699, at \*5–6 (D. Ariz. Mar. 13, 2007).

very least, relevant to determining whether foreign infringement has a substantial effect on U.S. commerce.<sup>317</sup>

Finally, a third aspect of transnational rights extension can be found in the *Luft* pedigree of *Steele*, which is still alive.<sup>318</sup> Indeed, until today, courts have described trademark conflicts as an issue of defending oneself against competitors in foreign marketplaces. One example is the Third Circuit's ruling on the scope of an injunction prohibiting extraterritorial activity in Monte Carlo in *Three Degrees Enterprise, Inc. v. Three Degrees Worldwide, Inc.*<sup>319</sup> The court there explicitly referred to *Tea Rose/Rectanus* and *Luft*, thereby showing a principal inclination to find and actually finding protectable common law rights beyond US borders. The fact that a marketplace had been established abroad by the plaintiff was deemed sufficient to extend the scope of domestic rights across national borders:

[The plaintiff, Three Degrees] Enterprise is unable to rely upon a registered mark. Accordingly, it is entitled to protection only in geographic areas where it has established a market for its goods. . . . The Court [in *Hanover Star*], held that the trademark of a prior user should be protected from infringement by a subsequent user of the same mark only in areas where the prior user has established a market for its goods: "Since it is the trade, and not the mark, that is to be protected, a trademark acknowledges no territorial boundaries of municipalities or states or nations, but extends to every market where the trader's goods have become known and identified by his use of the mark . . . ." Thus, the senior user of a common law mark may not be able to obtain relief against the junior user in an area where it has no established trade, and hence, no reputation and no good will. . . . It is in this context that the district court concluded that [Three Degrees] Enterprise had demonstrated "no presence" in locations other than the United States and Monte Carlo.<sup>320</sup>

Figure 12 illustrates the proliferation of the transnational-goodwill paradigm in numbers.

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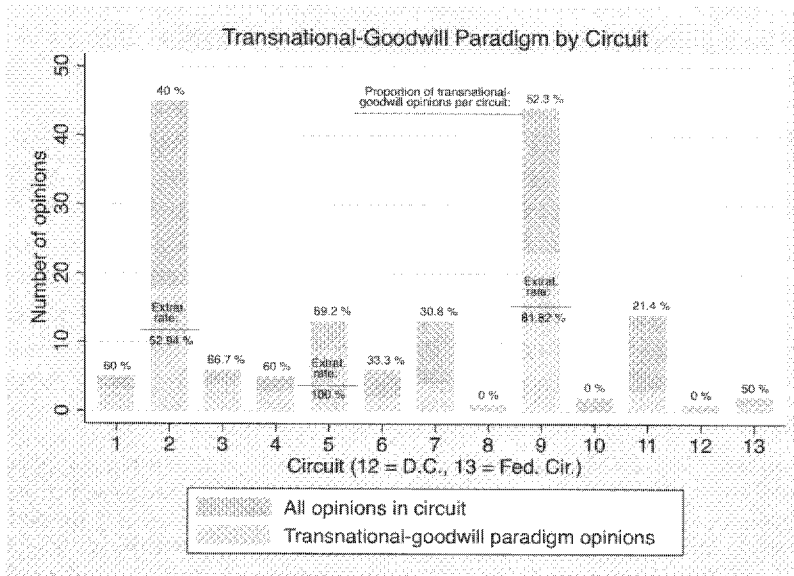
317. *Rodgers v. Wright*, 544 F. Supp. 2d 302, 313 (S.D.N.Y. 2008) (citations omitted) (citing *Steele v. Bulova Watch Co.*, 344 U.S. 280, 287 (1952)).

318. For a discussion of *Luft*, see *supra* text accompanying notes 296–304.

319. *Three Degrees Enters. v. Three Degrees Worldwide, Inc.*, 22 U.S.P.Q.2d 1357, 1360 (3d Cir. 1991).

320. *Id.* For more approval of the *Luft* conception, see *Totalplan Corp. of America v. Colborne*, 14 F.3d 824, 831 (2d Cir. 1994). See also *Leatherman Tool Grp. Inc. v. Cooper Indus. Inc.*, 47 U.S.P.Q.2d 1045, 1997 WL 910013, at \*1–2 (D. Or. Nov. 17, 1997); *Dunkin' Donuts Inc. v. Mercantile Ventures*, No. EP-91-CA-154-B, 1992 WL 156566, at \*10 (W.D. Tex. Jan. 8, 1992).

Figure 12.



The proportion of opinions following a transnational-goodwill paradigm within each circuit is listed as a percentage at the top of each bar. In addition, inside the bars are the extraterritoriality rates of the transnational-goodwill opinions of three representative circuits. A more detailed look at the numbers explains a pervasive incidence of common law goodwill protection within the population. Among the 138 opinions that made use of effects subfactors, 71 (51.45%) considered subfactors under the transnational-goodwill paradigm with respect to foreign-based scenarios. Among other issues, they analyzed a loss of sales *abroad* or confusion among *foreign* consumers as potentially relevant for triggering a finding of the respective subfactor and for the “effects on US commerce” factor. Among the circuits with a substantial amount of case numbers, the Fifth and Ninth Circuits take the lead with regard to the circuits’ proportion of transnational-goodwill opinions (69% and 52%, respectively). The extraterritoriality rate among all opinions with a transnational-goodwill paradigm is 75.36%, compared to the overall rate of 60.67%.<sup>321</sup> In this regard, too, the Fifth and Ninth Circuits stand out with 100% and 81.82% application rates of the Lanham Act, respectively, among their opinions following a transnational-goodwill paradigm. The Second Circuit follows far behind, with only 40% of opinions extending

321. The extraterritoriality rate and application of the transnational-goodwill paradigm correlated significantly at a level  $p < 0.05$  (Pearson  $\chi^2(1) = 11.5644$ ).

goodwill abroad and a lower extraterritoriality rate of 52.94% in the group of transnational-goodwill opinions.

#### IV. FURTHER IMPLICATIONS

What can be learned from these empirical results? Apparently, much of the conventional wisdom needs to be corrected. But there is more to the story. Even though this Article's case population is relatively small, it provides an interesting specimen of case law in action. Formally, of course, all courts in the population adjudicated on the basis of the Lanham Act as federal *statutory* law. However, the actual doctrine on extraterritoriality is a genuine *common law* phenomenon.<sup>322</sup> Virtually all opinions evolved on the basis of just one Supreme Court precedent. On this basis, this inquiry will be concluded by examining what has become known as evolutionary common law theory. This additional perspective will provide for more specific insights into the characteristics of the *Steele* progeny and into the path of the law in trademark conflicts.

##### A. *The Theory of Common Law Evolution*

Looking at a field of law built on only one precedent evokes ideas that have fascinated legal thinkers for a long time. Indeed, "evolutionary" metaphors have been debated among scholars for more than a century.<sup>323</sup> The earliest ideas on this topic emanated most prominently from Friedrich Carl von Savigny<sup>324</sup> and Henry Maine<sup>325</sup> in

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322. This Article uses the term "common law" here to refer to a body of case law in the common law tradition that relies on court decisions as the primary source of law. The large countertradition is civil law, in which the primary source of law is the statutory text. See, e.g., K. ZWIGERT & H. KÖTZ, *AN INTRODUCTION TO COMPARATIVE LAW* 181 (Tony Weir trans., Oxford Univ. Press 3d ed. 1998) (1977).

