ARTICLE

FOR CANADIAN LOVE OF TRADER JOE’S

FIRST SALE DOCTRINE, REPUTATIONAL HARM, AND LANHAM ACT’S EXTRATERRITORIALITY

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“I buy up the stuff, retail, full monty — I own it, I get to do with it whatever I want to and I just happen to want to sell it to my friends in Canada.” Mike Hallatt, Pirate Joe’s

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Canadians have everything—or at least they don’t seem to need anything south of their border, particularly from the United States. Yet, once Canadians developed a taste for Trader Joe’s products, things changed. Canadian love of Trader Joe’s products wreaks havoc on American Trademark law, specifically, the first sale doctrine and the Lanham Act’s extraterritorial reach. This Article aims to emphasize the right of resellers of trademarked goods under the first sale doctrine in trademark law.

As Amazon is fast becoming a platform for selling various products, the practice of reselling trademarked goods is prevalent. Resellers routinely purchase trademarked products at retail prices, offered by original retail establishments or trademark owners, and resell the trademarked products for a profit. The Washington Post has documented this reselling trend or “retail arbitrage”: many resellers purchase products from Target, Walmart, Nike, Marshalls, Ross, and then resell the products on Amazon, YouTube and eBay. The reselling business model is growing significantly and fueling Amazon stores worldwide.

Reselling trademarked products is legitimate, as long as the resellers do not materially alter the products. Trademark owners’ rights in trademarked products terminate after the first sale. In other words, trademark owners are not and should not be allowed to invoke trademark law to prevent the reselling of trademarked products within the United States or outside of the United States borders under an impermissible expansion of the Lanham Act.

The Article proceeds as follows. Part II traces the origin of reseller Pirate Joe’s cross-border business model to fulfill Canadian demand for Trader Joe’s products. Since there was no Trader Joe’s store in Canada, Mike Hallatt, the owner of Pirate Joe’s, and his assistants legitimately purchased Trader Joe’s products in Washington, Oregon, and California, transported them across the United States-Canada border, and resold them at a higher price to cover the costs of operating a retail of reselling goods.

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3 Id.

4 See id.

5 See Beltronics USA, Inc. v. Midwest Inventory Distrib., L.L.C., 562 F.3d 1072 (10th Cir. 2009).

6 See id. (“[U]nder the ‘first sale’ doctrine, ‘the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product.’”).

7 Amanda Holpuch, Meet Pirate Joe, the Man Who (Legally) Smuggles Trader Joe’s Goods Across the Canadian Border, GUARDIAN (Nov. 21, 2014),
that they were buying resold goods because Pirate Joe’s fully informed them that the store was not an authorized seller by posting signs.\footnote{8} Also, Pirate Joe’s complied with Canadian law in importing products for resale.\footnote{9}

Part III explains the first sale doctrine and reputational harm in trademark law. This discussion focuses on seminal court decisions, notably, the Third Circuit’s decision in \textit{Iberia Foods Corp. v. Romeo}, discussing whether reselling of trademarked products is a violation of the Lanham Act or protected conduct under the first sale doctrine.\footnote{10} Further, Part III analyzes Pirate Joe’s conduct under these seminal decisions and posits that the conduct should be protected under the first sale doctrine because no reputational harm exists.

Part IV focuses on the Lanham Act’s extraterritorial reach, beginning with the Supreme Court’s \textit{Steele v. Bulova}.\footnote{11} Since there is a current circuit court split on extraterritorial application of the Lanham Act, this Part first examines decisions from one end of the split, including the First, Second, Fifth, Fourth, Seventh, and Eleventh Circuits. This Part analyzes tests formulated by these courts on whether subject matter jurisdiction exists in cases involving a foreign defendant’s alleged trademark infringing conduct on foreign soil. This Part next applies the Pirate Joe’s case under each test and predicts the outcome under each circuit. Ultimately, the outcome contradicts the Ninth Circuit’s decision in \textit{Trader Joe’s}.

Since the other end of the circuit court split is the Ninth Circuit, Part V traces the development of the Ninth Circuit’s jurisprudence on the Lanham Act’s extraterritoriality. This Part notes that the \textit{Trader Joe’s} panel is a drastic departure from prior panels in the Ninth Circuit and that the decision runs contrary to all circuits that have ruled on the Lanham Act’s extraterritoriality inquiry regarding subject matter jurisdiction.

The \textit{Trader Joe’s} panel decision is wrong for two reasons. It sidesteps subject matter jurisdiction, and it dictates that courts decide Lanham Act extraterritoriality cases on the merits, \textit{i.e.} the likelihood of confusion and reputational harm. Also, in the name of deciding the case on the merits, it discards the purchaser’s right under the first sale doctrine in reselling trademarked products absent consumer confusion or reputational harm. In other words, the \textit{Trader Joe’s} panel injects new chaos into both first sale doctrine and extraterritoriality in trademark law. This chaos is not welcomed in the realm of international trade.

\footnote{8} See \textit{Meet Pirate Joe}, supra note 7.
\footnote{9} See, \textit{e.g.}, id.
\footnote{10} \textit{Iberia Foods Corp. v. Romeo}, 150 F.3d 298, 300-01 (3d Cir. 1998).
\footnote{11} \textit{Steele v. Bulova Watch Co.}, 73 S.Ct. 252, 253 (1952).
The Article concludes by inviting the Supreme Court to revisit its Steele v. Bulova decision to resolve the conflicts among the circuits in the near future.

II. PIRATE JOE’S CROSS-BORDER BUSINESS MODEL

One of Trader Joe’s best customers is Michael Norman Hallatt d/b/a Pirate Joe’s who has purchased $1.3 million worth of products from Trader Joe’s stores in Washington, Oregon, and California. Hallatt’s devotion to Trader Joe’s products began when he was a young Canadian man living for a brief time in San Francisco, tasting and falling in love with Trader Joe’s products. As a Canadian citizen living in Vancouver, Hallatt craved Trader Joe’s products, but there were no Trader Joe’s stores on his side of the Canadian border. The nearest Trader Joe’s store was located in Bellingham, Washington, but it was a long ride for the Canadians who craved creative items, such as quinoa and black bean-infused chips, dark-chocolate-covered edamame, gorgonzola cheese crackers, and salt-and-pepper pistachios. To satisfy Canadian appetites for Trader Joe’s products, Hallatt embarked on a cross-border business venture.

Beginning in 2011, Hallatt drove into the United States and frequented the Trader Joe’s store in Bellingham. He purchased large quantities of items several times per week. He paid for his purchases, drove back to Vancouver, B.C., and then resold them at the Transilvania Trading store to fellow Canadians. As his customers desired the more exotic Trader Joe’s items,

12 Id.
13 See Amanda Holpuch, Rebel Canadian Grocer Pirate Joe’s Prepares for Trader Joe’s Court Battle, GUARDIAN (May 30, 2017), https://www.theguardian.com/world/2017/may/30/pirate-trader-joes-court-battle-trademark-rights-canada [https://perma.cc/5C9V-54LL] [hereinafter Pirate Joe’s Prepares for Court]; see also Holpuch, supra note 7.
14 CBS SUNDAY MORNING, Meet Trader Joe’s Canadian Counterpart: Pirate Joe’s, YOUTUBE (Apr. 12, 2015), https://www.youtube.com/watch?v=xSeArABDuu8 [hereinafter Meet Trader Joe’s Canadian Counterpart] [https://perma.cc/G9VW-GN5A].
15 See Meet Pirate Joe, supra note 7.
17 Meet Pirate Joe, supra note 7.
18 Id. See also Sudhin Thanawala, Trader Joe’s Wins Round in Legal Battle with Pirate Joe’s, THE BELLINGHAM HERALD (Aug. 26, 2016), https://www.bellinghamherald.com/news/local/article98215472.html [https://perma.cc/TW4H-B33K] (reporting that Hallatt “provided a service to Canadians who wanted Trader Joe’s products but didn’t want to go through the trouble of traveling to the U.S. to get them”).
19 Trader Joe’s Co. v. Hallatt, 835 F.3d 960, 964 (9th Cir. 2016).
20 Id.
21 Id.
Hallatt trekked deep into the State of Washington, purchasing an abundance of items for his Canadian Trader Joe’s enthusiasts. In order to comply with Canadian law on product labels, Hallatt created a system to print out new labels for each of the items that he purchased from Trader Joe’s stores. Further, when transporting the goods across the border, he declared the merchandise to border agents and showed them what he had purchased for resale at his store. As a result, he violated no Canadian laws by reselling the goods legitimately acquired.

