US law inches towards protecting trademark reputation without use

Two US Court of Appeals opinions have created the possibility that a plaintiff could bring a passing-off action based on use of its trademark outside of the United States only – a powerful new tool for challenging infringers that are first to use the trademark in the United States

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Trademark reputation without use is a jurisprudential paradox. Because of the international flow of information, use of a trademark in one country may give rise to a commercially valuable reputation in another where that trademark has not yet been used (at least not by the first owner). The goodwill arising from that reputation could be exploited by another party and consumers could be confused or deceived. This suggests that the reputation should be protected. However, such a proposition is antithetical to the conventional view (under US practice, at least), which defines 'trademark reputation' as the propensity of consumers to continue doing business with a merchant based on favourable prior experiences. In short: no trade, no trademark.

Nevertheless, international trademark law has long implicitly acknowledged that there is an aspect of reputation that can cross borders ahead of a trademark owner's goods or services, creating the potential that an unauthorised front-runner could injure a trademark owner (while deceiving consumers) by preventing it from entering a new market. The six-month priority mechanism under Article 4 of the Paris Convention (in place since 1883) as well as Article 6*bis*, the well-known mark clause (first introduced in 1925), are both intended to protect trademark owners from such foreclosure.

While the United States has recognised Paris Convention priority since 1905, it does not (except in a few outlying cases) recognise use outside US commerce (Section 45 of the Lanham Act, codified at 15 USC §1127, defines 'commerce' as "all commerce which may be lawfully regulated by Congress") as giving rise to protectable US trademark rights. It is generally agreed that Article 6*bis* is neither explicitly nor implicitly recognised under US law (see, for example, *Grupo Gigante SA De CV v Dallo & Co* (391 F3d 1088 (9th Cir 2004)) and *ITC Limited v Punchgini, Inc* (482 F3d 135 (2d Cir 2007)).

However, following the Supreme Court's 2014 decision in *Lexmark International, Inc v Static Control Components, Inc* (572 US, 134 S Ct 1377 (2014)), interpreting the Lanham Act in a false advertising case, two recent US Court of Appeals opinions – both involving the alleged misappropriation of well-known Mexican trademarks by US companies – have interpreted the unfair competition provision of the Lanham Act in a new way, opening up the possibility that a plaintiff may be able to bring a passing-off action, alleging use of its trademark only outside of the United States coupled with a reputation within the United States. Although the discussion of potential damages in the two cases is problematic (as we explain here), it may mean that non-US trademark

PICTURE: PATTARAWAT LOHARNCHOON/ SHUTTERSTOCK.COM owners have a powerful new tool with which to challenge infringers that are first to use the foreign owner's mark in the United States.

Foreclosure fact pattern in *Belmora* and *Prolacto*

The two cases – *Belmora v Bayer* (819 F 3d 697 (4th Cir 2016)) and *Paleteria La Michoacana, Inc v Productos Lacteos Tocumbo SA De CV* (743 F App'x 457 (DC Cir 2018)) – present somewhat parallel fact patterns, but with a critical distinction. In *Belmora*, US pharmaceutical company Belmora applied to register the mark FLANAX in 2003 and began using it in the United States a year later in connection with naproxen sodium, a pain reliever. However, Bayer had registered the FLANAX mark, also for naproxen, in Mexico, and had used it there since the late 1970s. Bayer never used the mark in US commerce, which is understood to include both interstate commerce and commerce involving a foreign country and the United States. (Although third parties – many of which were located in Mexican border towns – had shipped Bayer's FLANAX product into the United States, such sales were neither authorised nor monitored by Bayer, and therefore did not inure to Bayer's benefit. *Bayer Consumer Care AG v Belmora LLC*, 110 USPQ2s 1623, 2014 WL 1679146 (TTAB 2014)). Bayer filed a US trademark application to register FLANAX in 2004, but its application was rejected due to Belmora's prior application. Significantly, by the time of the US lawsuit, Bayer had stated that it did not intend to use the FLANAX mark in the United States, as it intended to sell naproxen under its ALEVE brand only.