323. Here, "evolutionary" means the idea that the law—both its micro content and its macro structure—is shaped by external conditions similar to how living things are shaped by their environments. See, e.g., E. Donald Elliott, *The Evolutionary Tradition in Jurisprudence*, 85 COLUM. L. REV. 38, 39 (1985) [hereinafter Elliott, *Evolutionary Tradition*]. For more on the strand of theory suggesting an interdisciplinary perspective based on biology, ethology, and anthropology, see E. Donald Elliott, *Law and Biology: The New Synthesis?*, 41 ST. LOUIS U. L.J. 595, 596–97, 617 (1997). For the all-time heroes of evolution theory, see CHARLES DARWIN, *THE ORIGIN OF SPECIES* (Charles W. Eliot ed., P.F. Collier & Son 1909) (1859); RICHARD DAWKINS, *THE SELFISH GENE* (40th anniversary ed. 2016).

324. Savigny was the founder of the nineteenth-century German Historical School, contending that jurisprudence rather than abstract legal principles should be considered the foundation of law. See FRIEDRICH CHARLES VON SAVIGNY, *OF THE VOCATION OF OUR AGE FOR LEGISLATION AND JURISPRUDENCE* 161–62 (Abraham Hayward trans., London, Littlewood & Co. 1831). As he explained, each legal system passes through different stages of development prior to the point at which it becomes ready to be codified. *Id.* Early nineteenth-century German law, he concluded, was not yet ripe. *Id.* at 161–62, 169.

Europe and Oliver Wendell Holmes in the United States.<sup>326</sup> Even the US Supreme Court has explained that “[i]t has . . . become axiomatic that the common law is not immutable but flexible, and by its own principles adapts itself to varying conditions.”<sup>327</sup>

In recent decades, economics has come to dominate this discussion. Whereas earlier doctrinal theory was primarily descriptive—often neglecting to explain *why* the law developed in a certain direction and *whether* its normative content was desirable—econo-evolutionist theory tries to provide explanations by relying on the concept of efficiency.<sup>328</sup> The basic idea is that inefficient rules create deadweight losses. The potential beneficiaries of an efficient rule, therefore, have greater stakes than nonbeneficiaries. They have stronger incentives to challenge existing inefficiencies. Accordingly, since inefficient rules are more likely than efficient rules to be “relitigated,” chances are high that these rules will be changed. This is supposed to happen regardless of judges’ individual preferences. Over time, the argument goes, all inefficient rules will be replaced by efficient ones.<sup>329</sup>

325. See HENRY SUMNER MAINE, *ANCIENT LAW: ITS CONNECTION WITH THE EARLY HISTORY OF SOCIETY AND ITS RELATION TO MODERN IDEAS* 44 (London, John Murray 14th ed. 1891).

326. As a cursory look at *The Common Law* illustrates, Holmes built extensively on both Savigny and Maine. His most famous and oft-cited explanation with respect to evolutionary theory is perhaps the following:

The life of the law has not been logic: it has been experience. The felt necessities of the time, the prevalent moral and political theories, intuitions of public policy, avowed or unconscious, even the prejudices which judges share with their fellow-men, have a good deal more to do than the syllogism in determining the rules by which men should be governed.

O.W. HOLMES, JR., *THE COMMON LAW* 1 (Boston, Little, Brown & Co. 1881).

327. *Funk v. United States*, 290 U.S. 371, 383 (1933).

328. For later theory with a more sociobiological impulse, see, for example, Richard A. Epstein, *A Taste for Privacy? Evolution and the Emergence of a Naturalistic Ethic*, 9 J. LEGAL STUD. 665, 665 (1980); Jack Hirshleifer, *Privacy: Its Origin, Function, and Future*, 9 J. LEGAL STUD. 649, 649 (1980). For an overview, see also Elliott, *Evolutionary Tradition*, *supra* note 323, at 71–90.

329. See, e.g., John C. Goodman, *An Economic Theory of the Evolution of Common Law*, 7 J. LEGAL STUD. 393, 395 (1978); George L. Priest, *The Common Law Process and the Selection of Efficient Rules*, 6 J. LEGAL STUD. 65, 65 (1977); Paul H. Rubin, *Why Is the Common Law Efficient?*, 6 J. LEGAL STUD. 51, 51 (1977); Paul H. Rubin & Martin J. Bailey, *The Role of Lawyers in Changing the Law*, 23 J. LEGAL STUD. 807, 807 (1994); R. Peter Terrebonne, *A Strictly Evolutionary Model of Common Law*, 10 J. LEGAL STUD. 397, 398 (1981); Georg von Wangenheim, *The Evolution of Judge-Made Law*, 13 INT’L REV. L. & ECON. 381, 382 (1993); Douglas Glen Whitman, *Evolution of the Common Law and the Emergence of Compromise*, 29 J. LEGAL STUD. 753, 775–776 (2000); Wes Parsons, Note, *The Inefficient Common Law*, 92 YALE L.J. 862, 886–87 (1983).

Yet economists are split on many issues. For one, many disagree with the basic premise that the common law will inevitably develop toward efficiency; they suggest that the ultimate equilibrium in an evolutionary system of common law norms may comprise both “best” and “worst” legal rules.<sup>330</sup> Furthermore, a strong current disagrees on the extent to which judges’ preferences may hinder or promote efficiency. In one camp are those who downplay the judges’ role in the evolutionary process, and in the other are those who assert it. In the first camp, for example, is the process-oriented theory, which suggests that efficiency might be due to the “utility maximizing decisions of disputants rather than . . . the wisdom of judges.”<sup>331</sup> Under this notion, judges play a minimal role in pushing the system toward efficiency. Also in this camp are more critical analyses that emphasize judges’ limited capacities to explore the circumstances of their decision-making regarding socioeconomic consequences.<sup>332</sup> They allude to Friedrich von Hayek’s arrogation-of-knowledge paradigm: since information is decentralized, judges are seldom in a position to determine what is “efficient.”<sup>333</sup> In the other camp are theorists who explain the evolution of doctrine by reference to the fact that efficiency is the most common and rational preference for legal decision-making.<sup>334</sup> Finally, economists are split on the existence of path dependence. Some argue that the doctrine of *stare decisis* makes the common law highly path dependent; they note that adherence to past court decisions creates an inertia that will ultimately stand in the way of flexibility and adaptation, whether toward efficiency or something else.<sup>335</sup> Others, by contrast, suggest that judges’ individual preferences exert a beneficial impact on the evolution of efficient law.<sup>336</sup>

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330. See, e.g., Robert Cooter & Lewis Kornhauser, *Can Litigation Improve the Law Without the Help of Judges?*, 9 J. LEGAL STUD. 139, 140 (1980).

