ARTICLE

KONDO-ING[1] *STEELE V. BULOVA*: THE LANHAM ACT'S EXTRATERRITORIAL REACH VIA THE EFFECTS TEST

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"Jurisdiction is a word of many, too many, meanings."[2]

[1] Ben Zimmer, *Kondo-ing: A Guru of Organizing Becomes a Verb*, WALL ST. J. (Jan. 17, 2019), https://www.wsj.com/articles/kondo-ing-a-guru-of-organizing-becomes-a-verb-11547745648 (describing MARIE KONDO, THE LIFE-CHANGING MAGIC OF TIDYING UP (2014)). "Kondo-ing" is a neologism based on this recent best-seller and Netflix hit; it refers to "tidying up" while "keeping only those things that spark joy." *Kondo*, WIKTIONARY, https://en.wiktionary.org/wiki/Kondo [https://perma.cc/FE28-VZ8D] (last edited Feb. 21, 2019).

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[2] Steel Co. v. Citizens for Better Env't, 523 U.S. 83, 90 (1998).

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INTRODUCTION

The 1952 *Steele v. Bulova*[3] seems ripe for an update, a re-boot, or — in a (new) word: a kondo-ing. In the over sixty-five years since the Supreme Court decided the issue of the extraterritorial reach of the Lanham Act, the Court has shifted the procedural basis for extraterritoriality analysis. Furthermore, the various circuit court articulations of *Steele's* so-called "effects test"[4] have resulted in some doctrinal unruliness. And Congress has significantly amended the Lanham Act to include, among other new rights, anti-dilution. The recent decision in *Trader Joe's v. Hallatt* shows why all of these developments have now come to a head.[5]

Defendant Michael Hallatt's "rebel Canadian grocery"[6] — cheekily named Pirate Joe's — served customers in the Vancouver, Canada area who were not able to shop at the plaintiff's U.S.-based Trader Joe's retail store located just across the border in Bellingham, Washington. Having lived in the U.S. for a time, Hallatt had become a connoisseur of Trader Joe's often unusual food products.[7] Doing business as Pirate Joe's, Hallatt provided genuine Trader Joe's items, which were sourced from authorized U.S. retail outlets, to underserved Canadian customers.[8] Hallatt believed that Trader Joe's trademark rights were exhausted once these items were sold to him.[9] His sales pitch did not disguise the fact that he was plying goods bearing trademarks belonging to Trader Joe's.[10]

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[3] Steele v. Bulova Watch Co., Inc., 344 U.S. 280 (1952).

[4] *Id.* at 286 ("In the light of the broad jurisdictional grant in the Lanham Act, we deem its scope to encompass petitioner's activities here. His operations and their effects were not confined within the territorial limits of a foreign nation.").

[5] Trader Joe's Co. v. Hallatt (*Hallatt II*), 835 F.3d 960 (9th Cir. 2016); Trader Joe's Co. v. Hallatt (*Hallatt I*), 981 F.Supp.2d 972 (W.D. Wa. 2013).

[6] Amanda Holpuch, *Rebel Canadian grocer Pirate Joe's prepares for Trader Joe's court battle*, THE GUARDIAN (May 30, 2017), https://www.theguardian.com/world/2017/may/30/pirate-trader-joes-court-battle-trademark-rights-canada [https://perma.cc/HCG5-7SFF].

[7] Kevin Drews, *Trader Joe's Loses Lawsuit Against Michael Hallatt's Pirate Joe's*, HUFFINGTON POST (Jan. 23, 2014), https://www.huffingtonpost.ca/2013/10/04/trader-joes-loses-lawsuit-michael-hallatt-pirate-joes_n_4041755.html [https://perma.cc/B5CR-FVC5].

[8] Holpuch, *supra* note 6.

[9] Drews, *supra* note 7. S*ee also* Christine Haight Farley, *Territorial Exclusivity in U.S. Copyright and Trademark Law* 59 (Am. U. Wash. Coll. of L., Paper No. 2014-30), https://ssrn.com/abstract=2443395 ("U.S. trademark law generally follows an international exhaustion regime with two exceptions. A national exhaustion rule for parallel imports exists in two categories: materially different goods and identical goods and marks manufactured abroad. In the first category, protection stems from whether there are differences between the foreign and domestic product. The difference need not be material; a court should consider any alteration in the product. In the second category, protection depends on whether a foreign importer has the same origins as the U.S. trademark holder. A relationship may permit parallel importation.").

[10] Holpuch, *supra* note 6.

Unlike most gray market goods,[11] Pirate Joe's sold these genuine products to Canadian customers at higher prices than they would be sold for in the U.S.[12] Presumably, this mark-up reflected his customers' willingness to purchase specialty food items, such as dark chocolate-covered edamame from Trader Joe's, without traveling across the border—a sometimes unpleasant and often challenging prospect post-9/11.[13]

Plaintiff Trader Joe's was none too pleased with this across-the-border sale of its products. Despite the undisputed facts that Trader Joe's did not sell goods in Canada, operate a retail store in Canada, or have Canadian trademark rights, it issued a cease and desist letter.[14] It then sued Hallatt — a Canadian citizen (who had U.S. legal permanent resident status yet was apparently domiciled in Canada)—for violations of the federal Lanham Act and Washington state law[15] in the U.S. District Court for the Western District of Washington.[16] The district court granted Hallatt's motion to dismiss for lack of subject matter jurisdiction and dismissed the complaint with prejudice.[17]

On appeal, the U.S. Court of Appeals for the Ninth Circuit reversed the district court, finding first that the district court erroneously decided the complaint on jurisdictional grounds under Federal Rule of Civil Procedure ("FRCP" or "Rule") 12(b)(1), instead of considering the case on its merits as FRCP 12(b)(6) directs.[18] The court of appeals then proceeded to consider the case under the so called "*Timberlane*" test — the Ninth Circuit-specific version of the more

[11] Pirate Joe's products were "so-called 'gray goods,' that is, trademarked goods manufactured abroad under a valid license but brought into [a] country in derogation of arrangements lawfully made by the trademark holder to ensure territorial exclusivity." Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc., 777 F. Supp. 161, 166 (D.P.R. 1991). *See also* 19 C.F.R. § 133.23 ("Restrictions on importation of gray market articles"). Hallatt was purchasing authentic goods in the United States to re-sell them as 'Canadian grey goods,' which is not the typical gray market scenario considered by U.S. courts.