Belmora's prior knowledge of Bayer's prior use seemed apparent because Belmora's packaging for its FLANAX product was allegedly similar to that used by Bayer in Mexico, displaying a similar blue colour and font, and employing Spanish-language text, while Belmora's promotional materials allegedly alluded to a Latin American heritage (using expressions such as "now available in the United States"). Moreover, Belmora's product was marketed to Hispanic customers.

In *PLM v Prolacto*, two brothers, raised in Mexico, adopted the mark LA MICHOACANA for fruit paletas (a type of ice cream) in California in 1990. The brothers later formed and did business as Paleteria de Michoacana (PLM).

Prolacto, the largest purveyor of paletas in Mexico, had used the LA MICHOACANA mark in its home country through predecessors-in-interest for decades, starting in the town of Tocumbo (in the Michoacán state). Prolacto did not commence use of the mark in the United States until 1997.

PLM also adopted a logo depicting a Purépecha Indian girl (native to Prolacto's home in the Michoacán state), that was allegedly similar to the logo used by Prolacto in Mexico. In addition, the California company used promotional materials to allude to a Mexican heritage, referring in some materials to Tocumbo, the home of Prolacto. PLM also used expressions in advertising copy to suggest that its product was "now available in the United States" (as had Belmora).

Accordingly, the plaintiffs in both cases could plausibly claim that they had been targeted by the defendant, but neither plaintiff could claim prior national trademark rights in US commerce. The important distinction for the purposes of this discussion is that Bayer, after a time, declared that it had never intended to use its FLANAX mark in the United States, whereas Prolacto had entered and expanded in the United States, but was hindered by PLM's prior widespread use in more than 30 states.

Pre-*Lexmark* interpretation of Unfair Competition Law

The conventional view of US law has been that possession of prior trademark rights is a necessary element of a false association claim. The possibility of a new basis for bringing such a claim, even without prior trademark rights, arises from an ambiguity as to the meaning of the term 'any person' under Section 43(a), the unfair competition provision of the Lanham Act.

> **"Requiring a plaintiff to own a US trademark creates a troublesome gap in protection if another entity seemingly seeks to exploit a foreign trademark by being the first to use the mark in the United States**

In general, a clearly drafted, comprehensive statutory provision defining a claim for relief should set out the elements of a claim, indicate who may be liable and identify who may bring such a claim. For example, Section 32 refers to "civil action[s] by the registrant".

In contrast, Section 43(a) is not as clear. It includes both the false association and the false advertising prongs that comprise federal unfair competition, in a single sentence. A defendant whose misuse of a trademark causes some form of false association (Section 43(a)(1)(A)), or that disseminates false statements (Section 43(a)(1)(B)), will be liable to "*any person* who believes that he or she is or is likely to be damaged by such an act" (emphasis added).

The false association prong of Section 43(a)(1) is silent as to whether a plaintiff must own a trademark previously used in US commerce. Nevertheless, the provision has historically been interpreted that way. (See, for example, *Two Pesos, Inc v Taco Cabana, Inc* (505 US 763 (1992)); Justice Stevens's concurrence that although Section 43(a) "does not mention trademarks", the section "created a federal cause of action for infringement of an unregistered trademark". That transformation of the text "is consistent with the purposes of the statute"). Reading in a precondition that a plaintiff must possess a trademark is reasonable; it seems logical to deduce that, apart from confused consumers, the only party that can be injured by misuse of a confusing trademark in US commerce is the owner of a US trademark.

However, requiring a plaintiff to own a US trademark creates a troublesome gap in protection if another entity seemingly seeks to exploit a foreign trademark by being the first to use the mark in the United States. Aspects of unfair competition are present – a trademark owner's reputation is being injured, a so-called 'bad guy' is deceptively trading on that reputation, and US consumers are being deceived.