331. Rubin, *supra* note 329, at 51.

332. See, e.g., Gillian K. Hadfield, *Bias in the Evolution of Legal Rules*, 80 GEO. L.J. 583 (1992).

333. See, e.g., Peter H. Aranson, *The Common Law as Central Economic Planning*, 3 CONST. POL. ECON. 289, 299–303 (1992).

334. William M. Landes & Richard A. Posner, *Adjudication as a Private Good*, 8 J. LEGAL STUD. 235, 259 (1979); Richard A. Posner, *What Do Judges and Justices Maximize? (The Same Thing Everybody Else Does)*, 3 SUP. CT. ECON. REV. 1, 39–40 (1993). See also a former edition of the law-and-economics landmark: POSNER, *supra* note 121, at 21–22.

335. See, e.g., Oona A. Hathaway, *Path Dependence in the Law: The Course and Pattern of Legal Change in a Common Law System*, 86 IOWA L. REV. 601, 638–39 (2001).

336. See, e.g., Vincy Fon & Francesco Parisi, *Litigation and the Evolution of Legal Remedies: A Dynamic Model*, 116 PUB. CHOICE 419, 422–23 (2003); Nicola Gennaioli & Andrei Shleifer, *The Evolution of Common Law*, 115 J. POL. ECON. 43, 59–62 (2007); Whitman, *supra* note 329, at 780–81.



### B. *The Realities of the Steele Progeny*

The *Steele* progeny provide an interesting case study to test some of the hypotheses of evolutionary theory. Under a process-oriented perspective, two basic questions arise. The first is whether the *Steele* progeny are path dependent, which further leads to whether “precedent” actually determines the evolution of law. The second question is whether the legal content and actual status of the extraterritoriality doctrine is efficient.

#### 1. Of Path Dependencies, One-Way Streets, and Precedent Avoidance

Evolutionary theory in some of its variants emphasizes the idea that the common law is path dependent.<sup>337</sup> As the argument goes, the law evolves along the lines of early precedent and is thereby specifically and systematically shaped by the historical pathway leading to its creation.<sup>338</sup> Indeed, early incidents will often exert an extraordinary and long-enduring influence on the content of the law. Such a tendency to remain within a predetermined channel may be problematic, especially if early precedent is flawed or if the alteration of socioeconomic circumstances calls for a change in direction.<sup>339</sup> In light of such path dependency claims, the *Steele* progeny offer an ambiguous picture.

First, in terms of test formulas, there is little doubt that the evolution of extraterritoriality doctrine is rather static. After all, *Vanity Fair* and its three-pronged structure have never been—and, very likely, will not be in the near future—overtaken as the prevalent test variant.<sup>340</sup> In other words, since it was the three-pronged test that entered the stage first, this test, rather than the 1977 *Timberlane* or 2005 *McBee* variants, inevitably developed into the “industry standard.” However, a look under the surface of formulas reveals far less actual dependency in substance.

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337. See HOLMES, *supra* note 326, at 1 (“In order to know what [the law] is, we must know what it has been, and what it tends to become. We must alternately consult history and existing theories of legislation.”). For a more recent discussion, see, for example, Clayton P. Gillette, *The Path Dependence of the Law*, in *THE PATH OF THE LAW AND ITS INFLUENCE: THE LEGACY OF OLIVER WENDELL HOLMES, JR.*, 245, 245–46 (Steven J. Burton ed., 2000); Hathaway, *supra* note 335, at 603–06.

338. Hathaway, *supra* note 335, at 605–06.

339. *Id.* at 658–62; see also M.B.W. Sinclair, *The Use of Evolution Theory in Law*, 64 U. DET. L. REV. 451, 456–57 (1987) (including numerous references).

340. See *supra* Parts III.A.2, III.A.3.

As explained in this Article, conventional wisdom predicts a drastic circuit split.<sup>341</sup> Apart from formal differences, however, such divergences are hard to find in reality. Rather, there has been a vivid osmosis of test elements and precedent arguments constantly vacillating across the whole population. The governing paradigm—as in other sectors of human culture—has been to copy and transmit artifacts and patterns.<sup>342</sup> This is seen not only with respect to other circuits' adoption of *Vanity Fair's* test structure or, for instance, the more specific concept of “constructive citizenship,”<sup>343</sup> but also with respect to the fact that New York courts themselves have been constantly pollinated from outside—as illustrated by the migration of the Fifth and Ninth Circuit's ideas on “balancing” and interfactor relations.<sup>344</sup> Finally, the migration of the transnational-goodwill paradigm into virtually all circuits provides impressive proof of a silent common law homogenization within the *Steele* progeny.<sup>345</sup>

The gradual blending of test components and juridical memes can also be illustrated graphically. Judges may pay lip service to formulas, but intercircuit cross-fertilization is tremendous. Figure 13 illustrates the distribution of cases for each circuit in which courts did apply a specific test variant (circles) as well as the occurrence of citations to the different circuits' precedents (signals below the circles).<sup>346</sup> Evidently, the three-pronged test variants are most numerous across all circuits (*Vanity Fair* alone was applied in 35.22% of all opinions, 19 times outside the Second Circuit). Yet, as already mentioned, citations to *Wells Fargo* and *American Rice* have populated virtually all circuits.<sup>347</sup> In particular, the migration of *American Rice* memes illustrates how permeable seemingly formulaic test structures can be.<sup>348</sup>

341. See *supra* Part II.B.

342. On cultural evolution, see the leading Stanford scholars' approach by L.L. CAVALLI-SFORZA & M.W. FELDMAN, CULTURAL TRANSMISSION AND EVOLUTION: A QUANTITATIVE APPROACH 3–4 (1981). For the concept of so-called memes and their survival as elements of human culture, see DAWKINS, *supra* note 323, at 245–60. For an application of invention-and-selection paradigms to theories of science and knowledge creation, see KARL R. POPPER, OBJECTIVE KNOWLEDGE: AN EVOLUTIONARY APPROACH 106–52 (1972).

343. See *supra* Part III.D.1.

344. See *supra* Part III.C.2.a.

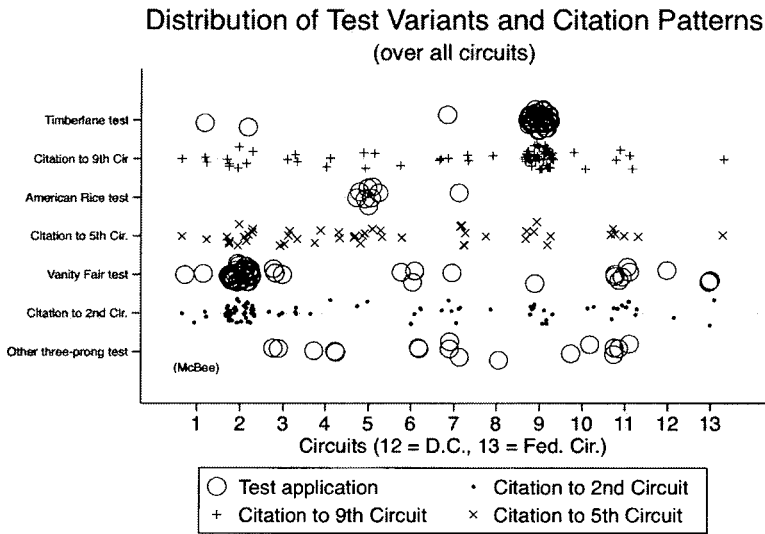
345. See *supra* Part III.D.4.a.