Fellow Canadians appreciated Hallatt’s efforts and were willing to pay higher prices. After all, Hallatt paid his employees, rent, transportation, and other associated costs to operate the business. Soon, Canadians rewarded him with repeat patronage for these Trader Joe’s products. Throughout this endeavor, Hallatt did not hide the fact that his store had no connection with Trader Joe’s. Moreover, he informed his customers that he purchased Trader Joe’s products across the Canadian border at full retail prices for resale at his store—all of the products were resale—without modifying any of the Trader Joe’s items.

Word spread. Sales increased. Canadian desire for Hallatt’s resale of Trader Joe’s food items persisted. Hallatt’s purchases assisted the Trader Joe’s store in Bellingham in becoming “one of the top selling” stores in the United States. Hallatt changed his store’s name to Pirate Joe’s and drove deep into the United States in his quest for exotic items for his customers. For instance, accompanied by his employees, Hallatt visited stores in Washington, Oregon and even California in his quest for Trader Joe’s products. However, some

22 See id.
23 See Cima, supra note 16.
25 See Meet Pirate Joe, supra note 7 (“In Canada, people are willing to pay a markup of $1.50 or more. . .”).
26 See Yollin, supra note 7.
27 Id.
28 See Meet Pirate Joe, supra note 7 (stating that Pirate Joe’s “mission is openly displayed: it is an ‘unaffiliated, unauthorized re-seller of Trader Joe’s products’”).
29 Id.
31 Id. (reporting that Trader Joe’s employee at the Bellingham location “helped with Pirate Joe’s operation[ ]” because he felt he “‘was doing the people of Vancouver a service instead of a disservice to an American corporation’”).
33 See Meet Pirate Joe, supra note 7.
Trader Joe’s stores began to refuse to sell their products to him. Nevertheless, this did not stop Hallatt’s efforts. He soon began to disguise himself, which allowed him to enter the stores without being detected and then purchase products at full retail price. Next, Trader Joe’s sent Hallatt a cease and desist letter, but he insisted that he did nothing wrong: he was their best customer, he legally purchased the food and resold it across the border to fellow Canadians in the land absent of Trader Joe’s.

III. THE FIRST SALE DOCTRINE AND REPUTATIONAL HARM

Trademarked goods are typically sold to potential purchasers through channels of distribution. In some instances, trademark owners use the authorized retailer system to control how the goods are displayed and sold in the marketplace. Trademark owners are not too keen on seeing purchasers of trademarked goods resell the products to others. Under U.S. Trademark Law’s first sale doctrine, purchasers of trademarked goods can resell what they have purchased without fear of trademark infringement liability. The reason for the immunity to trademark infringement is that “trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold.” In other words, under the first sale doctrine, the trademark owner’s right to control distribution of trademarked product “does not extend beyond the first sale of the product . . .” Therefore, a purchaser who does “no more than stock, display, and resell” a producer’s trademarked product under the producer’s trademark violates “no right” under the Lanham Act.

Here, Pirate Joe’s purchased Trader Joe’s products and transported them across the U.S.-Canada border to stock, display, and resell the items “as is” to Canadians. Under the first sale doctrine, Pirate Joe’s can sell the products

34 See Meet Trader Joe’s Canadian Counterpart, supra note 14.
35 Id.
36 See id.; see also Meet Pirate Joe, supra note 7.
37 A trademark search on eBay typically yields plenty of trademarked products being resold. Among these resellers, some sell genuine trademarked items while others sell fakes. See generally Tiffany (NJ), Inc. v. eBay Inc., 600 F.3d 93, 97 (2d Cir. 2010) (noting secondary-market, authentic Tiffany’s products and fakes sold on eBay).
38 See Beltronics USA, Inc. v. Midwest Inventory Distrib., L.L.C., 562 F.3d 1067, 1071 (10th Cir. 2009); Davidoff & Cie, S.A. v. PLD Int’l Corp., 263 F.3d 1297, 1301 (11th Cir. 2001).
39 NEC Elecs. V. CAL Circuit Abco, 810 F.2d 1506, 1509 (9th Cir. 1987).
40 Australian Gold, Inc. v. Hatfield, 436 F.3d 1228, 1240-41 (10th Cir. 2006).
41 Id. at 1241.
under Trader Joe’s trademark without fear of trademark infringement in both the United States and Canada. As a result, no instances of consumer confusion were reported because Canadian customers knew that they were simply repurchasing genuine goods. Therefore, there was no consumer deception about the origin of the resold Trader Joe’s products.

Notably, the first sale doctrine does not apply where the purchaser/reseller removes or alters serial numbers from the trademarked goods. Such conduct causes the genuine goods to be materially different trademarked products, and the reselling of the altered goods triggers trademark liability. However, no alteration to the Trader Joe’s product occurred at the Pirate Joe’s store. To be sure, in some cases, trademark owners are able to establish that a material difference exists in situations where the reseller sells the trademarked products without the producer’s warranty protection and service commitment. For example, in Beltronics, radar detectors were originally sold with warranty protection and service commitments but the reseller stripped the serial number and supplied a new warranty in place of the unavailable original warranty directly from the producer. In that case, the Tenth Circuit held that the reselling of the genuine product stripped of the serial number and replaced with a new warranty violated the Lanham Act. Unlike Beltronics, however, Pirate Joe’s stripped neither the warranty protection nor the commitment from Trader Joe’s, as Pirate Joe’s sold genuine products. Thus, the first sale doctrine should protect Pirate Joe’s because the trademarked products for resale remained the same as originally purchased.

Additionally, trademark owners often argue that reputational harm to the goodwill of the trademark occurs when the reseller sells the trademarked product without quality control. The Third Circuit in Iberia Foods Corp. v. Romeo, however, rejected the quality control argument in a “grey market good” case where the reseller purchased the trademarked goods in Puerto Rico for resell in New Jersey. In that case, Iberia alleged that the reselling of the trademarked goods by the reseller failed to meet its quality control specifications, and that Iberia’s rejection of substandard goods had raised the quality of the trademarked goods sold by Iberia “so that it is materially different from the uninspected” goods sold by the reseller. The Third Circuit rejected Iberia’s reputational harm based on the lack of quality control argument. The court first observed that

43 See Meet Pirate Joe, supra note 7.
44 Beltronics, 562 F.3d at 1072.
45 Id. (citing Australian Gold, Inc. v. Hatfield, 436 F.3d 1228, 1241 (10th Cir. 2006)).
46 Id. at 1073.
47 Id. at 1074-75.
48 Id. at 1075.
49 See Iberia Foods Corp. v. Romeo, 150 F.3d 298, 300 (3d Cir. 1998).
50 Id. at 306.
51 Id. at 304.
52 Id. at 304-05.
quality control is “not a talisman the mere utterance of which entitles the trademark owner to judgment.” Then, the Third Circuit announced that the appropriate test should be “whether the quality control procedures established by the trademark owner are likely to result in differences between the products such that consumer confusion regarding the sponsorship of the products could injure the trademark owner’s goodwill.” Applying the test, the Third Circuit found that there was no evidence to support Iberia’s assertion of reputational harm for lack of quality control in the reselling of the trademarked goods by the reseller.