Until now, non-US trademarks owners have attempted to fill this gap in protection in a number of ways, with only partial success. For example, various non-US location-specific businesses (eg, hotels, restaurants and casinos) have successfully expanded the definition of 'use in commerce' by arguing that advertising or reservation services in the United States give rise to protectable US trademark rights (see, for example, *International Bancorp LLC v Societe des Bains de Mer et du Cercle de Etrangers a Monaco*, 329 F 3d 359 (4th Cir 2003) and *Penta Hotels Ltd v Penta Tours*, 9 USPQ2d 1081 (D Conn 1988), where advertising and reservation services for a European hotel chain were deemed to be use in US commerce). Protection for ancillary goods and services, including broadcasting or merchandising for marks such as WIMBLEDON or UEFA, also mitigate the problem.

One unsuccessful approach to the protection of well-known marks in the United States has been the advocacy of a famous mark doctrine, such as that contained in Article 6*bis* of the Paris Convention. US courts of appeal and the TTAB generally agree that the Lanham Act does not read in Article 6*bis*, nor is there any language in the act to support a famous mark exception to the requirement of US trademark ownership. The closest that a US court has come to adopting a famous mark doctrine is *Grupo Gigante SA De CV v Dallo & Co* (391 F 3d 1088, 1094 (9th Cir 2004)), in which the Ninth Circuit speculated that such a doctrine could be in the public interest. However, the *Gigante* reasoning has never been followed by any other courts of appeal.

It is against this background that the decision of the US Court of Appeals for the Fourth Circuit in *Belmora*, re-interpreting Section 43(a) and rejecting the use-in-commerce requirement, is significant.

Lexmark analysis of Section 43(a) provides a basis for protecting US reputation without use

The Fourth Circuit's novel view of the false association prong of Section 43(a) stems from the Supreme Court's interpretation of 'any person', as applied to the false advertising prong, in the 2014 decision in *Lexmark v Static Control*. As previously noted, the term "liable in a civil action to any person" appears once in the section and thus applies to both prongs. Therefore, the Supreme Court's interpretation of 'any person' applies to both false association claims and false advertising claims.

In *Lexmark*, printer cartridge supplier Lexmark had allegedly made a false statement about Static Control, which was not a competitor but was a supplier of a key component used in cartridges sold by Lexmark's competitors. When Static Control brought a counterclaim against Lexmark for false advertising, the question arose as to whether a non-competitor such as Static Control had standing to bring the claim. Before *Lexmark*, the courts had found the "any person who believes that he or she is or is likely to be damaged" language of Section 43(a)(1) to be too broad and unworkable, and struggled with the formulation of a 'prudential standing' doctrine for false advertising – that is, as a matter of prudence, how could the court restrict standing to only those plaintiffs whose interests fell within the zone of interests meant to be protected by the statutory provision? In fact, the courts of appeal in various circuits had devised five different multi-factor tests for prudential standing.

Writing for a unanimous court, Justice Scalia swept away all five lower-court tests and articulated a simple two-factor test for determining whether a person may bring a false advertising claim.

The plaintiff must be one:

- whose interests fall within the zone of interests protected by the statute; and
- whose injuries to those interests are proximately caused by violation of the statute (*Id* at 1390).

The proximate harm factor acts as the filtering device for interests and injuries to make the "any person" language workable.

What are the zone of interests protected by the false advertising provision of Section 43(a)(1)(B)? Any ambiguity as to the scope of a statute's zone of interests should be resolved by looking to the purpose of that statute. Section 45, the construction and definitional section of the Lanham Act, contains what Justice Scalia referred to as an "unusual and extraordinarily helpful" detailed statement of the statute's purpose. Specifically, the last paragraph of Section 45 lists five interests addressed by the Lanham Act:

> *The intent of this chapter is to regulate commerce within the control of Congress*
> *(1) by making actionable the deceptive and misleading use of marks in such commerce;*
> *(2) to protect registered marks used in such commerce from interference by State or territorial legislation;*
> *(3) to protect persons engaged in such commerce against unfair competition;*
> *(4) to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits or colorable imitations of registered marks; and*
> *(5) to provide rights and remedies stipulated by treaties and conventions respecting trademarks, trade names, and unfair competition entered into between the United States and foreign nations.* (Numbering added.)