346. In order to illustrate the actual accumulation of test-variant application and citation, the graphic's indicators “jitter” (i.e., fluctuate).

347. See discussion *supra* Part III.A.3.

348. See *supra* Part III.A.3.

Figure 13.



In addition, the path of the law has not been too problematic when looking at test outcomes. As discussed above and illustrated in Figure 6, the Ninth Circuit’s extraterritoriality rate underwent a constant regression to the mean around the turn of the century.<sup>349</sup> Similarly, the Second Circuit’s rates oscillated around the overall mean, and the mean extraterritoriality rates of other circuits continually declined before ultimately approximating the overall extraterritoriality rate again.<sup>350</sup> Hence, as it currently appears, results have been smoothed over time. The rule may be stability and incremental approximation rather than extreme eruptions and divergence between the circuits. In Justice Benjamin Cardozo’s words, it seems not only that “the eccentricities of judges balance one another” but also that even across formally divergent circuits’ eccentricities, “constancy and uniformity” ultimately emerge.<sup>351</sup>

Remaining in the Ninth Circuit and relying on Figures 6 and 7, it can also be confidently asserted that the circuit has not entered into the cul-de-sac—thus avoiding the ultimate downfall of path dependency—that Friedrich von Hayek warned of when he explained that “the spontaneous process of [case law’s] growth may lead into an impasse from which it cannot extricate itself by its own forces or

349. See *supra* Parts III.B.2, III.B.3.

350. See *supra* Parts III.B.2, III.B.3.

351. BENJAMIN N. CARDOZO, THE NATURE OF THE JUDICIAL PROCESS 177 (1921).

which it will at least not correct quickly enough.”<sup>352</sup> Conventional wisdom may have suggested otherwise. Since the *Wells Fargo* test never changed on its face, one might have expected a constant divergence between the Ninth Circuit and other fora, notably the Second Circuit, when looking at the development of extraterritoriality rates until 1995. But the exact opposite happened. Accordingly, and contrary to Hayek’s suggestion,<sup>353</sup> at least with respect to the outcome, there has so far been no need for legislation (or Supreme Court interference) in order to resolve the circuit split. On this basis, one may even reject the idea that progressive pro-plaintiff courts—such as the Ninth Circuit—would deepen their preferences rather than step back in line. As econo-evolutionists have suggested, either by common law mechanics of precedent adherence or due to rational party choice, courts with a preference toward plaintiffs will ultimately extend their stance and arrive at more extreme rather than more balanced rules.<sup>354</sup> The data do not support such a theory.

Finally, at a more general level, one may observe that the case population reflects a malleable and unstable concept of “precedent.” The doctrine of *stare decisis* is usually explained to determine a “seamless web” between past, present, and future precedent, and to dominate the evolution of common law.<sup>355</sup> Changes in the law are seen as the result of solitary incidents and crises, notably statutory interference or new appellate court precedents.<sup>356</sup> This wisdom is sometimes bolstered by referring to a biological theory of so-called punctuated equilibria, under which species change little over time but where phases of change and differentiation—time and again—are spurred by singular events “punctuating” the usual stability.<sup>357</sup> However, what this idea of inertia and immutability overlooks is the common law’s built-in subversion capacity—the inherent leeway for

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352. 1 F.A. HAYEK, *LAW, LEGISLATION AND LIBERTY: RULES AND ORDER* 88 (1973).

353. *Id.* at 88–89.

354. For a discussion of this hypothesis, see, for example, Fon & Parisi, *supra* note 336, at 429; Parsons, *supra* note 329, at 884–85.

355. See, e.g., Hathaway, *supra* note 335, at 622–27; see also, e.g., Fon & Parisi, *supra* note 336, at 420.

356. For a discussion of the idea that “[n]othing important might happen except in crisis,” see, for example, Mark J. Roe, *Chaos and Evolution in Law and Economics*, 109 HARV. L. REV. 641, 663 (1996). For a similar, albeit more careful, view, see Hathaway, *supra* note 335, at 640–45.

357. See, e.g., Niles Eldredge & Stephen Jay Gould, *Punctuated Equilibria: An Alternative to Phyletic Gradualism*, in *MODELS IN PALEOBIOLOGY* 82, 92–115 (Thomas J.M. Schopf ed., 1972). For a critique of the punctuated-equilibria concept—referred to derogatorily as “jumpy evolution”—see generally RICHARD DAWKINS, *RIVER OUT OF EDEN* 11, 83–84 (1995).

decision-makers to distinguish old decisions from the case at bar.<sup>358</sup> Looking at the functioning of such distinction mechanics in the *Steele* progeny actually suggests that it is favorable to remember the Llewellyan wisdom that the distinguishing of precedents provides a major source of legal change.<sup>359</sup>

Indeed, throughout the *Steele* progeny, it seemed to be a technique of precedent avoidance that provided the microstructural foundation for the transmission and transformation of legal doctrine. Judge Newman's distinction of *Vanity Fair* from *Sterling Drug*—the latter case not being “on all fours” with the precedent<sup>360</sup>—representatively highlights the power of present-day judges over seemingly immutable old law. *Sterling Drug* virtually overthrew the once ironclad threshold whereby a non-US national acting under a valid foreign trademark abroad should not be subject to the Lanham Act.<sup>361</sup> One could have called *Sterling Drug* a change of precedent, an overruling. At least, it could be considered as overriding the old rule because it evidently and significantly narrowed the ambit of *Vanity Fair* in light of modern-day marketplace conditions.<sup>362</sup> More concretely, it virtually allowed for the basing of Lanham Act application on effects alone, regardless of the defendant's foreign nationality and potential conflicts with foreign law. Judge Newman, however, did not lower his guard by formally and expressly admitting to having deconstructed an obsolete doctrine. Instead, he elegantly strode the path of further erosion of *Vanity Fair* by way of distinction.

## 2. The Inefficiency of Lanham Act Extraterritoriality

But there remains one aspect where one can see that the road toward efficiency is sometimes an uphill one. Courts not only have a tendency to extend the scope of the Lanham Act by fostering a broad concept of relevant effects but they also adhere to the *Steele* majority's demand that the infringer's nationality be given specific consideration.<sup>363</sup> Like the proverbial panda's thumb explained by

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358. For the drawing of distinctions see, for example, MELVIN ARON EISENBERG, *THE NATURE OF THE COMMON LAW* 71–74 (1988).