[12] Holpuch, *supra* note 6.

[13] *Id.*

[14] *Id.*

[15] *Hallatt II*, 835 F.3d 960, 965 (9th Cir. 2016) (asserting the following claims: "(1) federal trademark infringement, 15 U.S.C. § 1114(1); (2) unfair competition, false endorsement, and false designation of origin, 15 U.S.C. § 1125(a)(1)(A); (3) false advertising, 15 U.S.C. § 1125(a)(1)(B); (4) federal trademark dilution, 15 U.S.C. § 1125(c); (5) state trademark dilution, Wash. Rev. Code § 19.77.160; and (6) deceptive business practices in violation of the Washington Consumer Protection Act, Wash. Rev. Code § 19.86.020.").

[16] *Hallatt I*, 981 F.Supp.2d 972, 972 (W.D. Wa. 2013).

[17] *Id*. at 974; *see also* Bill Chappell, *Pirate Joe's Celebrates Dismissal of Lawsuit*, NAT'L PUB. RADIO (Oct. 5, 2013), https://www.npr.org/sections/thetwo-way/2013/10/05/229537625/pirate-joes-celebrates-dismissal-of-trader-joes-lawsuit [https://perma.cc/CP3W-NJSH].

[18] *Hallatt II*, 835 F.3d at 968.

general effects test for analyzing extraterritorial application of U.S. law.[19] Both the court of appeals and the district court used substantially the same effects test on identical facts, but they reached opposite results on different procedural grounds. Reviewing the district court's decision *de novo*, the Ninth Circuit treated the allegations in the Trader Joe's complaint as true, found them plausible, and decided that the complaint withstood dismissal on the merits. It concluded that the Timberlane test's three factors favored extraterritorial application of the Lanham Act.[20] Notably, the court wrote:

> 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. Incidents of food-born illness regularly make international news, and Trader Joe's alleges that it is aware of at least one customer who became sick after consuming food sold by Pirate Joe's. Courts have held that reputational harm to an American plaintiff may constitute "some effect" on American commerce.[21]

The Ninth Circuit also rejected Hallatt's potential exhaustion (sometimes referred to as "first sale") defense,[22] finding credible Trader Joe's allegations regarding Pirate Joe's (1) lack of quality control and (2) practice of charging higher prices for genuine Trader Joe's products. Trader Joe's argued successfully that these practices warranted an exception to the doctrine of exhaustion, which generally prevents a trademark owner from blocking the subsequent sale of a genuine good.[23] Despite Hallatt's attempt at crowd-funding to meet his mounting legal fees,[24] the litigation's end was foretold as soon as Trader Joe's complaint was allowed to proceed. Soon thereafter, the parties

[19] *Id*. at 969. *See also* Timberlane Lumber Co. v. Bank of America, N.T. & S.A., 549 F.2d 597, 615 (9th Cir. 1976). These Timberlane factors influenced sections 402 and 403 of the American Law Institute's Restatement of Foreign Relations Law, which reflects this interest balancing approach. *See Timberlane*, 549 F.2d at 613-14. The Ninth Circuit incorporated these factors, enunciated in the context of the extraterritorial application of the Sherman Antitrust Act, into its extraterritoriality analysis of the Lanham Act. *See* Wells Fargo & Co. v. Wells Fargo Express Co., 556 F.2d 406, 428 (9th Cir. 1977).

[20] *Hallatt II*, 835 F.3d at 975.

[21] *Id*. at 971.

[22] Haight Farley, *supra* note 9, at 59-60. *See generally* RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY EXHAUSTION AND PARALLEL IMPORTS 390 (Irene Calboli & Edward Lee eds., 2016).

[23] Transcript of Oral Argument, *Hallatt II*, 835 F.3d 960, 970-972 (9th Cir. 2016) (No. 14-35035); Haight Farley, *supra* note 9, at 59-60.

[24] Holpuch, *supra* note 6.

settled and Hallatt shuttered his business.[25] Ironically, Trader Joe's pending Canadian trademark applications issued soon after the litigation ended.[26]

The Ninth Circuit's decision was somewhat startling, even when judged against the relatively liberal extraterritorial application of the Lanham Act that it and other courts have employed.[27] Notably, Trader Joe's had not alleged that Hallatt sold confusingly similar products within the U.S., that any of his products somehow made their way back into the U.S., or that his company directed advertisements or other marketing into the U.S. Indeed, Pirate Joe's business model was not one of confusing U.S. consumers, but rather one of courting Canadian consumers with genuine Trader Joe's products purchased from an authorized U.S. retail source. Yet, despite no evidence that these re-sold goods had made their way back into the U.S., the court managed to find that they had a sufficient "effect" on U.S. commerce to state a claim for relief.

In so finding, the court relied on the landmark *Steele v. Bulova* case.[28] Its analysis of that case, however, arguably extended extraterritoriality well beyond the facts in *Steele*. The *Steele* defendant (a U.S. citizen) had sold counterfeit watches in Mexico, where he had no rights to the authentic manufacturer's mark, and where that manufacturer's U.S. advertising had reached.[29] Further, some of the defendant's extraterritorial sales were to U.S. citizens, who might have transported the watches back to the U.S.[30] In *Trader Joe's*, by contrast, the litigation involved a Canadian defendant who sold not counterfeit but rather genuine goods, as well as undisputed facts showing that the authentic manufacturer conducted no advertising or sales in Canada. Nor did the plaintiff allege that any of these re-sold goods had made their way back into the U.S.

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[25] Christopher Mele, *Pirate Joe's, renegade reseller of Trader Joe's products, shuts down*, THE BELLINGHAM HERALD (June 12, 2017, 07:43 AM) https://www.bellinghamherald.com/news/local/article155178669.html [https://perma.cc/4FE3-EK9H]. Throughout the publicity around the case, Hallatt seemed to combine his rebel grocer instincts with those of a performance artist. For example, one photo of Hallatt's storefront shows the "P" deliberately missing from "Pirate" so as to spell "irate Joe's." *See* Holpuch, *supra* note 6.

