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Intellectual Property - Trademarks - The First Circuit Creates a New Test to Determine Whether Extraterritorial Application of the Lanham Act Is Appropriate

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INTELLECTUAL PROPERTY—
TRADEMARKS—THE FIRST CIRCUIT
CREATES A NEW TEST TO DETERMINE
WHETHER EXTRATERRITORIAL
APPLICATION OF THE LANHAM ACT
IS APPROPRIATE

*Jennifer Allen Seymour**

IN *McBee v. Delica Co.*,¹ the First Circuit Court of Appeals decided not to apply the well-known subject matter jurisdiction test from *Vanity Fair Mills, Inc. v. T. Eaton Co.*² to a case in which an American sued a foreign defendant under the Lanham Act for actions that the defendant took in Japan.³ Instead, the court disaggregated the *Vanity Fair* test, holding “that the Lanham Act grants subject matter jurisdiction over extraterritorial conduct by foreign defendants only when the conduct has a substantial effect on United States commerce.”⁴ By limiting the test to a single factor, the court removed the element of comity from its subject matter jurisdiction analysis. This decision was a mistake because the First Circuit based its reasoning on dicta, analogized to antitrust cases when adequate support for including comity in the analysis is found in trademark cases, and likely violated legislative wishes.

The plaintiff in this case, Cecil McBee (“McBee”), is a famous American jazz musician who teaches music at a conservatory in Boston and occasionally tours in Japan. The defendant, Delica Co. (“Delica”), is a Japanese corporation that sells a line of girls’ clothing and accessories in Japan under the trade name “Cecil McBee.”⁵ Further, Delica owns shops in Japan named “Cecil McBee” which are the only locations that sell “Cecil McBee” products.⁶ Delica maintains a website, written primarily in Japanese that contains information about “Cecil McBee” products but

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1. 417 F.3d 107 (1st Cir. 2005).

2. 234 F.2d 635, 642 (D.C. Cir. 1956).

3. *McBee*, 417 F.3d at 110-11.

4. *Id.* at 120.

5. *Id.* at 111-12.

6. *Id.* at 112.

does not allow online purchases.⁷ Delica also circulates a "Cecil McBee" catalog, written primarily in Japanese with some English words for effect, that contains the telephone and fax numbers for a company that purchases the "Cecil McBee" orders from Delica and ships the products through another company.⁸ This shipping company had not shipped any "Cecil McBee" items outside of Japan, and Delica's policy was to decline orders from the United States.⁹

When McBee discovered that Delica was using his name for a girls' clothing line, he contacted an American lawyer who advised him that he would not have personal jurisdiction over Delica in the United States.¹⁰ McBee therefore turned to the Japanese Patent Office to invalidate Delica's trademark of "Cecil McBee."¹¹ While the Japanese Patent Office sided with McBee and invalidated Delica's trademark, the Tokyo High Court vacated this decision, reinstating "Cecil McBee" as Delica's trademark.¹² To avoid further risk of litigation, Delica began a policy of not shipping "Cecil McBee" products to the United States.¹³ Despite this strategy, McBee's hired investigators, making clear that they were United States residents, convinced vendors to ship \$2,500 of "Cecil McBee" products to the United States either directly or through an arrangement whereby the vendors shipped the products to an address in Japan and then forwarded the packages to the United States.¹⁴ No other evidence of "Cecil McBee" sales to the United States existed, however, nor was there evidence of "Cecil McBee" products entering the United States after Delica sold them in Japan.¹⁵ McBee claims that he has been affected by Delica's conduct in several ways, including that friends and fans have been confused from seeing Delica's "Cecil McBee" trademark, his reputation has been injured because people have insinuated that he is "into young girls," his class enrollment has dropped, and fans at his Japanese concerts have become younger, associating him with Delica's clothing line.¹⁶

McBee sued Delica in the United States under the Lanham Act, alleging trademark dilution and unfair competition based on false endorsement.¹⁷ McBee brought three claims against Delica, including an injunction barring United States access to Delica's website, damages for harm from Delica's Japanese sales, and an injunction barring Delica from making any sales in the United States.¹⁸ Delica moved to dismiss the

7. *Id.*

8. *Id.*

9. *Id.*

10. *Id.* at 113.