359. See, e.g., KARL N. LLEWELLYN, *THE COMMON LAW TRADITION: DECIDING APPEALS* 62–63 (1960).

360. See *Sterling Drug, Inc. v. Bayer AG*, 14 F.3d 733, 746 (2d Cir. 1994).

361. See *supra* text accompanying note 174; see also *Sterling Drug*, 14 F.3d at 746.

362. For a discussion of the technique for overriding a precedent, see EISENBERG, *supra* note 358, at 135–36.

363. For the nationality factor, see *supra* text accompanying notes 223–34.

Stephen Gould,<sup>364</sup> these test characteristics evolved in past times and under different conditions, and, at least *prima facie*, appear to function well even if “win[ning] no prize in an engineer’s derby.”<sup>365</sup> Still, the extraterritoriality doctrine as it stands is different. Its penchant for discriminating against US nationals and extending US trademark protection is neither optimal nor functional. “Nationality” and “effects on US commerce” were defined in an era when international trademark infringement was a rare bird. With the globalization of commerce, realities have changed radically, making it necessary for the law to adapt.

*a. Structural Defect: Discriminatory Lanham Act Application*

As explained earlier, econo-evolutionist theory explains that whenever a norm is inefficient, its “survival pressure”—the chance that it will be relitigated and transformed toward efficiency—is higher than on an efficient norm.<sup>366</sup> In other words, a differential in the parties’ cost-benefit calculations drives the erosion of inefficient doctrines.<sup>367</sup> The underlying assumption is that both plaintiffs and defendants in disputes over inefficient norms will bear all, or virtually all, costs and benefits. Seldom explored are scenarios where benefits or costs are dispersed beyond the litigants. Curiously, trademark extraterritoriality creates such a dispersed inefficiency and, thus, somewhat resists a turn toward efficiency.

Sometimes, legal scholars and commentators allude to the anticompetitive effects of an overextension of domestic trademark rights.<sup>368</sup> Still, dominant opinion generally suggests that extraterritoriality is a good. Since economic regulation is concerned with market-related interests and aims to establish and maintain a level playing field within a certain market, its extension across national borders reflects the fact that the object of regulation in the international arena is a multijurisdictional marketplace, not a single

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364. This thumb is a sixth digit that, over the course of the bear’s evolution, grew out of a component of the wrist. Not being a genuine “thumb” as in humans or primates, it nonetheless allows pandas to strip leaves from bamboo shoots more effectively than with a five-digit paw. As has been concluded, evolution does not require perfection in order for an organism or feature to survive; it only needs to function sufficiently well. Rather than through a complete reconstruction, this may be achieved by repurposing elements that initially fulfilled other functions. See STEPHEN JAY GOULD, *THE PANDA’S THUMB: MORE REFLECTIONS IN NATURAL HISTORY* 21–22 (1980).

365. *Id.* at 23.

366. See *supra* Part IV.A.

367. See *supra* Part IV.A.

368. See, e.g., Alpert, *supra* note 64, at 145; Gary B. Born, *A Reappraisal of the Extraterritorial Reach of U.S. Law*, 24 *LAW & POLY INT’L BUS.* 1, 90–91 (1992).

political territory.<sup>369</sup> The conclusion is that extraterritoriality is beneficial for the litigating domestic rights holder as well as for the interest of domestic industries in international rights protection.<sup>370</sup> *McBee v. Delica Co.* is revealing:

[G]lobal piracy of American goods is a major problem for American companies: annual losses from unauthorized use of United States trademarks, according to one commentator, now amount to \$200 billion annually. In both the antitrust and the Lanham Act areas, there is a risk that absent a certain degree of extraterritorial enforcement, violators will either take advantage of international coordination problems or hide in countries without efficacious antitrust or trademark laws, thereby avoiding legal authority.<sup>371</sup>

Indeed, the court's arguments—taken from a 1997 law review article<sup>372</sup>—have been welcomed with wide approval.<sup>373</sup> This conventional wisdom, however, is fatally flawed when viewed in the light of efficiency. It is actually the lack of efficient enforcement mechanisms that makes trademark extraterritoriality a curse rather than a blessing. In the domestic arena, states are endowed with the power of enforcement—granting and protecting rights is their undisputed domain. At the international level, however, enforcement powers are limited by the existence of concurrent sovereign lawmakers.<sup>374</sup> Consequently, the scope of rights is limited to the granting state's territory, reflecting the scope of actual state power—or powerlessness.<sup>375</sup> As already described, a facet of this powerlessness can be seen in the fact that many (if not most) cases of “infringement” that have occurred abroad never reach a court due to the lack of personal jurisdiction over the alleged infringer.<sup>376</sup>

369. See, e.g., Witherell, *supra* note 12, at 222–28 (interpreting the Lanham Act as a so-called market statute).

370. See, e.g., Schechter, *supra* note 59, at 634–35; see also Popov, *supra* note 76, at 727–28; Thomas-Gonzalez, *supra* note 80, at 435–36; Webster, *supra* note 80, at 269; Witherell, *supra* note 12, at 217. As is sometimes contended, the extraterritoriality of domestic law may even serve as a placeholder in cases where an international agreement on the unification of regulation has not been achieved. See, e.g., Tonya L. Putnam, *Courts Without Borders: Domestic Sources of U.S. Extraterritoriality in the Regulatory Sphere*, 63 INT'L ORG. 459, 469, 485–86 (2009).

371. *McBee v. Delica Co.*, 417 F.3d 107, 119 (1st Cir. 2005) (citation omitted).

372. See *id.* at 125; Schechter, *supra* note 59. For a discussion of the Schechter article, see *supra* Part II.B.

373. See, e.g., Webster, *supra* note 80, at 269; Witherell, *supra* note 12, at 217.

374. See DORNIS, *supra* note 1, at 483–88.

375. See, e.g., Jürgen Basedow, *Entwicklungslinien des internationalen Kartellrechts—Ausbau und Differenzierung des Auswirkungsprinzips* [Development Lines of International Antitrust Law—Expansion and Differentiation of the Impact Principle], 1989 NEUE JURISTISCHE WOCHENSCHRIFT [NJW] 627, 638 (Ger.); Larry Kramer, *Vestiges of Beale: Extraterritorial Application of American Law*, 1991 SUP. CT. REV. 179, 207–08 (1991).

376. See *supra* Part III.B.1.d.

Ultimately, the resulting uneven enforcement of rights vis-à-vis domestic and foreign “infringers” leads to a discriminatory application of legal standards. If domestic law provides for more protection, anticompetitive distortion looms. In other words, if the more stringent domestic regulations are applied predominantly to domestic parties, a cost disadvantage for these parties in foreign-based marketplaces ensues.<sup>377</sup> The *Steele* progeny offer an illustration of such inland-party discrimination: by requiring nationality as one aspect to consider in extraterritoriality analysis, the courts reduce the prospects of suits against non-US nationals and foreign entities relative to the prospects of litigation against US parties.<sup>378</sup>

The *Steele* progeny’s overall tendency toward extraterritoriality returns the analysis to evolutionary theory. One need not challenge the evolution-toward-efficiency concept to find that an automatic shift may not come naturally in cases of cross-border trademark litigation because the effects of extraterritoriality are dispersed. Trademark owners as individual litigants may benefit in the short run; however, national competitors in foreign markets generally bear higher costs.<sup>379</sup> Their combined costs may be greater than the benefits achieved in individual litigation (or even in a long series of individual lawsuits), and there may not be sufficient incentives for them to come together in order to seek to change the rule. Ironically, in this respect, conventional wisdom in academic writings has hindered rather than fostered clarification. Voices demanding more rather than less extraterritoriality have always been in the majority.<sup>380</sup>

*b. Reconceptualization: The Need for Factor Reinterpretation*

Nevertheless, the situation is not dismal. Viewed in the context of efficiency, all three factors of the *Vanity Fair* test and its variants, as well as the *Timberlane* comity test, are already evolving

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377. In this regard, parallels between international tort law and trademark and unfair competition choice of law are manifest. For the anticompetitive effects of a *lex fori* approach in tort conflicts, see, for example, Jack L. Goldsmith & Alan O. Sykes, *Lex Loci Delictus and Global Economic Welfare: Spinozzi v. ITT Sheraton Corp.*, 120 HARV. L. REV. 1137, 1144 (2007).