Applying Iberia Foods to Pirate Joe’s case, the facts convincingly favor a conclusion of no reputational harm for lack of quality control. Here, the goods are genuine – Pirate Joe’s resells Trader Joe’s goods. Any quality control Trader Joe’s imposed on the goods was already implemented before Pirate Joe’s and other purchasers bought the products at Trader Joe’s stores. Moreover, Trader Joe’s imposes no additional quality control beyond first sale to any purchaser.

Therefore, under Iberia Foods reasoning, an argument for reputational harm based on the lack of quality control should not be successful. At the district court proceeding, no discussion of spoilage items took place, possibly because Hallatt limited the types of products he acquired from Trader Joe’s stores for reselling purposes. In addition, according to the district court, there was never any consumer confusion regarding sponsorship of the products. Finally, in the event that Trader Joe’s ever issued a recall of any of its items, Pirate Joe’s and any purchasers of Trader Joe’s products from Trader Joe’s stores would probably learn about it from the news. Upon hearing the news, typical purchasers would discard recalled items.

In summary, the first sale doctrine protects resellers of trademarked products from trademark liability because the producer of trademarked goods cannot exert control beyond the goods first sold to purchasers. Similar to the reseller in Iberia Foods, Pirate Joe’s should be allowed to resell the trademarked goods under the first sale doctrine. In the Pirate Joe’s case, however, the Ninth Circuit Trader Joe’s panel began with a first sale doctrine analysis in a case where the first

53 Id. at 304.
54 Id. at 299.
55 Id. at 304-05.
question to address should have been whether the court had subject matter jurisdiction to extend the Lanham Act extraterritorially.

IV. **Lanham Act Extraterritoriality Tests for Subject Matter Jurisdiction Adopted by Circuit Courts After Steele v. Bulova**

The first sale doctrine is a right belonging to purchasers of trademarked products. “The Lanham Act does not proscribe material differences per se” to strip the purchasers of their right to do what they wish with their legitimate purchases. If a reseller can demonstrate that it takes necessary steps to alleviate consumer confusion or reputational harms, there is no trademark liability. Moreover, courts typically analyze the purchaser’s first sale doctrine right when they decide on the merits of the case. That is, after the court has established that it has subject matter jurisdiction when the reseller is a foreigner and the reselling of the goods occurs abroad. Without subject matter jurisdiction, the court has no authority to decide on the merits of the case, inclusive of the purchaser’s right under the first sale doctrine.

Here, an examination of the Lanham Act’s extraterritoriality seminal decisions is necessary. This section begins with the Supreme Court’s *Steele v. Bulova* decision. It then proceeds to closely examine how the First, Second, Fourth, Fifth, Seventh and Eleventh Circuits adhere to *Steele* in devising their own tests for a Lanham Act extraterritoriality inquiry on whether courts have subject matter jurisdiction.

A. **Lanham Act Extraterritoriality under Steele v. Bulova**

More than sixty years ago, the Supreme Court addressed the extraterritorial reach of the Lanham Act in *Steele v. Bulova*. The Court determined whether a federal court has “jurisdiction to award relief to an American corporation against acts of trademark infringement and unfair competition consummated in a foreign country” by a United States citizen.

In that case, Bulova Watch Co. was a New York Corporation and one of the largest watch manufacturers in the world. Bulova manufactured, advertised, and sold watches in the United States and abroad under the Bulova registered trademark. Through advertisement in both English and Spanish the Bulova watches reached Mexico. Steele, a U.S. citizen, learned that the trademark

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59 *Beltronics*, 562 F.3d at 1074.
60 Id.
62 See, e.g., *id.* at 281.
63 *See id.*
64 *Id.*
65 *Id.* at 281, 284.
66 *Id.* at 284.
67 *Id.*
Bulova held had not been registered in Mexico, and he procured the Mexican trademark registration for the name.\textsuperscript{68} Steele then assembled watch parts made in the United States and Switzerland, stamped them with “Bulova,” and sold them to American tourists in Mexico.\textsuperscript{69} The Bulova Watch Co. received complaints from retail jewelers near the Texas-Mexico border that customers had brought in “Bulova” watches that were assembled by Steele.\textsuperscript{70} In response, the Bulova Watch Co. brought an action under the Lanham Act against Steele in a United States federal court while it petitioned the Mexican court to cancel Steele’s “Bulova” trademark registration.\textsuperscript{71} The Mexican court nullified Steele’s Mexican trademark registration of the Bulova name prior to the U.S. Supreme Court rendering its opinion.\textsuperscript{72}

The Supreme Court held that Steele’s “activities, when viewed as a whole, fall within the jurisdictional scope of the Lanham Act.”\textsuperscript{73} The Court initially emphasized that U.S. law is territorial, “unless a contrary legislative intent appears.”\textsuperscript{74} Upon reviewing cases decided before the enactment of the Lanham Act on unfair competition and practices in foreign commerce by U.S. citizens, and “the broadened commerce provisions” of the Lanham Act, the Court concluded that the Act’s “sweeping reach into ‘all commerce’” regulated by Congress “does not constrict prior law or deprive court of jurisdiction previously exercised.”\textsuperscript{75} Accordingly, Steele’s foreign conduct of stamping the mark “Bulova” on watches in Mexico “when viewed in isolation do not violate any of our laws,” but they were “essential steps in the course of business consummated abroad; acts, in [and of] themselves legal, lose that character when they become part of an unlawful scheme.”\textsuperscript{76} Steele’s conduct failed to “evade the thrust of the laws of the United States in a privileged sanctuary beyond our borders.”\textsuperscript{77}

Concerned with the possibility of conflict with Mexican law, the Court highlighted that the Mexican court nullified Steele’s registration of the “Bulova” name in Mexico.\textsuperscript{78} Thereby eliminating any interference with Mexican sovereignty.\textsuperscript{79} Accordingly, the Court recognized that the district court had equity powers to award injunctive relief if warranted by the facts after trial.\textsuperscript{80} In other words, the district court had subject matter jurisdiction, and, on the merits

\textsuperscript{68} Id at 285.  
\textsuperscript{69} Id.  
\textsuperscript{70} Id.  
\textsuperscript{71} Id. at 282, 285.  
\textsuperscript{72} Id. at 285.  
\textsuperscript{73} Id.  
\textsuperscript{74} Id.  
\textsuperscript{75} Id at 286-87.  
\textsuperscript{76} Id at 287.  
\textsuperscript{77} Id.  
\textsuperscript{78} Id. at 281.  
\textsuperscript{79} Id. at 289.  
\textsuperscript{80} Id. at 287.
of the case, the court enjoined the trademark infringement activities in both Mexico and the United States.\footnote{Id. at 285.}

In \textit{Steele v. Bulova}, the Supreme Court paved the way for the lower courts to extend the Lanham Act’s extraterritorially.\footnote{See, e.g. Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass’n, 701 F.2d 408, 414 (5th Cir. 1983) (finding the \textit{Bulova} factors were of primary importance, but not dispositive).} Circuit courts, however, have not been uniform in devising standards for determining when the Lanham Act should be applied extraterritorially.\footnote{See Tim W. Dornis, \textit{Behind the Steele Curtain: An Empirical Study ofTrademark Conflicts Law, 1952-2016}, 20 \textit{VAND. J. ENT. \\& TECH. L.}, 567, 576 (2018).} In chronological order, tests formulated by regional circuit courts are discussed next. Under each circuit court’s test, I will analyze the facts in \textit{Trader Joe’s v. Hallatt} and attempt to predict the outcome.