These interests explicitly or implicitly identify the type of plaintiff within each interest. For example, the second and fourth interests explicitly refer to "registered marks" and thus only registrants fall within the zone.

With regard to false advertising, the pertinent interest in Section 45 is the third one: to "protect persons engaged in [US] Commerce against unfair competition". Accordingly, anyone engaged in US commerce falls within the provision's zone of interests and satisfies Justice Scalia's first factor.

The second factor, proximate harm, filters the set of potential false advertising plaintiffs down to a workable number. If such persons are proximately injured by the false statement, they may bring an action. Static Control, the component manufacturer, claimed that its sales directly suffered because of the false statement about those components, and thus it could bring an action. The Supreme Court ruled that Static Control's alleged injuries were proximately caused by Lexmark's actions and that Static Control had stated a viable cause of action under

Section 43(a)(1). Justice Scalia supplied hypotheticals in which potential plaintiffs that are only indirectly injured by the ramifications of the statement (eg, the component manufacturer's landlord, employees or creditors), but are not proximately injured, cannot bring an action. (Justice Scalia took great pains in his decision to emphasise that this two-factor test pertained to subject matter and not to standing, framing the question simply as what elements must the plaintiff allege in order to state a viable claim (*Lexmark* at 1387).)

Fourth Circuit's application of two-factor Lexmark test to Section 43(a) in *Belmora*

The district court in *Belmora* had dismissed Bayer's trademark cause because Bayer had admitted in its complaint that it had not used its mark in US commerce (*Belmora LLC v Bayer Consumer Care AG*, 84 F Supp 3d 490 (ED Va 2015)). On appeal, Bayer argued that Section 43(a)(1)(A) does not require such use. The Fourth Circuit was the first federal appellate court asked to interpret the unfair competition provision of the Lanham Act subsequent to *Lexmark*.

The Fourth Circuit first noted that the plain language of Section 43(a) does not require ownership of a US trademark. Applying the *Lexmark* test, the court looked to the listing of interests in Section 45. The first enumerated interest simply states that the act is intended to "make actionable the deceptive and misleading use of marks in [US] commerce". The other four interests would not apply to Bayer because it was not a registrant, a national of a treaty member, or an entity engaged in US commerce. However, Bayer did claim that it was a person injured by the deceptive and misleading use of a trademark; therefore, its claim fell within the first zone of interest. As to whether Bayer needed to own a trademark in the United States, the court reasoned that Section 43(a)(1) did not expressly require ownership and the relevant interest (focusing solely on the defendant's behaviour) did not imply such a requirement. Congress knows how to write pre-conditions requiring trademark possession when it chooses to do so. That Congress would identify pre-conditions for potential claimants in four of the five interests but omit it in one interest must have been intentional because "it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion" (*Brown v Gardner*, 513 US 115, 120 (1994)). Accordingly, there are no unstated requirements in the act. The sole qualifier that Congress placed on the term 'person' was that a person must be "damaged" by the deceptive and misleading use of a mark in US commerce. Therefore, a person may fall within the zone of interests of Section 43(a)(1)(A) regardless of whether they owned a trademark used in US commerce prior to the defendant's use.

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Belmora's unusual view of proximate injury

Having established that Bayer's interests fell within the zone of interests of Section 43(a) even if Bayer did not own a prior US trademark, the *Belmora* court turned to the second *Lexmark* factor – the issue of proximate harm.

Problematically, the *Belmora* court's discussion of proximate harm was shaped by Bayer's unusual posture as a trademark plaintiff. Not only did Bayer differ from conventional trademark plaintiffs in that it did not own a prior US trademark, it also may have differed from even unconventional trademark plaintiffs that might contemplate bringing a 'reputation without prior use' action, because, as stated previously, Bayer indicated that it did not intend to use its FLANAX mark in the United States.

A non-US trademark owner that expends the resources to bring an action in the United States will likely be in one of two positions:

- it has begun using its trademark in the United States, but is vulnerable to being treated as an infringing junior user with regard to the US front runner; or
- it declines to enter the US market for that same reason.