378. See *supra* Part III.B.1.d.

379. Ultimately, of course, it will be the *consumers* in foreign marketplaces who bear the cost of anticompetitive discrimination. Yet the direct consequence—and, hence, the actual cost relevant for computation in evolutionary common law models—is the cost disadvantage on the side of domestic competitors in foreign markets. For more detail on the economics of international torts, see Alan O. Sykes, *Transnational Tort Litigation as a Trade and Investment Issue* 18–19 (John M. Olin Program in Law and Econ. Stanford Law Sch., Working Paper No. 331, 2007), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=956668](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=956668) [<https://perma.cc/K7EL-R6C5>].

380. See *supra* Part IV.B.2.a.



toward efficiency. The shift has not been immediate but rather gradual. A bit of test-factor reinterpretation may thus already suffice to tip the scales in the right direction.

The tendency of courts toward discriminatory Lanham Act application is the major source of inefficiency. Although, overall, the nationality factor may not be the driving force in extraterritoriality testing,<sup>381</sup> it contributes to a problematic characteristic in current doctrine. The concept of “nationality” is a remnant of the Westphalian era that has played out in choice-of-law doctrine as one aspect that may justify state coercion as exerted through choice and application of a state’s own law.<sup>382</sup> In addition, a number of other connections can justify the choice and application of a state’s law. One example is individual consent, notably when a party resides or travels within a state. Another is the commercial benefit a party receives through its contacts with the state.<sup>383</sup> Historically, citizenship constituted a precise proxy for a nexus between sedentary actors’ activities, their consequences, and local regulators.<sup>384</sup> However, in today’s world, not only is the connection between conduct and local regulatory policies no longer guaranteed—for goods, services, and information travel across the globe with few barriers, sometimes in milliseconds—but, in addition, formal national affiliations have lost much of their relevance.<sup>385</sup> In a world of mobile actors, where virtually anybody can cause effects anywhere, nation-state ties no longer constitute the primary factor for attachment.

These developments are reflected in modern court practice. Courts have increasingly come to downplay the formalities of defendants’ “nationality” or “citizenship.”<sup>386</sup> Due to formulaic test structures, however, judges still adhere—at least nominally—to testing “nationality” and “allegiance.” In fact, it seems as if nationality even saw a revival when the First Circuit made it a determinant of extraterritoriality in *McBee*.<sup>387</sup> Yet, although under public international law it seems evident that states can more easily subject their nationals to national law than foreigners, courts should carefully analyze whether the concept still makes sense in our modern world. With respect to the risk of an anticompetitive discrimination of

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381. See *supra* Part III.C.2.b.

382. Lea Brilmayer, *Rights, Fairness, and Choice of Law*, 98 YALE L.J. 1277, 1294, 1297–98 (1989).

383. *Id.* at 1303–05.

384. DORNIS, *supra* note 1, at 529–31.

385. *Id.* at 530–31.

386. See *supra* Part III.D.1.

387. See *supra* Part II.A.

US parties, a de-formalization—if not a complete jettisoning—of the test factor should be considered.

Moreover, a moderate cutting back on the current rights-extension paradigm is needed. The “effects on US commerce” test factor must therefore be reinterpreted. Several characteristics of the effects prong contribute to extraterritoriality, notably with regard to the factor’s division into a number of subfactors.<sup>388</sup> Ultimately, however, it is the detachment of “effects on US commerce” from substantive trademark law policies that may pose the greatest challenge to modernizing the doctrine of Lanham Act extraterritoriality.

US trademark law serves two goals. On the one hand, rights protection prevents consumer confusion; on the other, it protects investment in trade symbols.<sup>389</sup> Essentially, trademark law aims to regulate market communication. Rights protection is aimed at effects that materialize in the consumer’s mind when transacting, both by keeping market information correct and nondeceptive and by preventing improper goodwill invasion. Trademark-relevant effects in substantive law are thus inseparable from the marketplace.<sup>390</sup>

These substantive law foundations are reflected incompletely at the conflicts level. The doctrine of Lanham Act extraterritoriality focuses on conduct and largely unqualified “commercial” effects. Both aspects are essentially detached from the regulation of market information. As this Article has shown, the list of effects subfactors contains numerous positions of this kind, such as damage to the plaintiff’s “ability to conduct business,” damage to the “value of [the] plaintiff’s holdings,” a defendant’s “orchestration of foreign activities,” a “diversion or loss of sales,” and even the “loaning [of] funds” by the defendant.<sup>391</sup> The most illustrative and drastic example of commercial effects/substantive policy detachment likely materialized in *American Rice*,<sup>392</sup> when effects were found to exist in sales in Saudi Arabia despite the lack of any reverberations for US consumers or for trademark goodwill in the United States. Instead, the processing, packaging, transportation, and distribution of US-produced rice were considered to constitute sufficient activity “within commerce.”<sup>393</sup>

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388. See *supra* Part III.D.4.

389. S. REP. NO. 79-1333, at 3 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1275; *see, e.g.*, *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 850, 856–57 (1982).

390. See generally DORNIS, *supra* note 1, at 273–380.

391. See *supra* Part III.D.4.b.

392. *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass’n*, 701 F.2d 408 (5th Cir. 1983).

393. *Id.* at 414 (“[T]he defendant’s Saudi Arabian sales had more than an insignificant effect on United States commerce. Each of [the defendant’s] activities, from the processing and

In light of international enforcement ineffectiveness, this paradigm of unqualified commercial effects overextends the law to the detriment of US competitors in foreign markets.<sup>394</sup> The escape is to reduce the scope of the Lanham Act. Since policies are confined to the national territory, effects should accordingly be considered to matter only if they concern domestic trademark policies—that is, if they prevent consumer confusion and protect trademark goodwill *within* the United States. Consequently, if only territorial effects are considered, many of the now-accepted scenarios of extraterritoriality will no longer lead to an application of the Lanham Act.