\textbf{B. The Second Circuit’s Vanity Fair Mills, Inc. v. T. Eaton Co.}

\textit{1. Vanity Fair’s Extraterritoriality Test}

Four years after the Supreme Court’s decision in \textit{Steele v. Bulova}, the Second Circuit had the first opportunity – among the circuits – to apply \textit{Bulova} and articulate its test for extending Lanham Act extraterritoriality.\footnote{Vanity Fair Mills, Inc. v. T. Eaton Co., 234 F.2d 633, 633 (2d Cir. 1956).} In \textit{Vanity Fair Mills, Inc. v. T. Eaton Co.}, the Second Circuit held that the Lanham Act does not reach infringing conduct that occurs in Canada.\footnote{Id. at 634.}

In that case, the plaintiff, a Pennsylvania corporation, owned the trademark “Vanity Fair” for underwear sold in both the United States and Canada since around 1914.\footnote{Id at 637.} The plaintiff regularly advertised and promoted its trademarked products in both countries beginning in 1917.\footnote{Id.} The defendant, a Canadian corporation with its principal office in Ontario, conducted a retail merchandising business throughout Canada.\footnote{Id.} The defendant also had a regular and established business in New York City.\footnote{Id.} By 1915, the defendant obtained a Canadian trademark registration for “Vanity Fair” in connection with women’s and children’s clothing.\footnote{Id.} Later, by 1933, the defendant expanded the Canadian “Vanity Fair” trademark registration to women’s underwear.\footnote{Id. at 638.} The plaintiff sought Canadian registration of the same mark but did not succeed for lack of priority over the defendant’s prior registered “Vanity Fair” trademark.\footnote{Id.}
Subsequently, the defendant ceased to use its own “Vanity Fair” trademark and began to purchase branded merchandise from the plaintiff. The defendant purchased the plaintiff’s Vanity Fair branded merchandise through the defendant’s office in New York. The defendant then sold the merchandise in Canada. Later, the defendant resumed the use of “Vanity Fair” to sell both the plaintiff’s branded merchandise and cheaper merchandise manufactured by other Canadian companies. The defendant also threatened to sue one of the plaintiff’s distributors selling plaintiff’s branded merchandise in Canada for trademark infringement. According to the plaintiff, the defendant also advertised and sold some Vanity Fair underwear by mail to customers residing in the United States.

The plaintiff brought an action of trademark infringement and unfair competition under the Lanham Act in the Southern District of New York. After the district court ruled that it had no subject matter jurisdiction to hear the case, the plaintiff appealed to the Second Circuit.

Applying Steele v. Bulova, the Second Circuit stated that the Supreme Court emphasized three factors for analysis of Lanham Act extraterritoriality:

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 trademark rights established under the foreign law.

The Second Circuit suggested that all three factors should be satisfied for a federal court to have subject matter jurisdiction, as absence of two factors is “certainly fatal” and one “might well be determinative.” Since the defendant was a Canadian citizen and therefore the second determinative factor was missing, the Second Circuit therefore held that the Lanham Act could not be applied extraterritorially against a foreign citizen who acted legally in Canada. Though the defendant’s conduct had a substantial effect on United States commerce, the Second Circuit concluded that its ruling was nevertheless consistent with Steele v. Bulova.

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93 Id.
94 Id.
95 Id.
96 Id.
97 Id.
98 Id.
99 Id. at 633.
100 Id.
101 Id. at 642.
102 Id. at 643.
103 Id.
104 Id. at 642-43 (“We do not think that the Bulova case lends support to plaintiff; to the contrary, we think that the rationale of the Court was so thoroughly based on the power of the...
C. The Fourth, Seventh and Eleventh Circuits’ Embrace Steele/Vanity Fair Test

Post Bulova, the Fourth, Seventh and Eleventh Circuits have not yet formulated their own factor-tests for Lanham Act extraterritoriality. For instance, the Fourth Circuit in *Nintendo of America, Inc. v. Aeropower Co., Ltd*, cited to *Steele v. Bulova* for three factors: (1) whether the defendant’s extraterritorial conduct has adverse effects on U.S. commerce; (2) whether the defendant is a U.S. citizen, and (3) international comity.105 The Fourth Circuit has also relied on other circuit courts, notably the Second Circuit’s decision in *Vanity Fair*, for the factor analysis.106 Significantly, the Fourth Circuit has typically engaged in a subject matter jurisdiction inquiry first.107 Likewise, the Seventh Circuit in *Scotch Whisky Association v. Barton Distilling Co.* followed the factors set forth in *Steele v. Bulova* and *Vanity Fair*.108 The Seventh Circuit focuses first on subject matter jurisdiction in determining whether the Lanham Act can be applied extraterritorially.109

Similarly, the Eleventh Circuit issued its first opinion on Lanham Act extraterritoriality in *International Cafe v. Hard Rock Cafe International*.110 In this case, the Eleventh Circuit relied on both *Steel v. Bulova* and *Vanity Fair* in analyzing the factor-test.111 Moreover, the Eleventh Circuit reaffirmed its Lanham Act extraterritoriality factor-test in a subject matter jurisdiction inquiry in *Commodores Entert. Corp. v. McClary*.112

D. The Fifth Circuit’s “Some Effect” Test in American Rice Inc. v. Arkansas Rice Growers

One of the most notable circuit court decisions after *Vanity Fair* is *American Rice Inc. v. Arkansas Rice Growers*.113 The decision deemphasizes *Vanity Fair’s* first factor, “[(1)] the defendant’s conduct had a substantial effect on United States to govern ‘the conduct of its own citizens upon the high seas, or even in foreign countries where the rights of other nations or their nationals are not infringed.’)” (emphasis added).

105 *Nintendo of Am., Inc. v. Aeropower Co., Ltd*, 34 F.3d 246, 250-51 (4th Cir. 1994).
106 *Id.* at 250 (stating that “lower federal courts have deduced a general rule”: a court should issue an injunction only where the extraterritorial conduct would, if not enjoined, have a significant effect on United States commerce, and then only after consideration of the extent to which the citizenship of the defendant, and the possibility of conflict with trademark rights under the relevant foreign law might make issuance of the injunction inappropriate in light of international comity concerns.”).
107 *Id.*
111 *Id.* at 1278-79.
112 *Commodores Entmt’ Corp. v. McClary*, 879 F.3d 1114, 1139 (11th Cir. 2018).
States commerce," and elevates the second factor, "(2) the defendant was a United States citizen."114

The plaintiff, American Rice, Inc. ("ARI"), and the defendant, Arkansas Rice Growers Cooperative Association ("Riceland"), were United States rice farmer cooperatives.115 They both actively engaged in the business of selling rice at home and abroad.116 ARI exported its rice to Saudi Arabia under the U.S. trademarks of a girl with a rice bowl design, or "Abu Bint."117 Similarly to ARI's design, Riceland packaged and labeled its rice bags with a girl with a rice bowl design.118 Riceland also exported the rice bags to Saudi Arabia.119 In response, ARI collected evidence of actual confusion in the marketplace, evidence of likelihood of consumer confusion, and evidence of Riceland's intent to copy ARI's design for the export and sale of the rice bags in Saudi Arabia.120 ARI then brought a trademark infringement and unfair competition suit under the Lanham Act against Riceland in the Southern District of Texas.121 The district court held that it had subject matter jurisdiction to decide the case even though the ultimate sale of the rice bags, and consumer confusion as to the trademarks were in Saudi Arabia.122

On appeal, the Fifth Circuit first shuffled Vanity Fair's three factors into a new order: "the citizenship of the defendant, the effect on United States commerce, and the existence of a conflict with foreign law."123 Most importantly, the Fifth Circuit rejected Vanity Fair's requirement that all three factors must be present to apply Lanham Act extraterritoriality by stating that the "absence of any one of these is not dispositive."124 The Fifth Circuit insisted that courts should not limit their inquiry exclusively to the three factors;125 "[r]ather, these factors will necessarily be the primary elements in any balancing analysis."126 Further, the Court reduced the "substantial effect" to "some" effect on United States commerce,127 effectively creating a new judicial flexibility standard.