Accordingly, potential proximate harm is easy to articulate – lost US sales caused by confusion or foreclosure from the US market.

However, Bayer did not contend that it was foreclosed from the US market (since it had disavowed a desire to enter the US market), but rather that it was denied the right to control the reputation of its mark in the United States – specifically, that it had a protectable right to "convert its immigrating customers" from FLANAX to ALEVE.

Accordingly, the Fourth Circuit made the somewhat unusual ruling that Bayer could base its claim of harm on the peripheral impact on Bayer's sales in Mexico resulting from the defendant's actions in the United States. The court held that Bayer adequately pleaded "economic or reputational injury flowing directly from the deception" by claiming that its Mexican customers or US residents already familiar with its Mexican FLANAX product may be deceived into foregoing a FLANAX purchase in Mexico, after cross-border travel. The court concluded by noting that Bayer might ultimately be unable to prove that Belmora's acts caused consumers to withhold trade from Bayer. However, at the initial pleading stage of the dispute, the court drew all reasonable inferences in Bayer's favour in finding that it had stated a cognisable cause of action under Section 43(a)(1)(A).

Because of Bayer's unusual posture on appeal – in that it admittedly did not intend to use its mark in the United States – neither the district court nor the Fourth Circuit was asked to consider whether the company could have successfully pled proximate harm by claiming that it was at risk of:

- being foreclosed from the US market through an injunction against use or through a fear of being sued by Belmora should it enter the United States; or
- lost sales in the United States if it were to coexist with Belmora.

Prolacto's treatment of proximate injury after *Belmora*

In 1990 PLM's founders adopted the LA MICHOACANA trademark in California in connection with paletas, using promotional language such as "now available in the United States". PLM acknowledged that its customers included first and second-generation Mexican immigrants. Prolacto, which had been using the LA MICHOACANA mark in Mexico since the 1940s, began using its mark in the United States in the late 1990s in Florida. By the time of trial in 2015, Prolacto was doing business in four US states; PLM, which by then had been in the United States for more than 20 years, was doing business in some 30 states.

The fact pattern in the *Prolacto* lawsuit was complex, involving multiple trademarks, multiple markets and several legal issues beyond the scope of a discussion of reputation without use. For example, neither side could successfully assert prior nationwide common law or registered trademark rights. There was also a question as to whether the term "LA MICHOACANA", which literally translates as "the girl (or woman) from Michoacan", was geographically descriptive of the goods.

Prolacto asserted that PLM adopted the LA MICHOACANA mark in the United States with prior knowledge of Prolacto's business and reputation, in order to sell paletas to Mexican immigrants in the United States, who were aware of Prolacto and its LA MICHOACANA products. (The parties agreed that the LA MICHOACANA mark was prevalent in Mexico – with the term appearing on shops or stands in every town in Mexico. However, they disputed whether the name functioned as a trademark in Mexico due to alleged widespread third-party use there). However, at the time that the district court considered summary judgment motions, the Fourth Circuit's *Belmora* decision had not yet been rendered. There was no recognised theory under which Prolacto's reputation at the time of PLM's adoption was relevant and Prolacto's famous mark-type argument was dismissed at summary judgment as unavailable in US law at the time (*Paleteria La Michoacana v Products Lacteos*, 69 F Supp 3d 175, 201 (DDC 2014)).

The *Belmora* decision was issued after the trial record closed in *Prolacto*. On appeal, Prolacto asked the US Court of Appeals for the District of Columbia Circuit to consider that its use of the mark in Mexico had given rise to a reputation in the United States and that PLM's adoption of the mark in the United States injured that reputation.

Without commenting on the correctness of the Fourth Circuit's interpretation of *Lexmark* as applied to Section 43(a)(1)(A), the DC Circuit followed the *Belmora* proximate harm analysis and considered whether Prolacto had shown peripheral harm in Mexican commerce of the type that Bayer had claimed and that the *Belmora* court had found sufficient. The court concluded as follows:

> *Prolacto has not established an injury to its commercial sales or prospects concerning any loss of sales from customers who bought PLM's products in the United States in lieu of Prolacto's products in* Mexico *– nor evidence showing a crossover of the parties' customers between the U.S. and Mexico, or any other evidence suggesting that PROLACTO suffered any injury in the Mexican Market.* (*Paleteria La Michoacana, Inc v Productos Lacteos Tocumbo SA* De C,V, 743 F App'x 457 (DC Cir 2018), emphasis added.)