The same problem exists with respect to scenarios in which the courts have followed a transnational-goodwill-extension approach.<sup>395</sup> Such an extension of common law rights across political borders used to be economically reasonable in the intra-US context of the early twentieth century. However, it brings unforeseen problems in the international arena. Of course, one could see the entire-gamut-of-purchasers paradigm—which suggests the protection of all consumers, “including non-English-speaking purchasers, in various countries throughout the world”<sup>396</sup>—as a good. Moreover, one might argue that the transnational-goodwill extension inherent in many of the opinions examined in this inquiry is an essential element of US trademark conflicts law, in particular catering to the protection of the rights holders.<sup>397</sup> Yet the benefits that such rights extension may have for individual litigants must be balanced against the overall losses resulting from impending anticompetitive effects. In any event, more economic thought is needed.<sup>398</sup>

The time may not be suitable to reconceive of effects testing in such a radical way as to suggest a full-fledged shift toward territoriality, introducing a multilateral conflicts rule similar to the one that exists, for instance, under European choice of law.<sup>399</sup> There, the provisions on trademark and unfair competition choice of law not only allow the application of domestic law to infringements that produce territorial effects but also provide for the application of

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packaging of the rice to the transportation and distribution of it, are activities within commerce.”).

394. See *supra* Part IV.B.2.a.

395. See *supra* Part III.D.4.

396. See *Van Doren Rubber Co. v. Marnatech Enters.*, CIV A. No. 89-1362 S BTM, 1989 WL 223017, at \*3 (S.D. Cal. Oct. 17, 1989).

397. See *supra* Part III.D.4.

398. For an extensive analysis, see DORNIS, *supra* note 1, at 491–571.

399. For such a suggestion in US scholarship, see Alpert, *supra* note 64, at 149; Bradley, *supra* note 1, at 509–10.

foreign laws to foreign-based effects.<sup>400</sup> Yet even if the prospects of such fundamental change may be very low, the current system would profit significantly from a stringent reorientation toward substantive law policies and territoriality.

Finally, in this regard, it may be the third test factor—conflicts with foreign law—that has already undergone the largest transformation toward a more policy-oriented and territoriality-oriented interpretation. Once more, a look at the Second Circuit's remodeling of the *Vanity Fair* doctrine in *Sterling Drug*<sup>401</sup> is revealing.

The Second Circuit was confronted with a dilemma. On the one hand, the nonapplication of the Lanham Act would have failed to protect US consumers against confusion resulting from the defendant's use of the "Bayer" trademark in international market communication. On the other hand, applying the Lanham Act indiscriminately would have been unreasonable in light of the possible reverberations for international commerce and marketing activities. After all, the defendant held valid rights abroad and, as a result, stood on firm ground with respect to its European marketplace activity.<sup>402</sup> In addition to a careful analysis of relevant effects, leaving the maze required a refined determination of the point at which distortion in marketplace communication should actually be considered to be a "conflict with foreign law." Judge Newman drew the correct conclusions when he explained that a mechanical application of *Vanity Fair*—that is, effectively dismissing the plaintiff's claim—would have been inadequate:

[U]nrefined application . . . might mean that we fail to preserve the Lanham Act's goals of protecting American consumers against confusion, and protecting holders of American trademarks against misappropriation of their marks. . . . [Plaintiff] Sterling . . . seeks to enjoin only those uses of the "Bayer" mark abroad that are likely to make their way to American consumers. Sterling is not concerned with [defendant] Bayer AG's use of the mark abroad so long as that use does not enter the channels of international communication that lead to the United States.<sup>403</sup>

The *Sterling Drug* approach reasonably repoliticizes the conflicts factor and thereby helps resolve the conundrum of modern-day conflicts. Many international disputes involve conflicts that are unresolvable in the sense that the parties' countervailing positions—namely, their use of trademark rights in different jurisdictions—cannot be reconciled by fully enjoining one side and

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400. See EC Regulation No. 864/2007, *supra* note 1, at 44–45. For a discussion of European choice of law, see DORNIS, *supra* note 1, at 6–75, 190–220, 491–571.

401. *Sterling Drug, Inc. v. Bayer AG*, 14 F.3d 733 (2d Cir. 1994).

402. *Id.* at 737, 746.

403. *Id.* at 746.

giving the other side all rights of communication with respect to the rights at issue. As in *Sterling Drug*, both parties may act on justified ground and it may be technically impossible to avoid spillover to other jurisdictions. In such scenarios the conflicts prong is the perfect place for courts to undertake a policy-oriented balancing of interests. In other words, modern conflicts testing rarely allows for a binary solution in the sense of “the Lanham Act applies or does not apply.” Instead, the scope of extraterritoriality must be determined on a sliding scale, giving regard to the kind and degree of effects involved and the losses that ensue from the regulation or nonregulation of the marketplace activities at issue.<sup>404</sup>

## V. CONCLUSIONS

Generally, this Article has attempted to demonstrate that the common law of Lanham Act extraterritoriality is far from deranged or erratic. Despite the proclamations of both conventional wisdom and important strands of evolutionary theory, the doctrine has not gone down a one-way street nor has it fallen prey to fatal path dependencies. To the contrary, the lower courts after *Steele* have promulgated a well-balanced body of case law. A look under the surface of formulaic test structures and traditional leading-case methodology unveils powerful currents of homogenization, notably by means of test element migration and the cross-circuit proliferation of precedents. In the midst of the external influences of socioeconomic globalization, the path of the law has been smooth and gradual, leading to a common ground rather than Babylonian chaos.

More specifically, this analysis has shed light on a few problematic characteristics of the Lanham Act extraterritoriality doctrine. Although courts have already started to bend the law toward more efficiency—through incrementally transforming “nationality” and “conflicts with foreign law,” for example—more must be done in order to cater to the conditions of globalized markets and societies. The realignment of extraterritoriality doctrine in this regard requires both denationalizing the existing test structures and reducing the currently overextended scope of the Lanham Act. Counterintuitively, this will serve, rather than damage, the domestic economy and will benefit exporting actors. After all, the status quo of discriminatory Lanham Act application primarily disadvantages US parties to the benefit of their foreign competitors.

Considering the socioeconomic revolutions that both domestic and international trademark doctrine have witnessed during almost

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404. For an extensive analysis, see DORNIS, *supra* note 1, at 491–571.

sixty-five years of Supreme Court silence since *Steele*, one might expect a new landmark precedent in the near future. But even if the Supreme Court remains silent, there is no reason to be overly concerned. In light of the evolution of post-*Steele* common law, there is little doubt that lower courts will ultimately take the right turn. Of course, the multitude of uncoordinated, fractious, and incremental steps may not swiftly or radically redirect the path of the law. It is the promulgation of quasi-coordinated results emanating from a myriad of widely independent decisions that provides for the common law's viability—or, as Justice Benjamin Cardozo said almost a century ago, “out of the attrition of diverse minds there is beaten something which has a constancy and uniformity and average value greater than its component elements.”<sup>405</sup>

#### APPENDIX (CASE SELECTION AND CODING)

The Author retrieved the initial group of opinions by conducting searches in the Westlaw and LEXIS databases. This group of opinions had a few limitations. For instance, it did not include disputes that had been settled prior to actual decision-making. Therefore, the Article's final case population is not a perfectly representative and unbiased sample.<sup>406</sup> However, this problem is unavoidable and does not invalidate the inquiry. After all, the courts' handling of Lanham Act extraterritoriality can be confidently explained on the basis of a case population that is essentially the actual repository of the common law available to the public.<sup>407</sup>

There were also potential limitations to the database search query itself. First, there may have been cases in which neither the court nor the parties expounded on the problem of extraterritoriality despite the existence of such an issue.<sup>408</sup> Second, a court may have

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405. CARDOZO, *supra* note 351, at 177.