11. *Id.*

12. *Id.*

13. *Id.*

14. *Id.*

15. *Id.* at 113-14.

16. *Id.* at 114.

17. *Id.* at 115.

18. *Id.* at 111.

action based on lack of subject matter jurisdiction.¹⁹ Applying a modified version of the *Vanity Fair* test, the magistrate judge recommended that McBee's Lanham Act claims for injunctive relief be dismissed, but that his damages claim go forward.²⁰ The magistrate judge applied a test that required consideration of the following elements: whether the defendant's conduct has some effect on United States commerce; whether the defendant is a United States citizen; and whether a conflict exists with trademark rights established under foreign law.²¹ The district court did not fully adopt the magistrate judge's recommendation and instead held that it lacked subject matter jurisdiction over all of McBee's claims.²²

The First Circuit affirmed the district court's decision, but on different grounds.²³ Rather than analyzing the above three factors to determine whether to exercise subject matter jurisdiction over a defendant's extraterritorial conduct in a Lanham Act case, the First Circuit held that courts should consider only whether the conduct has a substantial effect on United States commerce.²⁴ Applying this newly formulated test, the court decided it did not have subject matter jurisdiction over McBee's claim for an injunction barring access to Delica's website nor over McBee's claim of damages for Delica's sales in Japan. In both instances, Delica's conduct did not substantially effect United States commerce.²⁵ The First Circuit found that it had subject matter jurisdiction over McBee's claim for an injunction barring Delica's sales in the United States because the sales constituted domestic conduct; however, the court granted summary judgment to Delica on this claim because it found no justification for injunctive relief.²⁶

The First Circuit and other courts that have utilized similar subject matter jurisdiction analyses based their tests on the Supreme Court's ruling in *Steele v. Bulova Watch Co.*²⁷ In this case, the Supreme Court clearly established that plaintiffs can use the Lanham Act to hold defendants liable for their conduct outside of the United States.²⁸ To reach this conclusion, the Supreme Court relied on Congress's power to regulate its citizens' conduct regardless of whether a citizen acts within United States borders or extraterritorially.²⁹ Congress's authority over a foreign citizen's extraterritorial conduct stems from its power over foreign commerce.³⁰ Although the Supreme Court did not establish a subject matter jurisdiction test in *Steele*, several courts have developed their own analy-

19. *Id.* at 115.

20. *Id.*

21. *McBee v. Delica Co.*, No. 02-198-P-C, 2004 WL 2674360, at *1 (D. Me. Nov. 19, 2004).

22. *McBee*, 417 F.3d at 116.

23. *See id.* at 111.

24. *See id.* at 120.

25. *Id.* at 124-25.

26. *Id.* at 122-23.

27. 344 U.S. 280 (1952).

28. *See id.* at 285-86.

29. *McBee*, 417 F.3d at 118.

30. *See id.* at 118.

ses.³¹ The “best-known” test is the one put forth by the Second Circuit in *Vanity Fair*.³² The Second Circuit found that the Supreme Court emphasized three factors in *Steele*: “(1) the defendant’s conduct had a substantial effect on United States commerce; (2) the defendant was a United States citizen and the United States has a broad power to regulate the conduct of its citizens in foreign countries; and (3) there was no conflict with trade-mark rights established under the foreign law.”³³ Most subsequently-developed subject matter jurisdiction tests are a variation of the *Vanity Fair* test.³⁴

The First Circuit’s test in *McBee* differs from the Second Circuit’s *Vanity Fair* test in that *McBee* disaggregates the elements of the *Vanity Fair* test.³⁵ Under the *McBee* test, before a court begins the subject matter jurisdiction analysis, it must ask if the defendant is an American citizen.³⁶ The court only proceeds with the *McBee* test if the defendant is not an American citizen.³⁷ After meeting this threshold requirement of foreign citizenry, the court applies the test by asking whether the defendant’s conduct has a substantial effect on United States commerce.³⁸ If the conduct does not have a substantial effect, then the court does not have subject matter jurisdiction and must dismiss the case.³⁹ Alternatively, if the defendant’s extraterritorial conduct substantially effects United States commerce, then the court has subject matter jurisdiction over the case.⁴⁰ While the *Vanity Fair* test includes comity as one of its elements, this factor is not part of the *McBee* test; instead, a court only considers comity after finding subject matter jurisdiction.⁴¹ If conflict with foreign law exists, the court may then decide not to hear the case despite having jurisdiction over it.⁴²