Two immediate observations regarding the *Prolacto* decision are worth noting. First, in its *Belmora* analysis, the DC Circuit did not consider whether Prolacto could establish proximate harm through allegations of injury that would arise in US commerce, either through foreclosure or lost US sales. Second, although Prolacto had not established harm in Mexican commerce at trial, evidence regarding damages in Mexican commerce was legally irrelevant at the time of the trial because the *Belmora* decision had not come down yet. The DC Circuit declined to return the case to the district court for either reconsideration or re-opening of the record.

Can a plaintiff bring a US false association action without owning a US mark?

Thus, we come to the pertinent question. Despite settled law that a plaintiff needed prior US trademark rights to bring a false association claim in the United States, can a foreign plaintiff successfully bring an action under Section 43(a)(1)(A) against an entity allegedly targeting the plaintiff's reputation, even if it cannot establish prior US trademark rights?

Lexmark and *Belmora* suggest how to plead a Section 43(a)(1)(A) cause of action that may, and probably will, survive a procedural motion to dismiss for failure to state a claim under that provision.

First, it is settled that, under *Lexmark*, the question of whether Section 43(a)(1)(A) requires ownership of a trademark is to be determined by looking to the interests listed in Section 45 of the Lanham Act. The *Belmora* court's interpretation – the only one for now – that the first interest is controlling and that the omission of a qualifying requirement of trademark ownership is deliberate is plausible and coherent (although other interpretations are possible). Accordingly, a *Belmora*-type plaintiff will satisfy the first element of *Lexmark* by claiming that it is injured by the confusion arising from the defendant's misuse of a trademark in US commerce.

The further development of this reputation-without-use doctrine will likely concern interpretation of the second element, leading to a better understanding as to the scope of injuries that are recognised as proximate harm caused by misuse of a trademark.

The *Prolacto* court appeared to understand *Belmora* as holding that lost foreign sales were the only type of harm recognisable in a reputation-without-use situation. The *Prolacto* court does not appear to have considered whether the *Belmora* court had looked only to Mexican sales as hypothetical injuries because Bayer had not entered its Flanax product into US commerce (prior or subsequent to the defendant) and had flatly stated that it would never enter into US commerce.

Focusing solely on lost sales outside the United States is problematic for two reasons. First, in *Belmora*, the causal connection between the alleged confusion in the United States experienced by cross-border travellers and the lost sales in Mexico as those travellers postpone pain-reliever purchases seems indirect and not the type of proximate harm that *Lexmark* contemplates.

Second, the *Belmora* court may have misapplied the *Lexmark* analysis in the last paragraph, which reads: "The intent of this Act is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce."

In view of this, it is not readily apparent how remedying injuries outside of US commerce can fall within the Lanham Act's zone of interests. Further, even if lost sales outside of US commerce fall within the zone of interests, there is no basis for the *Prolacto* court's reading that excludes injuries to reputation or sales within US commerce.

Accordingly, other courts confronting this issue may understand the *Belmora* court's view of proximate harm as a case-specific response to Bayer's unique posture and may see the *Prolacto* court's position as a misunderstanding of *Belmora*.

Going forward, a plaintiff finding itself in a reputation-without-use situation can reasonably rely on *Belmora* to bring an action under Section 43(a)(1)(A) claiming that the defendant adopted its mark with knowledge of the plaintiff's reputation in the mark. A cautious plaintiff would cover its bases; it should be prepared to establish that such adoption proximately harmed its sales outside the United States (and should include such allegations), but it should also be prepared to claim and establish that the defendant's acts proximately harmed plaintiffs in the United States through foreclosure and/or lost US sales, since such harm seems more consonant with the zone of interests of the Lanham Act. WTR

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