[26] TRADER JOE'S, Registration No. TMA 958/215 (Can.); TRADER JOE'S Design, Registration No. TMA 958/214 (Can.).

[27] Holpuch, *supra* note 6 (quoting Christine Farley stating: "Just opening the door to trademark owners to sue in the US courts for acts that occurred abroad and to be able to survive a motion to dismiss is huge."). *See also* William C. Johnston, *Extraterritorial Application of the Lanham Act Saves an American Brand from a Canadian Retail Pirate*, 40 SUFFOLK TRANSNAT'L L. REV. 165, 166 (2017); Recent Cases, *Foreign Relations Law—Lanham Act Extraterritoriality—Ninth Circuit Applies Lanham Act to Wholly Foreign Sales*, 130 HARV. L. REV. 1946, 1946 (2017).

[28] *Hallatt II*, 835 F.3d at 970-72 (citing Steele v. Bulova Watch, 344 U.S. 280, 286 (1952)).

[29] *See id.*; *see also* GRAEME AUSTIN, *The Story of Steele v. Bulova: Trademarks on the Line*, INTELLECTUAL PROPERTY STORIES 395, 400, 411 (Jane Ginsburg & Rochelle Cooper Dreyfuss eds., 2006).

[30] AUSTIN, *supra* note 29, at 401.

Thus, the Ninth Circuit's extraterritoriality analysis functioned as a strong proxy for a weakly supported anti-dilution claim with no definitive evidence of reputational harm in the U.S., and without full consideration of any available defenses, statutory[31] or otherwise.

The federal circuit courts have developed different standards for determining whether commercial activity is sufficient to warrant extraterritorial application of U.S. law — *i.e.*, the "effects test." For instance, the Second, Sixth, and Eleventh Circuits have stated that the effect on U.S. commerce must be "substantial" before U.S. law will reach extraterritorially.[32] The First, Third, and Fourth Circuits instead require a "significant effect."[33] The Fifth and Ninth Circuits have framed the post-*Steele* test as one that only requires "some effect."[34] Whether the effect on U.S. commerce must be substantial, significant, or just "some" (as in *Trader Joe's*), an overly-generous application of this test — combined with an impoverished conception of the exhaustion rule — threatens the business models of, among others, giant warehouse seller Costco,[35] as well as the more distributed but proliferating third party sellers frequenting on-line platforms such as Amazon, eBay, Etsy, and the like. Curbing the first sale doctrine based on sparse evidence of "effect" — such as potential reputational damage — will disrupt these on-going global commercial activities in plying gray market or other legitimate re-sold goods.

Less noticed than the arguable mischief to the first sale doctrine caused by the expansive reach of its effects test, the Ninth Circuit also broke with all other circuits in its procedural ruling. It created a new and different circuit split by refusing to treat the test of the Lanham Act's extraterritoriality as one of subject matter jurisdiction, ruling instead that this issue be treated on the merits. In doing so, however, it failed to explicitly distinguish the controlling precedent, *i.e.*,

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[31] 15 U.S.C. § 1125(c)(3) (2012) (listing statutory defenses to anti-dilution).

[32] Int'l Cafe, S.A.L., v. Hard Rock Cafe Int'l (U.S.A.), Inc., 252 F.3d 1274, 1278 (11th Cir. 2001) (finding no "substantial effect" on United States commerce); Liberty Toy Co. v. Fred Silber Co., No. 97-3177, 1998 WL 385469, at *6 (6th Cir. 1998) (remanding for application of "substantial effects" test); Vanity Fair Mills v. T. Eaton Co., 234 F.2d 633, 642 (2d Cir. 1956) (adopting test requiring "substantial effect" on United States commerce).

[33] McBee v. Delica Co., Ltd., 417 F.3d 107, 120 (1st Cir. 2005) (adopting test requiring "significant effect" on United States commerce); Nintendo of Am., Inc. v. Aeropower Co. Ltd., 34 F.3d 246, 250-51 (4th Cir. 1994) (requiring "significant effect" on United States commerce). *See also* Scanvec Amiable Ltd. v. Chang, 80 F. App'x 171, 181 (3d Cir. 2003) (adopting a variant satisfied by either significant or substantial effect).

[34] Paulsson Geophysical Servs., Inc. v. Sigmar, 529 F.3d 303, 309 (5th Cir. 2008) (finding subject matter jurisdiction given "some effect" on United States commerce); Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass'n, 701 F.2d 408, 414 (5th Cir. 1983) (requiring "some effect" on United States commerce); Wells Fargo & Co. v. Wells Fargo Express Co., 556 F.2d 406, 428 (9th Cir. 1977) (adopting the *Timberlane* "some effects" rule of reason in the context of the Lanham Act).

[35] *See* Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982, 984 (9th Cir. 2008), *aff'd*, 562 U.S. 40 (2010).

Steele. Instead, the *Trader Joe's* court relied heavily on the Supreme Court's decisions in the 2006 *Arbaugh v. Y & H Corp.* case,[36] as well as its 2010 *Morrison v. National Australia Bank* case,[37] finding that these more recent cases superseded any previous Ninth Circuit decision considering this issue on subject matter jurisdiction grounds. Yet neither the Ninth Circuit in *Trader Joe's*,[38] nor the Supreme Court in *Arbaugh* or *Morrison*, directly addressed or refuted the language in *Steele* with regard to subject matter jurisdiction.[39] Certainly, nothing in *Arbaugh* indicates that it intended to overrule *Steele sub silentio* on this issue, although it is possible to interpret *Morrison* as doing so.[40] Regardless, the Ninth Circuit now stands alone among all circuits in treating this issue as one on the merits.[41]

Thus, the *Trader Joe's* ruling brings to light previously submerged[42] and unresolved questions that have developed in the wake of *Steele*. Decisions in other areas of intellectual property law reveal the same judicial inconsistency with respect to the threshold issue of whether to treat the extraterritorial reach of

[36] 546 U.S. 500 (2006).

[37] Morrison v. Nat'l Austl. Bank Ltd., 561 U.S. 247 (2010).