The First Circuit based its decision to disaggregate the *Vanity Fair* test on the Supreme Court’s holding in the domain of antitrust law.⁴³ For this comparative analysis, the First Circuit turned to the case of *Hartford Fire Insurance Co. v. California*.⁴⁴ In *Hartford Fire*, the Supreme Court stated that courts have jurisdiction over extraterritorial antitrust conduct “that was meant to produce and did in fact produce some substantial effect in the United States.”⁴⁵ The Supreme Court also noted that comity con-

31. *Id.* at 117.

32. *Id.* at 110.

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

34. *See, e.g.*, *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass’n*, 701 F.2d 408, 414 n.8 (5th Cir. 1983) (replacing the “substantial effect” element with “some effect”).

35. *McBee*, 417 F.3d at 121.

36. *Id.*

37. *Id.*

38. *Id.* at 120.

39. *See id.*

40. *See id.*

41. *See id.* at 121.

42. *See id.*

43. *See id.* at 119.

44. 509 U.S. 764 (1993).

45. *Id.* at 796.

cerns should not be considered until a court first determines that it has subject matter jurisdiction over the extraterritorial conduct.⁴⁶ The First Circuit drew a parallel from antitrust to trademarks, holding that the appropriate test for subject matter jurisdiction is whether the conduct has a substantial effect on United States commerce.⁴⁷ Further, comity should not be an element of the test but an additional consideration once subject matter jurisdiction is already found.⁴⁸ The First Circuit believed that analogizing from antitrust to trademark law was appropriate because the Supreme Court has decided antitrust cases more recently than Lanham Act cases.⁴⁹ Also, “[i]n 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.”⁵⁰

As a precursory matter, it is odd that the court chose to analogize a Lanham Act claim with an antitrust claim, as trademark law and antitrust law have directly opposing policy concerns. Whereas the concern in antitrust law is preventing monopolies, the concern in trademark law is protecting the monopolistic use of a trademark. The First Circuit’s decision to disaggregate comity from the subject matter jurisdiction test is further misguided. First, *McBee*’s holding that comity should not be an element of the subject matter jurisdiction test is based merely on dicta from *Hartford Fire*. After noting that comity concerns should not be considered when deciding whether subject matter jurisdiction exists but rather after the foreign conduct has been deemed subject to United States jurisdiction, the Court stated: “[i]n any event, the parties conceded jurisdiction at oral argument . . . and we see no need to address this contention here.”⁵¹ Thus, to the extent that the First Circuit grounded its decision to remove the comity element on the Supreme Court’s dicta in *Hartford Fire*, the First Circuit’s holding is baseless.

Beyond this reliance on dicta, the First Circuit had no reason to turn to antitrust case law in the first place. In *Steele v. Bulova Watch Co.*, a case based on trademark law, the Supreme Court emphasized the factors it believed were important in deciding subject matter jurisdiction over foreign conduct.⁵² The Second Circuit noted that in *Steele*, the Supreme Court focused on the three factors included in the *Vanity Fair* test, one of which is comity.⁵³ Because the Supreme Court has already emphasized the factors it believes are important to consider when deciding subject matter jurisdiction over extraterritorial conduct in a Lanham Act claim,

46. *Id.* at 797 n.24.

47. *McBee I*, 417 F.3d at 121.

48. *Id.* at 120-21.

49. *Id.* at 119.

50. *Id.*

51. *Hartford Fire*, 509 U.S. at 797 n.24.

52. *See Steele v. Bulova Watch Co.*, 344 U.S. 280, 285-89 (1952).

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

there was no need for the First Circuit to draw a parallel to the Supreme Court's rulings in antitrust.

Finally, Congress likely wants comity included in the subject matter jurisdiction analysis. Comity is such an important concept to the legislature that a canon of statutory construction exists that advises courts to interpret statutes in such a way that does not violate the laws of another country.⁵⁴ "Congress is generally presumed not to have exceeded those customary international-law limits on jurisdiction to prescribe."⁵⁵ Further, the United States government has participated in an ongoing effort to harmonize international trademark law, as shown through its involvement in international treaties aimed at standardizing international trademark protection.⁵⁶ By considering international comity an element of the test to determine subject matter jurisdiction, courts would further Congress's attempt to standardize trademark law and emphasize the importance of comity.