406. For a discussion of the inherent defects and biases in database searches, see, for example, Kimberly D. Krawiec & Kathryn Zeiler, *Common-Law Disclosure Duties and the Sin of Omission: Testing the Meta-Theories*, 91 VA. L. REV. 1795, 1884–87 (2005); Ahmed E. Taha, *Data and Selection Bias: A Case Study*, 75 UMKC L. REV. 171 (2006).

407. See also Lawrence M. Friedman, Robert A. Kagan, Bliss Cartwright & Stanton Wheeler, *State Supreme Courts: A Century of Style and Citation*, 33 STAN. L. REV. 773, 773 (1981) (“In the theory of the common law, these opinions *are* the law . . . . Their power is enhanced by the common law doctrine that links them in a chain of influence and causation—the doctrine of precedent.” (emphasis in original)).

408. Concerning the courts' “blind eye” with regard to extraterritoriality, the final research population actually contains circuit court decisions in which the lower court did not discuss the issue. See, e.g., *Fun-Damental Too, Ltd. v. Gemmy Indus. Corp.*, 111 F.3d 993, 1006 (2d Cir. 1997); see also, e.g., *Scanvec Amiable Ltd. v. Chang*, No. Civ.A. 02-6950, 2002 WL

discussed the question of whether the Lanham Act should be applied without using the word “extraterritorial” or related terminology. With respect to the first problem, if a court overlooked the issue or if it was only implicitly handled, the corresponding decision would not appear in the search results. However, this drawback is not too detrimental, since the analysis primarily concerned cases that *expressly* dealt with the issue. With respect to the second problem, the Author used a search strategy designed to capture all decisions that made any reference to the issue of Lanham Act application in international contexts. The research strategy included two search runs.<sup>409</sup> The first run—from 1952 until the end of 2016—in the Westlaw database, using the connectors (trademark! trade-mark! “unfair competition” “lanham act”) and (extraterritorial! extra-territorial! bulova), yielded a total of 1,501 federal and state court cases. The second search, in the LEXIS Federal & State Cases database (with an identical time frame and search terms), yielded a total of 1,428 cases. To produce the final population, the Author combined both of these lists. The Author then reviewed each court opinion (majority, concurring, or dissenting) in order to determine its eligibility for the population. Not unexpectedly, the search brought up a number of cases where the courts dealt with extraterritoriality in a context different from or unrelated to trademark law.<sup>410</sup> Furthermore, this category includes decisions dealing with *forum non conveniens* or personal jurisdiction only,<sup>411</sup> scenarios presenting the “reverse, or perhaps the mirror image”<sup>412</sup> of the *Steele* and *Vanity Fair* scenarios (where the court was concerned not with the extraterritorial scope of US law, but rather with the ability to gain protection for trademarks *within* the United States),<sup>413</sup>

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32341772 (E.D. Pa., Nov. 1, 2002); *Sterling Drug Inc. v. Bayer AG*, 792 F. Supp. 1357 (S.D.N.Y. 1992); *Scotch Whiskey Ass’n v. Barton Distilling Co.*, 338 F. Supp. 595 (N.D. Ill. 1971).

409. In 2014, the Author undertook an inquiry that included a search for cases between 1952 and November 2014. The data from this study appeared in a book project completed in 2015. For the less stylized and mostly qualitative bird’s-eye view of this first inquiry, see DORNIS, *supra* note 1, at 159–89, 572–74.

410. These cases included, for instance, disputes in international copyright, patent, securities, and bankruptcy law. *See, e.g.*, *Litecubes, LLC v. N. Light Prods., Inc.*, 523 F.3d 1353, 1366–69 (Fed. Cir. 2008); *Consol. Gold Fields PLC v. Minorco, S.A.*, 871 F.2d 252, 262–63 (2d Cir. 1989); *Williams & Humbert Ltd. v. Ruiz-Mateos*, 18 U.S.P.Q.2d 2041, 1991 WL 148283, at \*4–5 (D.D.C. Jan. 29, 1991).

411. *See, e.g.*, *Del Monte Fresh Produce Co. v. Dole Food Co.*, 136 F. Supp. 2d 1271, 1275 (S.D. Fla. 2001); *Royal Gist-Brocades N.V. v. Sierra Prods. Ltd.*, No. CIV. A. 97-1147, 1997 WL 792905, at \*1 (E.D. Pa. Dec. 22, 1999).

412. *Buti v. Perosa, S.R.L.*, 139 F.3d 98, 102 (2d Cir. 1998).

413. One type of case in which this problem arises is that in which a court must decide whether certain activities abroad are sufficient to constitute use in commerce and thereby receive US trademark protection. *See, e.g.*, *Int’l Bancorp, LLC v. Societe des Bains de Mer et du Cercle des Etrangers a Monaco*, 329 F.3d 359, 369–70 (4th Cir. 2003); *Buti*, 139 F.3d at 102.

and cases brought under the Anticybersquatting Consumer Protection Act.<sup>414</sup> Finally, the Author excluded all cases in which the court did not make substantial use of the *Bulova*, *Vanity Fair*, or other test factors. The Author defined “substantial” as including an analysis beyond the mere mention of the issue or the mere restatement of another court’s finding on the issue.

After performing the database search and the manual screening and selection, the Author was left with a list of 159 opinions. The Author then proceeded to code these opinions in an Excel spreadsheet using four independent coding cycles.<sup>415</sup> The coding instrument’s categories were designed to include general information about each opinion, such as its caption, date, and court level, as well as specific data regarding, for instance, relations among the extraterritoriality test factors or the courts’ adherence to the common law goodwill paradigm. In this regard, the coding categories included, among others, the result of the court’s analysis on the application or nonapplication of the Lanham Act, the parties’ nationalities, and the court’s definition and determination of the test factors. The Author conducted the final statistical processing using Stata 14.1. The coding instrument, Excel spreadsheet, and Stata file are available upon request by sending an email to [tim.dornis@gmail.com](mailto:tim.dornis@gmail.com).

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414. See, e.g., *Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona*, 330 F.3d 617, 619–20 (4th Cir. 2003).

415. The Author is well aware of the intricacies of data collection and bias, particularly with respect to the fact that the data was coded by one person only. For problems of this kind, see, for example, ROBERT M. LAWLESS, JENNIFER K. ROBBENNOLT & THOMAS S. ULEN, *EMPIRICAL METHODS IN LAW* 166–83 (2010); Lee Epstein & Gary King, *The Rules of Inference*, 69 U. CHI. L. REV. 1, 14–15 (2002).