[38] VED P. NANDA ET AL., LITIGATION OF INTERNATIONAL DISPUTES IN U.S. COURTS § 8:26 (2018) ("The Ninth Circuit, at least on occasion, barely refers to the Bulova factors, relying instead on a longer list of factors set forth in the first *Timberlane Lumber Co. v. Bank of America, N.T. and S.A*. decision. *Timberlane I* set forth a fairly complex balancing test applicable to antitrust jurisdiction. Ninth Circuit (and other) decisions often rely on *Timberlane* in assessing jurisdiction under the Lanham Act.").

[39] Steele v. Bulova Watch Co., 344 U.S. at 281 n.2 (1998) ("While the record shows that plaintiff fully relied on his asserted cause of action 'arising under' the Lanham Act, diversity of citizenship and the jurisdictional amount were also averred. As we are concerned solely with the District Court's jurisdiction over the subject matter of this suit, we do not stop to consider the significance, if any, of those averments."); *see also id.* at 286 ("In the light of the broad jurisdictional grant in the Lanham Act, we deem its scope to encompass petitioner's activities here. His operations and their effects were not confined within the territorial limits of a foreign nation.").

[40] *Morrison* referred to *Steele* parenthetically, stating in a footnote: "although a final case cited by the Solicitor General, . . . [*Steele*] might be read to permit application of a nonextraterritorial statute whenever conduct in the United States contributes to a violation abroad, we have since read it as interpreting the statute at issue—the Lanham Act—to have extraterritorial effect." *Morrison*, 561 U.S. at 272 n.11 (2010) (internal citations omitted).

[41] Relying on the *Trader Joe's* district court decision, this issue was characterized as one of subject matter jurisdiction. J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 29:58 (5th ed. 2017).

[42] Elizabeth McCuskey uses "submerged" in conjunction with the unexamined precedential consequences of unreported decisions that may have more detailed reasoning as well as different outcomes from published decisions. Elizabeth Y. McCuskey, *Submerged Precedent*, 16 Nev. L.J. 515, 516 (2016). While McCuskey's use of the term serves an important purpose, this article uses the term "submerged" in a different sense: to denote legal issues that have been allowed to proliferate in their original form as having precedential value despite the waning quality or relevance of that value.

U.S. law as a jurisdiction or merits question.[43] The extraterritorial reach of U.S. laws is a species of the more general genus of jurisdiction, sometimes characterized as prescriptive jurisdiction[44] and/or prescriptive comity.[45] Prescriptive jurisdiction involves the authority of the state (typically a legislative authority, such as Congress in the U.S.) to make its law applicable to persons or activities.[46] Relatedly, prescriptive comity involves deference by the state to

[43] For a discussion of the subject matter jurisdiction versus merits confusion in copyright and patent cases see Marketa Trimble, *The Territorial Discrepancy between Intellectual Property Rights Infringement Claims and Remedies*, 23 LEWIS & CLARK L. REV. (forthcoming 2019) (manuscript at 20 n.93) (on file with the Boston University Journal of Science & Technology Law) (citing Geophysical Service, Inc. v. TGS-NOPEC Geophysical Co., 850 F.3d 785, 791 (5th Cir. 2017) ("[T]he Copyright Act's insistence that infringing conduct be domestic offers an essential element of a copyright infringement plaintiff's claim, not of jurisdiction . . . . [B]ounding the reach of the Copyright Act to territorial conduct presents a question of the merits of the claim, not the jurisdiction of the court."). *Id*. (citing to Litecubes, LLC v. Northern Light Products, Inc., 523 F.3d 1353, 1366 (Fed. Cir. 2008)) ("[W]hether the allegedly infringing act happened in the United States is an element of the claim for patent infringement, not a prerequisite for subject matter jurisdiction."). *Cf.* Peter Starr Prod. Co. v. Twin Cont'l Films, Inc., 783 F.2d 1440 (9th Cir. 1986) (treating extraterritorial application of the U.S. Copyright Act as a subject matter jurisdiction issue).

[44] RESTATEMENT (FOURTH) OF FOREIGN RELATIONS LAW § 402 cmt. a (2018) ("Jurisdiction to prescribe, also called prescriptive or legislative jurisdiction, concerns the authority of a state to make law applicable to persons, property, or conduct."). Furthermore, Section 402 states:

> (1) Subject to the constitutional limits set forth in § 403, the United States exercises *jurisdiction to prescribe* law with respect to:
>
> (a) persons, property, and conduct within its territory;
>
> (b) conduct that has a *substantial effect* within its territory;
>
> (c) the conduct, interests, status, and relations of its nationals and residents outside its territory; [and]
>
> (d) certain conduct outside its territory that harms its nationals.

Id. (emphasis added). *See also Morrison*, 561 U.S. at 257 (characterizing extraterritorial inquiry as one of prescriptive jurisdiction).

[45] "In exercising jurisdiction to prescribe, the United States takes account of the legitimate interests of other nations as a matter of *prescriptive comity*." RESTATEMENT (FOURTH) OF FOREIGN RELATIONS LAW § 402 (2018) (emphasis added).

[46] Howard Wasserman, *Prescriptive Jurisdiction, Adjudicative Jurisdiction, and the Ministerial Exemption*, 160 U. PENN. L. REV. PENNUMBRA 287, 298 (2012) ("Prescriptive jurisdiction is the power of secular rulemakers to prescribe legal rules and to regulate real-world behavior. It can be understood under any of our definitions: as the power to assert regulatory authority over some actors and to prohibit or regulate some conduct; as the power to establish Hohfeldian rights and duties; or as the power to determine who can sue whom for what primary conduct. The most common wielder of prescriptive jurisdiction is the legislature, which bears primary responsibility for establishing prospective legal rules of general applicability to real-world behavior."); *see also* P. Sean Morris, *From Territorial to Universal: The Extraterritoriality of Trademark Law and the Privatizing of International Law*, 37 CARDOZO ARTS & ENT. L.J. 33, 58 (2019) (attributing the trifurcation of adjudicative,

foreign lawmakers.[47] The intertwining of procedural and substantive questions, while evident in many other areas of law, seems particularly acute here.