After stating that it did not believe that comity should be considered an element of the subject matter jurisdiction test, the First Circuit in *McBee* noted that Congress is free to change the courts' power to exercise subject matter jurisdiction under the Lanham Act, but it has chosen not to do so.⁵⁷ Courts have routinely included comity in the test for subject matter jurisdiction over foreign conduct since *Vanity Fair* was decided in 1956.⁵⁸ Congress has had nearly a half-century to disaggregate this test, but it has chosen not to take this action. Thus, Congress must not be dissatisfied with the inclusion of comity in the subject matter jurisdiction analysis.

Despite the First Circuit's departure from *Vanity Fair*, the court's ruling in *McBee* will not likely have a drastic effect on which extraterritorial conduct Lanham Act cases are heard in American courts. While the court changed the look of the test, disaggregating the three elements and including only one as the proper subject matter jurisdiction test, a court will still consider the other two elements in rendering its decision. The court merely considers whether the defendant is a foreign citizen, previously the first element, before it applies the test; after it finds subject matter jurisdiction proper, then the court considers comity, traditionally the third element of the analysis. Although the substantive outcome may not change, the First Circuit's ruling has other negative implications. In particular, removing comity from the subject matter jurisdiction test may cause courts to minimize the importance of comity in deciding whether to hear a case founded on extraterritorial conduct. As discussed above, comity is an important issue to Congress and should not be discounted.

54. See *Hartford Fire*, 509 U.S. at 814-15 (Scalia, J., dissenting) (citing *Murray v. Schooner Charming Betsy*, 2 Cranch 64 (1804)).

55. *Id.* at 815.

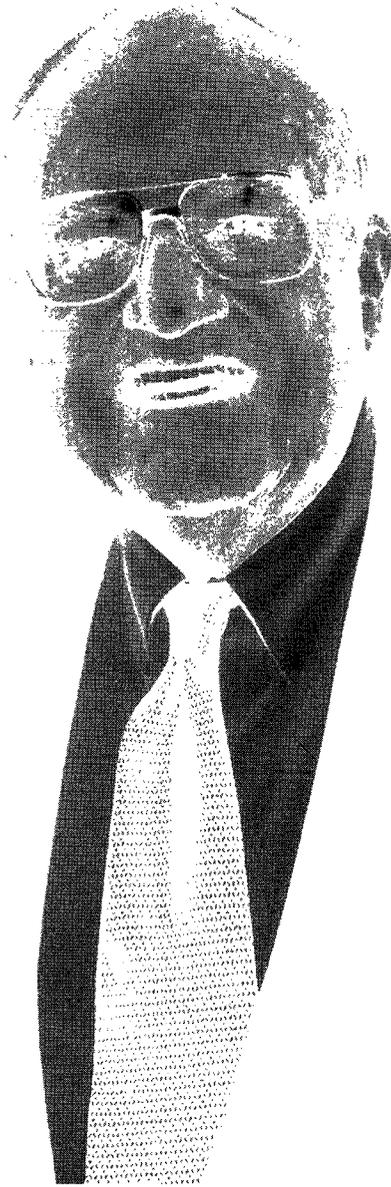
56. See Robert W. Sacof, *Trademark Law in the Technology-Driven Global Marketplace*, 4 YALE SYMP. L. & TECH. 8 (2001).

57. *McBee v. Delica Co.*, 417 F.3d 107, 121 (1st Cir. 2005).

58. *Id.*

Further, by dismissing the three-factor test used by most federal courts, the First Circuit promotes inconsistency in federal case law.

In *McBee*, the First Circuit Court of Appeals chose to disregard the established test for subject matter jurisdiction in Lanham Act cases involving extraterritorial conduct. The court's reason for disaggregating comity from the test is based on dicta and thus is unsupported. The Supreme Court already emphasized in *Steele* what it believed was important to the jurisdictional analysis and chose to include international comity. Further, Congress would likely agree that comity is a pivotal element of the test. The Supreme Court should reconsider this issue soon and clearly establish the proper test for extraterritorial application of the Lanham Act.



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