Using the new approach, the Fifth Circuit held that the Lanham Act warranted extraterritoriality application because the defendant is a U.S. corporation and
“Congress has the power to prevent unfair trade practices in foreign commerce by citizens of the United States, although some of the acts are done outside the territorial limits.”\textsuperscript{128} Further, the Fifth Circuit noted that the initial processing, packaging, labeling, and distributing of the rice bags occurred first in the United States, thereby amounting to “within commerce” and subject to Congress’s power to regulate commerce.\textsuperscript{129} The Court concluded that the Saudi Arabia sales “had more than an insignificant effect on United States commerce” because the defendant diverted rice sales from ARI.\textsuperscript{130} Upon finding subject matter jurisdiction, the Fifth Circuit then proceeded to an analysis of the case on the merits by focusing on the extensive likelihood of confusion test factors.\textsuperscript{131}

\textbf{E. The First Circuit’s “Substantial Effect” Emphasis in McBee v. Delica Test}

In 2005, the First Circuit had its first opportunity to lay out a framework for determining when extraterritorial extension of the Lanham Act is proper.\textsuperscript{132} In that case, the First Circuit dismissed the plaintiff’s trademark infringement and unfair competition action against a Japanese clothing retailer for lack of subject matter jurisdiction.\textsuperscript{133} The plaintiff, Cecil McBee, is a United States jazz bassist.\textsuperscript{134} McBee has performed worldwide and has released albums under his name in the United States and Japan.\textsuperscript{135} In addition, he has toured Japan several times and performed at major music venues in Japan.\textsuperscript{136} The defendant, a Japanese clothing retailer, adopted the name “Cecil McBee” for a line of clothing and accessories for teen-aged girls and obtained trademark registrations for the name in both Japanese and English characters.\textsuperscript{137} The defendant’s stores enjoyed a high growth of the “Cecil McBee” clothing merchandise in Japan.\textsuperscript{138} There was no “Cecil McBee” merchandise outside of Japan.\textsuperscript{139} The defendant operated a website, which contained descriptions of “Cecil McBee” products written in Japanese, but did not allow products to be purchased online.\textsuperscript{140} The plaintiff sought to cancel the defendant’s trademark registrations in Japan, but the Tokyo High Court ruled in favor of the defendant.\textsuperscript{141} The plaintiff then hired

\textsuperscript{128} Id. at 416.
\textsuperscript{129} Id. at 414.
\textsuperscript{130} Id.
\textsuperscript{131} Id. at 414, 417.
\textsuperscript{132} McBee v. Delica Co., 417 F.3d 107 (1st Cir. 2005).
\textsuperscript{133} Id. at 128.
\textsuperscript{134} Id. at 111-12.
\textsuperscript{135} Id. at 112.
\textsuperscript{136} Id.
\textsuperscript{137} Id.
\textsuperscript{138} Id.
\textsuperscript{139} Id.
\textsuperscript{140} Id.
\textsuperscript{141} Id. at 113.
three Japanese-speaking investigators to coax “Cecil McBee” retail stores in Japan into selling them merchandise and shipping the goods to Maine for a total value of $2,500.\textsuperscript{142}

The plaintiff then brought an action under the Lanham Act in the federal court in the District of Maine, asserting that the defendant’s use of the name “Cecil McBee” constituted false endorsement, was misleading, and created a false inference that the plaintiff himself endorsed, approved, or sponsored the defendant’s “Cecil McBee” merchandise for teenage-girls, and that such inference has caused him harm.\textsuperscript{143} The plaintiff sought injunction and damages against the defendant’s sales in Japan under the Lanham Act claims.\textsuperscript{144} The district court dismissed the suit for lack of subject matter jurisdiction over all of plaintiff’s Lanham Act claims, including the claims for injunctive relief and damages.\textsuperscript{145} The plaintiff appealed.\textsuperscript{146}

At the outset, the First Circuit noted that the Supreme Court’s decision in \textit{Steele v. Bulova} allows the Lanham Act to “sometimes be used to reach extraterritorial conduct, but it has never laid down a precise test for when such reach would be appropriate.”\textsuperscript{147} Surveying tests formulated by sister circuits since \textit{Steele v. Bulova}, the First Circuit observed that the Second Circuit’s \textit{Vanity Fair} criteria have been modified by the Fifth Circuit’s \textit{American Rice} test, and the Ninth Circuit has adopted a “rule of reason” test.\textsuperscript{148} Unsatisfied with approaches from these circuits, the First Circuit devised its own.\textsuperscript{149}

In formulating its own test, the First Circuit reached back to \textit{Steele v. Bulova}, dissecting the case for an understanding of the Supreme Court’s Lanham Act jurisdictional analysis.\textsuperscript{150} Specifically, the First Circuit perceived that the “reach of the Lanham Act depends on context; the nature of the analysis of the jurisdictional question may vary with that context.”\textsuperscript{151} In cases like \textit{Steele v. Bulova}, in which the defendant is an American citizen, the “domestic effect” of the defendant’s activities abroad is of “lesser importance and a lesser showing of domestic effects may be all that is needed.”\textsuperscript{152} However, since the “Cecil McBee” facts do not involve an American citizen as the defendant, the First Circuit stated that an analysis on “the foreign commerce power” is instead

\textsuperscript{142} Id.
\textsuperscript{143} Id. at 115.
\textsuperscript{144} Id. at 116.
\textsuperscript{145} Id.
\textsuperscript{146} Id.
\textsuperscript{147} McBee, 417 F.3d at 117 (citing Steele v. Bulova, 344 U.S. 280 (1952)).
\textsuperscript{148} Id. (reviewing approaches adopted by the Second, Fourth, Fifth, Ninth and Eleventh Circuits).
\textsuperscript{149} Id. at 118.
\textsuperscript{150} Id.
\textsuperscript{151} Id.
\textsuperscript{152} Id.
required. As a result, the First Circuit devised “a test for Lanham Act jurisdiction over foreign infringing activities by foreign defendants.”

The First Circuit looked to Supreme Court cases in the antitrust context as a guide because those Supreme Court decisions reflect a more contemporary analysis of extraterritoriality activity. Based on the framework articulated by the Supreme Court in antitrust cases, the First Circuit held that the Lanham Act grants “subject matter jurisdiction over extraterritorial conduct by foreign defendants only where the conduct has a substantial effect on United States commerce.” Courts therefore lack jurisdiction over Lanham Act extraterritoriality claims absent a showing that the foreign defendant’s activities have a substantial effect on United States commerce. In order to overcome the “substantial effects” test, the plaintiff is required to present evidence of the impact within the United States. Further, for purposes of the Lanham Act, the “substantial effects” test must be also applied consistently with the goals of protecting the American consumers against trademark confusion and ensuring trademark owner’s financial investment in its trademark.

Overall, the First Circuit modified the Second Circuit’s Vanity Fair test. The First Circuit disaggregated the elements of Vanity Fair by first asking whether the defendant is an American citizen. If the defendant is not an American citizen, the “substantial effects” test then becomes “the sole touchstone to determine jurisdiction.” Next, if the “substantial effects” test is met, then the analysis proceeds to comity considerations which are not jurisdictional questions but “prudential questions of whether jurisdiction should be exercised.” Therefore, at least with respect to the comity factor, the First Circuit disagreed with the Second Circuit’s Vanity Fair.

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153 Id. at 119.
154 Id.
155 Id. at 119-20 (discussing global antitrust and trademark problems faced by American companies and analyzing how the Supreme Court has addressed the applications of antitrust law to foreign defendants with respect to foreign activities).
156 Id. at 120.
157 Id.
158 Id.
159 Id. at 121.
160 Id.
161 Id.
162 Id.
163 Id.
164 Id. (“Our analysis differs again from Vanity Fair on this point. Vanity Fair and other cases have considered as part of the basic jurisdictional analysis whether the defendant acted under color of protection of the trademark laws on his own country. We disagree and do not see why the scope of Congressional intent and power to create jurisdiction under the Lanham Act should turn on the existence and meaning of foreign law.”).
Applying the new framework to the case at issue, the First Circuit agreed with the plaintiff that the court had subject matter jurisdiction over the claim because of “the $2,500 of ‘Cecil McBee’ goods the defendant sold to the plaintiff’s Japanese-speaking investigators in Maine.” The First Circuit explained that there is “no doubt of Congress’s power to enjoin sales of infringing goods into the United States” under the Lanham Act. Jurisdiction therefore existed because the $2,500 worth of goods were in United States commerce. Nonetheless, the First Circuit dismissed the injunction barring the defendant’s “Cecil McBee” merchandise sales to American consumers because the relevant provision under the Foreign Trade Antitrust Improvements Act, 15 U.S.C. 6(a)(1) “exempts ‘import trade or import commerce’ from its extraterritoriality effects test.”