The courts, including the Supreme Court, seem to indicate that the test of extraterritoriality is identical, whether applied as a jurisdictional test or applied as on the merits.[48] This may or may not be true. As discussed in more detail below, the procedural vehicles for these respective dismissals — FRCP 12(b)(1) versus FRCP 12(b)(6) — have significantly different strategic consequences, including the opportunity to raise defenses at an early stage of litigation. If the issue of prescriptive jurisdiction/comity is indeed more one of merits and less of jurisdiction (despite the term "jurisdiction"), then it is time for the Supreme Court to "kondo" *Steele* — ridding it of its excess subject matter jurisdictional baggage and thereby signaling its endorsement of the *Trader Joe's* court's merits-based approach to this question. This would not necessarily require an overruling of *Steele* but rather a revisit to it, particularly in light of recent cases emphasizing the importance of well-supported jurisdictional classifications.

Beyond conceptual and theoretical tidiness regarding the jurisdictional classification, courts also arguably require more guidance regarding whether harm to trademark goodwill is sufficiently different from other kinds of commercial harm to justify the generous extension of extraterritoriality under the Lanham Act via the effects test. Increasingly, courts seem to rely on activities that impact *any* aspect of the plaintiffs' goodwill, even (as in *Trader Joe's*) those conducted wholly outside the U.S. and resulting in reputational harm only.[49] This broad ambit may make sense in the context of a global market of transnational goodwill that crosses borders with the click of a mouse,[50] or in the

prescriptive, and enforcement jurisdiction to FREDERICK MANN, THE DOCTRINE OF JURISDICTION IN INTERNATIONAL LAW (1964)).

[47] William S. Dodge, *International Comity in American Law*, 115 COLUM. L. REV. 2071, 2078 (2015) (characterizing deference to foreign lawmakers as prescriptive comity); *accord* Maggie Gardner, *Retiring Forum Non Conveniens*, 92 NYU L. REV. 390, 392 (2017) ("*Prescriptive* comity doctrines manage the overlap in states' power to establish laws and regulate behavior, while *adjudicative* comity doctrines speak to which sovereign should resolve a particular dispute.").

[48] *See, e.g.,* Morrison v. Nat'l Austl. Bank Ltd., 561 U.S. 247 (2010); Arbaugh v. Y & H Corp., 546 U.S. 500 (2006).

[49] Courts even find harm completely unrelated to the information economics of trademark law "such as loaning funds or transacting bank business in the United States (7 opinions (4.4%)) [or] the financial gain of a US entity (i.e., defendant) received from abroad (5 opinions (3.14%))." Tim W. Dornis, *Behind the Steele Curtain: An Empirical Study of Trademark Conflicts Law, 1952-2016*, 20 VAND. J. ENT. & TECH. L. 567, 630 (2018). *See also, e.g.*, *Paulsson,* 529 F.3d at 307 (finding subject matter jurisdiction given "some effect" on United States commerce); *Am. Rice*, 701 F.2d at 414 (5th Cir. 1983) (same); *Wells Fargo*, 556 at 406 (adopting *Timberlane* "some effects" rule of reason in the context of the Lanham Act).

[50] *See generally* Graeme W. Austin, *The Consumer in Cross-Border Passing Off Cases*, 47 VICT. U. OF WELLINGTON L. REV. 209 (2016); Xuan-Thao N. Nguyen, *The Digital*

specific factual setting of *Trader Joe's*, which involved perishable food products.[51] Nonetheless, the canard that trademark law is territorial[52] is undermined by notions of domestic effects that rely heavily on broad notions of reputation-based harm rather than harm caused by consumer confusion. The Ninth Circuit assumed, for example, that an American business was harmed by what some left-coast Canadians might think about its products after purchasing them from a store that was indisputably a purveyor of resold goods. And this interpretation of "effects" flies in the face of recent Supreme Court caselaw (albeit in the context of federal securities rather than trademark law) rejecting a broad view of "effects."[53]

The jurisdictional and merits aspects of the Ninth Circuit's ruling are inextricably fused. As previously noted, its approach to the extraterritorial reach of U.S. law, whether on procedural or substantive grounds, is arguably an outlier.[54] This matters for both principled and strategic reasons. From the perspective of legal principle, the circuit split created by the *Trader Joe's* decision suggests that correctly characterizing and clarifying prescriptive jurisdiction will matter for many types of cases, not just Lanham Act-based cases. From a strategic standpoint, the Ninth Circuit has surpassed the Second Circuit as the most popular circuit for filing extraterritorial Lanham Act actions. It also currently has a higher extraterritoriality rate than the Second Circuit.[55] To

Trademark Right: A Troubling New Extraterritorial Reach of United States Law, 81 N.C.L. REV. 483 (2003).

[51] Jack Houston, *A psychologist explains how Trader Joe's gets you to spend more money*, BUS. INSIDER (Feb. 19, 2019), https://www.businessinsider.com/trader-joes-how-gets-you-spend-money-psychologist-2019-1 [https://perma.cc/L34S-TF26] ("In short, they're there to make your life easier. This ideology is embodied in their food as well as specifically their frozen food. And Americans have always had a certain affection for a heat-and-serve mentality. Frozen dinners are easy, fast, and little mess.").

[52] Graeme B. Dinwoodie, *Trademarks and Territory: Detaching Trademark Law From the Nation-State*, 41 HOUS. L. REV. 885, 887 (2004).

[53] *Morrison*, 561 U.S. at 258-59 (stating "[t]here is no more damning indictment of the . . . 'effects' tests than the Second Circuit's own declaration that 'the presence or absence of any single factor which was considered significant in other cases . . . is not necessarily dispositive in future cases.'").

[54] *See generally* Wells Fargo & Co. v. Wells Fargo Express Co., 556 F.2d 406 (9th Cir. 1977).

[55] Dornis, *supra* note 49, at 601 ("Regarding the number of newly filed cases, the Ninth Circuit actually took the lead from the Second Circuit in 2007."). Moreover:

> [T]he Second Circuit is far from being the spearhead of extraterritoriality. While that circuit remains the champion with regard to case numbers, its extraterritoriality rate (48.84%) is below the overall average of 60.67%. This number is particularly dramatic when compared with the Fifth Circuit, which applied the Lanham Act extraterritorially in almost all of the opinions decided there—12 out of 13 opinions, or 92.31%. In addition—and quite contrary to conventional wisdom—the Ninth Circuit fails to meet its reputation as a rights holder's haven. Of course, its overall extraterritoriality rate is 65.85%.

the extent that the *Trader Joe's* decision signals friendliness towards plaintiffs, it may increase the incentive to forum-shop westward in Lanham Act cases, thus exacerbating the trend toward generous helpings of extraterritoriality.

These important concerns are part of a larger debate about the extraterritorial reach of U.S. intellectual property laws, including its trademark laws.[56] The remainder of this Article addresses these issues as follows: Part I examines the possible bases for viewing the Lanham Act's extraterritorial reach as either a jurisdictional or a merits issue. It briefly contrasts the doctrinal and strategic differences between a dismissal based upon subject matter jurisdiction and one on the merits while considering empirical data regarding published judicial decisions on these motions,[57] to explore what courts (post-*Steele* and pre-*Trader Joes*) have been deciding "in action" as opposed to "in books."[58] Part II then examines the Supreme Court's general framework for extraterritoriality analysis and explores how this question is currently handled in the specific context of the Lanham Act. Further, it critically examines how the *Trader Joe's* court applied the effects test. Finally, it links the previous sections to normative trademark policy, particularly the scope of the exhaustion doctrine in the face of the expanding rights of trademark owners.

At its core, *Steele* held that the Lanham Act has extraterritorial reach; this holding has been followed faithfully by lower courts.[59] While the Supreme Court has been active lately in modernizing the federal common law of extraterritoriality, it has not updated the reach of the Lanham Act. Thus, it is timely to consider whether the Supreme Court should "kondo" the iconic *Steele v. Bulova* decision, ridding it of unnecessary doctrinal clutter and allowing the development of extraterritoriality doctrine in trademark law to proceed with greater clarity, if not with joy.[60]

Id. at 599.

[56] *See generally* Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT'L L. 505 (1997); Roger E. Schechter, *The Case for Limited Extraterritorial Reach of the Lanham Act*, 37 VA. J. INT'L L. 619 (1997); Dinwoodie, *supra* note 52.

[57] *See generally* Dornis, *supra* note 49 (coding all post-*Steele* cases deciding extraterritoriality between 1952 and 2016).

[58] Roscoe Pound, *Law in Books and Law in Action*, 44 AM. L. REV. 12, 12 (1910); Bill Clune, *Law in Action and Law on the Books: A Primer*, NEW LEGAL REALISM: EMPIRICAL L. & SOC'Y (June 12, 2013), http://newlegalrealism.org/2013/06/12/law-in-action-and-law-on-the-books-a-primer/ [https://perma.cc/59Y6-2T5R].

[59] Dornis, *supra* note 49, at 571. The Dornis database reflects "133 actual *disputes* (until 2016)—with 159 database-accessible *opinions* (not necessarily published in the reporters)—i.e., some 'disputes' ended up with decisions of the majority, and a concurring or a dissenting opinion." E-mail from Professor Tim Dornis to author (Mar. 5, 2019) (on file with author).

[60] *Kondo*, *supra* note 1.

1. JURISDICTION OR MERITS? THE EXTRATERRITORIAL REACH OF THE LANHAM ACT

A. Parsing Jurisdiction: Laws in Books

The Supreme Court is re-visiting some of its earlier jurisdictional rulings with a critical eye. For example, in *Arbaugh*, a unanimous Supreme Court, speaking through Justice Ginsburg, stated:

> On the subject-matter jurisdiction/ingredient-of-claim for-relief dichotomy, this Court and others have been less than meticulous.
>
> Subject matter jurisdiction in federal question cases is sometimes erroneously conflated with a plaintiff's need and ability to prove the defendant bound by the federal law asserted as the predicate for relief—a merits-related determination.[61]

Arbaugh is part of a discernable project by the Court to clean up its jurisprudence of jurisdiction, and to refuse to give precedent to "drive-by jurisdictional rulings."[62] Its specific concern was whether Title VII's numerosity requirement is an element of a claim based on Congressional power to regulate commerce. Many courts had treated this as a question of subject matter jurisdiction, but the Court clarified that it is a merits issue.[63]

While *Arbaugh* did not involve extraterritorial application of a federal statute, the subsequent *Morrison* case involved the extraterritorial reach of the Securities and Exchange Act of 1934. In language that the Ninth Circuit quoted in *Trader Joe's*, the *Morrison* Court stated:

> But to ask what conduct § 10(b) reaches is to ask what conduct § 10(b) prohibits, which is a merits question. Subject-matter jurisdiction, by contrast, "refers to a tribunal's power to hear a case." . . . It presents an issue quite separate from the question whether the allegations the plaintiff makes entitle him to relief."[64]

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[61] Arbaugh v. Y & H Corp., 546 U.S. 500, 511 n.10 (2006). ("A claim invoking federal-question jurisdiction under 28 U.S.C. § 1331 . . . may be dismissed for want of subject matter jurisdiction if it is not colorable, *i.e.,* if it is "immaterial and made solely for the purpose of obtaining jurisdiction" or is "wholly insubstantial and frivolous." . . . Arbaugh's case surely does not belong in that category.").

[62] *Id.* (quoting Steel Co. v. Citizens for Better Env't, 523 U.S. 83, 91 (1998)) ("The short of the matter is that the jurisdictional character of the elements of the cause of action . . . made no substantive difference (nor even any procedural difference that the Court seemed aware of), had been assumed by the parties, and was assumed without discussion by the Court. We have often said that drive-by jurisdictional rulings of this sort . . . have no precedential effect."). *See also* Wasserman, *supra* note 46, at 308, n.107 (listing relevant cases).

[63] *Arbaugh*, 546 U.S. at 512.

[64] Morrison v. Nat'l Austl. Bank Ltd., 561 U.S. 247, 254 (2010).

Both *Arbaugh* and *Morrison* are fairly sparsely reasoned with regard to the grounds for classifying an issue as a merits question rather than a procedural one. Nonetheless, they both point strongly to the position that the *Trader Joe's* court eventually took.