In determining the plaintiff’s Lanham Act claim for an injunction barring access to the defendant’s website, the First Circuit applied the “substantive effects” test in determining whether jurisdiction was warranted to apply the Lanham Act extraterritorially. The First Circuit found that the website content written in Japanese, reachable by anyone in the United States and other countries, failed to meet “substantial effects” on U.S. commerce.

Finally, with regards to the plaintiff’s claim under the Lanham Act for damages for the defendant’s sales of “Cecil McBee” merchandise in Japan, the First Circuit held that the sales have no substantial effect on commerce in the United States. According to the Court, the plaintiff did not present any evidence to support that the defendant’s sales in Japan to Japanese consumers either tarnished the plaintiff’s image in the United States or caused the plaintiff to lose income in the United States due to loss of commercial opportunity as a jazz musician in Japan resulting from the tarnishment of the plaintiff’s reputation in Japan. Thus, plaintiff’s claim for damages failed.

V. APPLYING CIRCUITS TESTS AND PREDICTING LANHAM ACT SUBJECT MATTER JURISDICTION OUTCOME IN PIRATE JOE’S

For simplicity, this Section notes that among the First, Second, Fourth, Fifth, Seventh and Ninth Circuits, there are three separate tests for a Lanham Act extraterritoriality subject matter jurisdiction inquiry. They are the “Vanity Fair”, “American Rice” and “McBee” tests. After applying each of these tests to the

165 Id. at 122.
166 Id.
167 Id.
168 Id. at 122-23.
169 Id. at 123.
170 Id. at 123-24.
171 Id. at 125.
172 Id.
173 See discussion supra Sections IV.B-IV.E.
facts in Pirate Joe’s, Section V predicts whether the federal courts have subject matter jurisdiction.

1. Applying the Vanity Fair Test to Pirate Joe’s

The *Vanity Fair* decision emphasizes the U.S. citizenship status factor over the other two factors—substantial effects on U.S. commerce and international comity.\(^{174}\) *Vanity Fair* also dictates that missing two of the three factors is fatal.\(^{175}\) As a result, if the defendant is not a U.S. citizen whose trademark related conduct is presumably legal in the foreign country, the Lanham Act cannot be extended extraterritorially.\(^{176}\) Applying *Vanity Fair* to the facts in *Trader Joe’s v. Hallatt*, the Lanham Act should not be extended extraterritorially because Hallatt/Pirate Joe’s is a Canadian citizen. Moreover, Hallatt/Pirate Joe’s legally purchased Trader Joe’s merchandise for permissible reselling of the goods in Canada.\(^{177}\) Trader Joe’s did not have a registered trademark in Canada and Hallatt did not usurp Trader Joe’s trademark by passing itself off as an authorized distributor of Trader Joe’s merchandise.\(^{178}\) Further, like the defendant in *Vanity Fair* who bought the plaintiff’s trademarked goods in New York City for resale in Canada, Pirate Joe’s purchased Trader Joe’s products for resale in Canada.\(^{179}\) Finally, while the defendant in *Vanity Fair* advertised and resold some of the plaintiff’s trademarked goods in the United States, Pirate Joe’s did not engage in similar conduct.\(^{180}\) Instead, Pirate Joe’s confined all of its reselling activities to Canada.\(^{181}\) Consequently, there is no subject matter jurisdiction over Pirate Joe’s under the Second Circuit’s *Vanity Fair*.

2. Application of the America Rice Test to Pirate Joe’s Case

Under the *America Rice* test, which looks at “the citizenship of the defendant, the effect on United States commerce, and the existence of a conflict with foreign law,” there should be no extraterritoriality extension of the Lanham Act to Pirate Joe’s.\(^{182}\) Recall that while *America Rice* emphasizes the citizenship of the defendant, it reduces the “substantial effect” to “some effect” on U.S. commerce.\(^{183}\) Unlike the defendant in *America Rice*, neither Pirate Joe’s nor Hallatt is a U.S. citizen, so Congress does not have the power to prevent his

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\(^{174}\) *Vanity Fair*, 234 F.2d at 642-43.

\(^{175}\) *Id.* at 643.

\(^{176}\) *Id.*

\(^{177}\) *Trader Joe’s Co.*, 835 F.3d at 975.

\(^{178}\) *See id.* 974-75 (stating that Trader Joe’s trademarks were granted by the USPTO and Trader Joe’s services confined only to the United States).

\(^{179}\) *Id.*

\(^{180}\) *Id.* at 975.

\(^{181}\) *Id.*

\(^{182}\) *Am. Rice, Inc.*, 701 F.2d at 414.

\(^{183}\) *See supra text accompanying note 178.*
conduct on foreign soil.\textsuperscript{184} Further, unlike the \textit{American Rice} defendant’s conduct of diverting sales of rice, there is no diverting of sales by Pirate Joe’s in Canada.\textsuperscript{185} Canada has no Trader Joe’s store, and Canadians will not see a new Trader Joe’s establishment anytime soon.\textsuperscript{186} Moreover, contrary to sale diversion, Pirate Joe’s conduct \textit{increased} Trader Joe’s sales.\textsuperscript{187} Pirate Joe’s is Trader Joe’s best customer, as Pirate Joe’s has purchased $1.3 million worth of Trader Joe’s products.\textsuperscript{188} Additionally, the purchasing of Trader Joe’s goods in the United States is legitimate, and the reselling of the genuine products is legitimate in Canada – together these activities are not the type of conduct seen in \textit{America Rice}. Therefore, Hallatt’s conduct is not “within commerce” and subject to Congress’ power to regulate.

3. \textit{Application of the McBee Test to Pirate Joe’s Case}

Under \textit{McBee}, the first question is whether the defendant is an American citizen.\textsuperscript{189} Since Pirate Joe is not an American citizen, the next question is whether Pirate Joe’s conduct in Canada has a substantial effect on U.S. commerce.\textsuperscript{190} The “\textit{substantial effect}” test requires Trader Joe’s to present “evidence of impacts within the United States” due to Pirate Joe’s conduct in Canada.\textsuperscript{191} Unlike the defendant in \textit{McBee}, Pirate Joe’s had neither sent nor sold trademarked goods in the United States.\textsuperscript{192} Pirate Joe’s confined its reselling of trademarked products to Canada.\textsuperscript{193} Thus, Pirate Joe’s reselling caused no consumer confusion in either the United States or Canada. Canadians knew that they were purchasing goods that Pirate Joe’s legitimately purchased at full price in the United States and brought across the United States-Canada border for resale. Pirate Joe’s fully informed its customers that the items were new, secondhand products selected to satisfy their cravings for Trader Joe’s products.\textsuperscript{194} Finally, Pirate Joe’s did not resell any goods in the United States.\textsuperscript{195} Consequently, there was no consumer confusion in the United States.

In addition, there was no evidence that Pirate Joe’s reselling of the legitimately purchased trademarked products tarnished the Trader Joe’s name or caused any loss in income to Trader Joe’s in the United States.\textsuperscript{196} Trader Joe’s,

\textsuperscript{184} \textit{Am. Rice, Inc.}, 701 F.2d at 979.
\textsuperscript{185} \textit{Id.}
\textsuperscript{186} \textit{Id.} at 974.
\textsuperscript{187} \textit{Id.} at 960.
\textsuperscript{188} \textit{See supra} text accompanying notes 13, 36.
\textsuperscript{189} \textit{See supra} text accompanying note 164.
\textsuperscript{190} \textit{McBee}, 417 F.3d at 118.
\textsuperscript{191} \textit{Id.} at 120.
\textsuperscript{192} \textit{Trader Joe’s Co.}, 835 F.3d at 975.
\textsuperscript{193} \textit{Id.}
\textsuperscript{194} \textit{Id.} at 977.
\textsuperscript{195} \textit{Id.}
\textsuperscript{196} \textit{Id.}
in fact, gained significant income from Pirate Joe’s total purchases of $1.3 million. It follows that, as the “substantial effects” test is not met, comity consideration is not necessary. Accordingly, the federal court has no subject matter jurisdiction under the Lanham Act over Pirate Joe’s because, as a foreign defendant, Pirate Joe’s extraterritorial conduct of reselling Trader Joe’s goods in Canada has no substantial effects on the United States commerce.