More distantly, the Supreme Court had re-affirmed the extraterritorial reach of the Lanham Act in the *Aramco* case, which rejected the extraterritorial application of Title VII, but (in dicta) distinguished *Steele* as marking a "broad jurisdictional grant" including "commerce with foreign nations."[65] And most recently, the Court stated a test of extraterritoriality in *RJR Nabisco, Inc. v. European Community*:

> First, the Court asks whether the presumption against extraterritoriality has been rebutted—i.e., *whether the statute gives a clear, affirmative indication that it applies extraterritorially*. This question is asked regardless of *whether the particular statute* regulates conduct, affords relief, or merely confers jurisdiction.[66]

Thus the earlier *Aramco* opinion's affirmation of Steele is couched in fuzzy jurisdictional language later criticized in *Arbaugh*[67] and without the "clear, affirmative indication" required by *RJR Nabisco*.[68]

These and other cases indicate that the analysis of prescriptive jurisdiction is the very opposite of trans-substantive.[69] The question whether a statute ought to have extraterritorial reach is highly dependent on the precise statutory language

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[65] EEOC v. Arab-American Oil Co. (Aramco), 499 U.S. 244, 252 (1991) ("The [Lanham] Act defined commerce as 'all commerce which may lawfully be regulated by Congress.' The stated intent of the statute was 'to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce.' While recognizing that 'the legislation of Congress will not extend beyond the boundaries of the United States unless a contrary legislative intent appears,' the Court concluded that in light of the fact that the allegedly unlawful conduct had some effects within the United States, coupled with the Act's 'broad jurisdictional grant' and its sweeping reach into 'all commerce which may lawfully be regulated by Congress,' the statute was properly interpreted as applying abroad.") (citations omitted).

[66] *RJR Nabisco*, 136 S. Ct. 2090, 2093-94 (2016) (emphasis added).

[67] Indeed, the *Arbaugh* court critiqued its 1991 decision in *Aramco*, 499 U.S. 244— a Title VII case involving extraterritorial application of laws — as having engaged in an unthinkingly automatic subject matter jurisdiction classification. *Arbaugh*, 546 U.S. at 512 (describing that the Aramco "judgment had been placed under a lack of subject-matter jurisdiction label. We agreed with the lower courts' view of the limited geographical reach of the statute. *En passant,* we copied the petitioners' characterizations of terms included in Title VII's "Definitions" section as "jurisdictional." But our decision did not turn on that characterization.") (citations omitted).

[68] *RJR Nabisco*, 136 S. Ct. at 2094.

[69] *See* David Marcus, *Trans-Substantivity and the Processes of American Law*, 2013 BYU L. REV. 1191, 1203-07 (2013) (categorizing different degrees of substance-specific versus trans-substantive laws).

at hand, Congressional intent, and other factors.[70] Relatedly, the question whether extraterritoriality is a subject matter jurisdiction issue in any particular statutory context may also depend on the specific statutory language from which this question is presented. Indeed, Justice Ginsburg in *Arbaugh* suggested the Congress had the power to turn what the Court deemed to be a merits issue into a jurisdictional one, by enacting appropriate jurisdictional statutes.[71] And the Lanham Act contains a specific jurisdictional provision[72] that complicates any attempt to apply non-Lanham Act precedents to it.

As a result of this statute-specificity, the *Arbaugh* and *Morrison* analyses arguably cannot necessarily be applied across the board to all commerce clause-based statutes. And if this is so, then what principled basis exists for delineating subject matter jurisdiction from merits questions more generally? Howard Wasserman has recently argued that courts often confuse prescriptive (or legislative) jurisdiction and adjudicative (or judicial) jurisdiction. As stated earlier, prescriptive jurisdiction involves the authority of Congress to make its law applicable to persons or activities.[73] For example, according to the Restatement (Fourth) of Foreign Relations,[74] extraterritorial prescriptive jurisdiction can be exercised when there are "substantial, direct, and foreseeable

[70] Kiobel v. Royal Dutch Petroleum Co., 569 U.S. 108, 133-134 (2013); Morrison v. Nat'l Austl. Bank Ltd., 561 U.S. 247, 256-58 (2010); Microsoft Corp. v. AT&T Corp., 550 U.S. 437, 442 (2007); *RJR Nabisco*, 136 S. Ct. at 2095, 2110, 2114. *See generally* Rochelle Dreyfuss & Linda Silberman, *Misappropriation on a Global Scale: Extraterritoriality and Applicable Law in Transborder Trade Secrecy Cases*, 8 CYBARIS INTELL. PROP. L. REV. 265, 291-295 (2017) (discussing recent development in extraterritorial reach of different types of intellectual property laws).

[71] Arbaugh v. Y & H Corp., 546 U.S., 514-15 (2006). Of course, Congress could make the employee-numerosity requirement "jurisdictional," just as it has made an amount-in-controversy threshold an ingredient of subject matter jurisdiction in delineating diversity-of citizenship jurisdiction under 28 U.S.C. § 1332. *See also* Layne E. Kruse & Rebecca H. Benavides, *Subject Matter Jurisdiction in Federal Court in International Cases*, *in* INTERNATIONAL LITIGATION: DEFENDING AND SUING FOREIGN PARTIES IN THE U.S. FEDERAL COURTS 136 (David J. Levy ed., 2003) ("Federal statutes may create original federal jurisdiction and removal jurisdiction in international dispute by virtue of a federal court's subject matter jurisdiction. The grant of 'arising under' jurisdiction in Article III, § 2 of the Constitution is not self-executing.").

[72] 15 U.S.C. § 1121 (1998).

[73] Wasserman, *supra* note 46, at 298-299. *But see* Dodge, *supra* note 47, at 2100 ("Prescriptive comity is comity to lawmakers—often legislatures, but sometimes courts or executive branch officials. Furthermore, prescriptive comity is exercised by courts. It is true that courts sometimes justify the extension of comity through assumptions about what the legislature would want. It is also true that legislatures sometimes speak directly to the recognition of foreign law or the extraterritorial reach of domestic law. But it is ultimately courts that interpret and apply these rules, sometimes relying on background principles of 'prescriptive comity' to do so.").