VI. ABANDONING STEELE V. BULOVA: NINTH CIRCUIT’S NO TO SUBJECT MATTER INQUIRY AND FIRST SALE DOCTRINE

1. The Ninth Circuit’s Old Rule of Reasons Test for Lanham Act Extraterritoriality

The Ninth Circuit charted its own path in determining the extraterritoriality of the Lanham Act, ignoring the Second Circuit’s Vanity Fair factors and other circuits’ tests. Instead, the Ninth Circuit embraced the “rule of reason” test set forth in its own circuit’s antitrust jurisprudence. In Wells Fargo & Co. v. Wells Fargo Exp. Co., the Ninth Circuit stated the “jurisdictional rule of reason” test governs both the extraterritorial reach of the Sherman Act and the Lanham Act. The “extraterritorial coverage” of the Lanham Act should be gauged “by the nature of its effect” on commerce “which Congress may regulate.” Further, although the foreign activities must have “some effect” on the United States foreign commerce, the effect need not be substantial because Steele v. Bulova “contains no such requirement.”

Later, in Reebok Int’l, Ltd. v. Marnatech Enters., Inc., the Ninth Circuit emphasized that the inquiry of the Lanham Act’s coverage of foreign activities is a three-part test based on antitrust law: (1) the defendant’s foreign activities must have some effect on American foreign commerce; (2) the effect must cause a cognizable injury to the plaintiff; and (3) “the interests of and links to American foreign commerce must be sufficiently strong in relation to those of other nations to justify an assertion of extraterritoriality authority.” With respect to the third factor, which is also known as the comity and fairness factor, the Ninth Circuit adopted a balancing test of seven relevant factors:

197 See supra text accompanying note 13.
198 See supra text accompanying note 164.
199 See supra text accompanying note 178.
200 Wells Fargo & Co. v. Wells Fargo Express Co., 556 F.2d 406, 427 (9th Cir. 1977) (citing Timberlane Lumber Co. v. Bank of America, N.T. S.A., 549 F.2d 597 (9th Cir. 1976)).
201 Id. at 427-28.
202 Id. at 428.
203 Id.
204 Reebok Int’l, Ltd. v. Marnatech Enters., 970 F.2d 552, 554 (9th Cir. 1992) (quoting Start-Kist. Foods, Inc. v. P.J. Rhodes & Co., 769 F.2d 1393, 1395 (9th Cir. 1985)).
205 Wells Fargo, 556 F.32d at 428 (quoting Timberlane, 549 F.2d at 614-15).
The degree of conflict with foreign law or policy, the nationality or allegiance of the parties and the locations or principal places of business of corporations, the extent to which enforcement by either state can be expected to achieve compliance, the relative significance of effects on the United States as compared with those elsewhere, the extent to which there is explicit purpose to harm or affect American commerce, the foreseeability of such effect, and the relative importance to the violations charged of conduct within the United States as compared with conduct abroad.\footnote{Reebok, 970 F.2d at 555 (quoting Timberlane, 549 F.2d at 614).}

Compared to the other circuits’ tests for the Lanham Act extraterritoriality application, the Ninth Circuit’s rule of reason test provides the court with great judicial flexibility in determining whether the Lanham Act should be applied extraterritorially.

Until 2010, the cases decided by the Ninth Circuit typically involved U.S. defendants dealing in trademarked counterfeit goods that found their way back into the United States. For example, in Reebok v. Marnatech, the defendant, Marnatech Enterprises, was a California corporation, and the president and owner, Nathan Betech, was a Mexican citizen who resided in San Diego.\footnote{Id. at 556.} Betech organized and directed the manufacture of counterfeit Reebok shoes and knew that the counterfeit shoes crossed the Mexico border into the United States regularly.\footnote{Id. at 554-55.} Due to counterfeit shoes sold in Mexico border towns, the sales of Reebok genuine shoes in both Mexico and the United States decreased.\footnote{Id. at 555.} Under the rules of reason test, the Ninth Circuit found that the first two requirements were met because the defendant’s activities had some effect on United States foreign commerce and caused monetary injury to the plaintiff.\footnote{See Love v. Associated Newspapers, Ltd., 611 F.3d 601, 613 (9th Cir. 2010) (quoting Ocean Garden, Inc. v. Marktrade Co., 953 F.2d 500, 503 (9th Cir. 1991)). The Ninth Circuit in Love also acknowledged that the two factors “were met where a defendant was found to have ‘organized and directed [the deception] from the United States’ and to have known that the deceptive product ‘went back to the United States with regular frequency’ and that sales of the ‘genuine’ product decreased in the United States.” Id. at 613 (citing Reebok, 970 F.2d at 554-55).} On the third requirement of balancing seven factors for comity and fairness, the Reebok panel found that the district court’s exercise of jurisdiction was sound.\footnote{Reebok, 970 F.2d at 555.}

In 2010, the Ninth Circuit confronted a different circumstance where the alleged trademark infringement activities were wholly foreign; no trademarked goods found themselves back in the United States. In Love v. Associated Newspapers, Ltd, the CDs allegedly infringing on U.S. trademarks were manufactured in Germany.\footnote{Love, 611 F.3d at 613.} The infringement activities caused consumer
confusion in Great Britain. The plaintiff asserted that the infringement activities abroad led to a decrease in demand for ticket sales of his live performance in the United States. The \textit{Love} panel found that the plaintiff’s evidence of monetary injury caused by the trademark infringement activities abroad was “too great of a stretch to ask” the court to believe that trademark confusion in Great Britain resulted in the decrease in the ticket sales in the United States. There was no evidence of an effect on U.S. foreign commerce or monetary injury; therefore, the plaintiff failed to meet the first two requirements of the rule of reason test. Accordingly, the \textit{Love} panel held that the court had no jurisdiction under the Lanham Act and that the Act “cannot be applied extraterritorially to encompass acts committed in Great Britain.”

Six years later, the Ninth Circuit faced a context similar to \textit{Love} in that the alleged activities were wholly foreign as they occurred in Canada. While it follows that another Ninth Circuit panel should be consistent with \textit{Love}, the \textit{Trader Joe’s v. Hallatt} panel was not.


In \textit{Trader Joe’s v. Hallatt}, the defendants legitimately purchased Trader Joe’s merchandise in the United States for the purpose of reselling the goods in Canada. Trader Joe’s had no stores in Canada, and Canadian consumers knew that the defendant’s store was not affiliated with Trader Joe’s because the defendant informed them by posting numerous signs of no affiliation in the stores. The Ninth Circuit \textit{Trader Joe’s} panel held that the Lanham Act reached the defendant’s Canadian activities on the merits pursuant to Civil Rule of Procedure 12(b)(6). The \textit{Trader Joe’s} panel ruled that the extraterritorial reach of the Lanham Act raises a question relating to the merits of a trademark

\begin{itemize}
  \item \textsuperscript{213} See \textit{id}.
  \item \textsuperscript{214} See \textit{id}.
  \item \textsuperscript{215} \textit{Id}.
  \item \textsuperscript{216} \textit{Id.} at 612-13.
  \item \textsuperscript{217} \textit{Love}, 611 F.3d at 612.
  \item \textsuperscript{218} \textit{Id.} at 613 (“Because Love failed to present any evidence the alleged Lanham Act violations affected United States commerce in any way, we affirm dismissal of all three claims.”).
  \item \textsuperscript{219} See supra text accompanying note 164.
  \item \textsuperscript{220} \textit{Trader Joe’s Co. v. Hallatt}, 981 F. Supp. 2d 972, 975 (W. D. Wash. 2013), aff’d in part, rev’d in part and remanded, 835 F.3d 960 (9th Cir. 2016).
  \item \textsuperscript{221} See supra text accompanying notes 6, 7; \textit{Id}.
  \item \textsuperscript{222} \textit{Trader Joe’s}, 835 F.3d 968-69.
\end{itemize}
claim, not to the federal courts’ subject-matter jurisdiction.\textsuperscript{223} In other words, the case was procedurally decided on a 12(b)(6), not a 12(b)(1) motion.\textsuperscript{224}

The Ninth Circuit \textit{Trader Joe’s} panel departed from all prior decisions rendered by different panels. First, unlike other Ninth Circuit panels, this panel rejected the previous requirement that the court first determine whether the analysis of extraterritorial application of the Lanham Act is an issue of subject matter jurisdiction.\textsuperscript{225} Instead, the panel asserted that the district court erred by focusing on subject matter jurisdiction, and that the district court should have focused on the merits question.\textsuperscript{226} Accordingly, the panel held that “the extraterritorial reach of the Lanham Act is a merits question that does not implicate federal courts’ subject matter jurisdiction.”\textsuperscript{227}

The panel claimed that it relied on the Supreme Court decision in \textit{Morrison v. Nat’l Aust. Bank. Ltd.}, a case involving the extraterritorial reach of the Securities and Exchange Act to support its holding.\textsuperscript{228} In usurping the district court’s role as the tribunal closest to the facts of the case, the panel insisted that it would decide on the merits of the case. Indeed, the panel stated, “[r]ather than asking the district court to engage in this exercise, we consider whether the Lanham Act reaches Hallatt’s allegedly infringing conduct under the standards set by Rule 12(b)(6).”\textsuperscript{229}

Second, if the \textit{Trader Joe’s} panel decided this case on the merits, it failed. In deciding the case on the merits, the panel should have applied the first sale doctrine. The panel failed on that count. The panel was aware of the existence of the first sale doctrine, as it mentioned that the doctrine “establishes that ‘resale by the first purchaser of the original article under the producer’s trademark is generally neither trademark infringement nor unfair competition.’”\textsuperscript{230} However, the panel failed to explain the doctrine’s significance in this case. Instead, the panel summarily ruled that the first sale doctrine is not applicable here because \textit{Trader Joe’s} alleged that Hallatt’s foreign conduct harmed its reputation and decreased the value of its trademarks.\textsuperscript{231} The panel made its ruling based on evidence that was squarely rejected as unfounded by the district court with respect to \textit{Pirate Joe’s} “poor quality control practices.”\textsuperscript{232}

\begin{enumerate}
\item Id. at 966.
\item Id. at 968-69.
\item Id. at 966-67.
\item Id. at 968.
\item Id.
\item Id. at 968 (citing \textit{Morrison v. Nat’l Austl. Bank Ltd}, 561 U.S. 247 (2010)).
\item \textit{Trader Joe’s}, 835 F.3d at 969.
\item Id. at 970.
\item Id.
\item Id. at 971 (“According to \textit{Trader Joe’s}, Hallatt’s poor quality control practices could impact American commerce if consumers who purchase \textit{Trader Joe’s}-brand products that have been transported to Canada become ill, and news of such illness travels across the border. \textit{Trader Joe’s} alleges this may harm its reputation, reduce the value of its trademarks, and cause..."
Most troublesome, the panel stated that “Hallatt’s conduct may cause Trader Joe’s reputational harm that could decrease the value of its American-held trademarks, and Hallatt operates in American commerce streams when he buys Trader Joe’s goods in Washington and hires locals to assist him.” The panel essentially created a new law that purchasers cannot legitimately pay at full retail price for grocery items absent a notice of the store’s policy on limiting the quantity of the purchase! As Trader Joe’s best customer, Pirate Joe’s had legitimately purchased more than $1.3 million worth of Trader Joe’s merchandise at various Trader Joe’s stores, and as a purchaser of the merchandise, Pirate Joe’s had the right to give, donate, or resell the merchandise. Pirate Joe’s reselling activities are protected under the first sale doctrine, and as the Third Circuit in Beltronics and the Ninth Circuit in NEC Elecs. v. CAL Circuit Abco have long recognized, buying and reselling genuine trademarked goods does not violate the Lanham Act when there is an absence of consumer confusion. The reselling activities are neither trademark infringement nor unfair competition, even if the resale occurs in the United States. Here, the resale occurred in Canada. The resale neither violated any law of either country involved nor caused any effect on United States commerce.

Third, the panel accepted the plaintiff’s attenuated quality control theory of infringement. Although the district court has the closest proximity to the facts of the case, it did not find any evidence of quality control problems associated with Pirate Joe’s reselling of Trader Joe’s merchandise. Pirate Joe’s, in fact, stopped purchasing and reselling perishable goods. The district court did not find that any of Pirate Joe’s customers ever complained about getting sick from consumption of the resold merchandise. Yet, the Trader Joe’s panel embraced the plaintiff’s argument on appeal that “quality control theory of infringement is cognizable under the Lanham Act notwithstanding the first sale doctrine” because the reselling of the merchandise that does not meet the plaintiff’s “quality control standards may result in the devaluation of the mark by tarnishing its image.” Despite how Hallatt was selective about products he resold and the district court finding no evidence to support the plaintiff’s quality control

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233 Id. at 975
234 See supra text accompanying note 13.
235 See discussion supra Section II.
236 Trader Joe’s, 835 F.3d at 971 (“There is nothing implausible about the concern that Trader Joe’s will suffer a tarnished reputation and resultant monetary harm in the United States from contaminated goods sold in Canada.”).
239 Trader Joe’s, 835 F.3d at 970.
theory of infringement, the panel relied on the plaintiff’s words to summarily bypass the first sale doctrine and the district court’s factual findings.\textsuperscript{240}

Overall, the Trader Joe’s panel sidestepped the inquiry required by prior Ninth Circuit panels. The first two requirements of the three-part inquiry that prior panels, including \textit{Love v. Associated Newspapers, Ltd.} and \textit{Reebok v. Marnatech}, have carefully analyzed were dodged by the Trader Joe’s panel. While prior panels focused on \textit{some effects} on U.S. commerce and how these effects cause monetary injury to the plaintiff, the Trader Joe’s panel paid attention to alleged but nonexistent reputational harm.\textsuperscript{241} If the panel followed the analysis used by the \textit{Love v. Associated Newspapers, Ltd.} panel, it would have found that the reselling activities in Canada had no effect on United States commerce, and there was no monetary injury suffered by Trader Joe’s.\textsuperscript{242} In actuality, Trader Joe’s gained $1.3 million in sales as a result of Pirate Joe’s since Trader Joe’s had no store in Canada. Additionally, there was no evidence that Trader Joe’s mark was tarnished in either Canada or the United States due to Pirate Joe’s conduct and thus Trader Joe’s failed to establish either reputational harm due to lack of quality control or consumer confusion in Canada or in the United States. Thus, with the increase in sales by Pirate Joe’s reselling activities, the allegation of reputational harm has no support.

V. CONCLUSION

It is time for the Supreme Court to clarify the extraterritorial reach of the Lanham Act in cases where the defendant is foreign, the alleged infringing activities are abroad, and the reselling goods are protected under the first sale doctrine. Thus, the Supreme Court should formulate a test for all circuit courts to follow that would provide certainty and predictability in international, cross-border commercial transactions involving trademarked products.

\textsuperscript{240} \textit{Id.}

\textsuperscript{241} \textit{Id.} at 971, 975.

\textsuperscript{242} \textit{See generally} \textit{Love v. Associated Newspapers, Ltd.}, 611 F.3d 601 (9th Cir. 2010).