[74] RESTATEMENT (FOURTH) OF FOREIGN RELATIONS LAW § 402 (2018).

effect upon . . . U.S. commerce"[75] — an articulation of the effects test that will be revisited in Part II.

The question of the Congressional authority and intent to exercise prescriptive jurisdiction is at the very core of an extraterritoriality analysis, in which courts must consider whether the legislature intended the reach of a federal statute to regulate the conduct of persons beyond the borders. According to Wasserman, this is a type of merits analysis that goes to the scope of legislative power.[76] Adjudicative jurisdiction, by contrast, involves the judiciary's "root power to adjudicate [a case]: to hear and resolve legal and factual issues under substantive legal rules, and to provide the adjudicative and remedial forum to resolve claims of right."[77] In his view, the conceptual difference between prescriptive and adjudicative jurisdiction provides the principled ground to differentiate between a merits inquiry and a subject matter jurisdictional one.

In light of *Arbaugh* and *Morrison,* the key question is whether *Steele* decided a question of *prescriptive* jurisdiction on the merits regarding congressional authority to regulate extraterritorial conduct pursuant to use "in commerce" or whether it was engaging in *adjudicative* jurisdiction regarding the reach of its original jurisdiction. The *Steele* Court did not use either of these terms, but it did frame the question presented this way:

> The issue is whether a United States District Court has jurisdiction to award relief to an American corporation against acts of trade-mark infringement and unfair competition consummated in a foreign country by a citizen and resident of the United States
>
> Resolution of the jurisdictional issue in this case *therefore depends on construction of exercised congressional power, not the limitations upon that power itself*. And since we do not pass on the merits of Bulova's claim,

[75] *Id.* ("Whether exercise of jurisdiction over a person or activity is unreasonable is determined by evaluating all relevant factors, including, where appropriate . . . the link of the activity to the territory of the regulating state, i.e., the extent to which the activity takes place within the territory, or has *substantial*, direct, and foreseeable effect upon or in the territory.").

[76] Wasserman, *supra* note 46, at 310 ("[T]he [Morrison] Court characterized limitations on the scope and reach of the legal rule as merits-based simply because what a legal rule prohibits and who it controls is, by its nature, a merits issue."). *See also*, John Harrison, *Jurisdiction, Congressional Power, and Constitutional Remedies*, 86 GEO. L.J. 2513, 2515 (1998) ("Congress with its substantive powers can create, decline to create, or limit causes of action. It can determine who is entitled to sue whom, for what, and for what remedy.").

[77] Wasserman, *supra* note 46, at 302-03. According to Wasserman, the on-going confusion about the all-purpose word "jurisdiction" is due to a conflation between the jurisdictional elements needed to prove a claim and judicial jurisdiction: "Jurisdictional elements are about congressional jurisdiction—substantive congressional constitutional power or authority—to regulate particular real-world conduct through legislation. Jurisdictional elements have nothing to do with judicial jurisdiction—judicial power or authority—to adjudicate a case or controversy between parties under that statute." Howard M. Wasserman, *Jurisdiction and Merits*, 80 WASH. L. REV. 643, 684 (2005).

> we need not now explore every facet of this complex and controversial Act.[78]

The Court's language in this part of the opinion is strongly suggestive of prescriptive rather than adjudicative jurisdiction, whereby the Court is evaluating the proper reach of Congressional power—as opposed to the limits imposed on the federal judicial power authorized by Congress. It thus indicates that the Court was actually engaging in a merits analysis, i.e., analyzing prescriptive jurisdiction, despite language in the opinion that refers to many different types of jurisdiction.[79]

The *Steele* Court undeniably cited extensively to federal statutes governing original jurisdiction of the federal courts, such as 28 U.S.C. §§ 1331,[80] 1332,[81] and 1338,[82] as well as to the Lanham Act's specific jurisdictional provision, which echoes the "arising under" language of Sections 1331 and 1338.[83] Furthermore, extraterritoriality analysis necessarily involves statutory interpretation of the "laws" of the United States, including the Lanham Act, as well as federal common law (including customary international law, conflicts of law, and comity).[84] These various citations suggest that the *Steele* Court may have perceived the question presented as whether a colorable federal question existed as a basis for original jurisdiction of the district court.

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[78] Steele v. Bulova Watch Co., Inc., 344 U.S. 280, 281-283 (1952). However, neither of the appellate briefs characterized the issue as one of subject matter jurisdiction.

[79] The Steele Court wrote "[t]he Lanham Act, on which Bulova posited its claims to relief, confers broad jurisdictional powers upon the courts of the United States. The statute's expressed intent is. . . ." then it proceeded to lay out the purpose of the statute, the scope of the cause of action, the grant of jurisdiction to claims "arising under" and the available remedies. *Id.* at 283-284.

[80] 28 U.S.C. § 1331 (2012) ("The district courts shall have original jurisdiction of all civil actions arising under the Constitution, *laws*, or treaties of the United States.") (emphasis added).

[81] There was diversity between the parties as the plaintiff Bulova company was a citizen of New York and defendants Steele and his wife were U.S. citizens, as well as citizens of the state of Texas. *Steele*, 344 U.S. at 281.

[82] 28 U.S.C. § 1338(b) (2012) ("The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection *or trademark laws*") (emphasis added).

[83] 15 U.S.C. § 1121 (2012) ("The district and territorial courts of the United States shall have original jurisdiction . . . of all actions arising under this chapter, without regard to the amount in controversy or to diversity or lack of diversity of the citizenship of the parties.").

[84] Joel R. Paul, *The Transformation of International Comity*, 71 L. & CONTEMP. PROBS. 19, 19-21 (2008). Recent scholarly debate over the intended scope of "laws of the United States" casts some doubt on the inclusion of non-statutory law such as customary international law. *See, e.g.*, John Harrison, *The Constitution and the Law of Nations*, 106 GEO. L.J. 1659, 1661 (2018).

However, virtually all commentators agree that the crux of the *Steele* Court's analysis is section 45 of the Lanham Act, specifically, the Court's reading of Congressional intent "*to regulate commerce within the control of Congress*" in tandem with the statutory definition of commerce as "*all commerce which may lawfully be regulated by Congress*."[85] The Court's heavy reliance on these sections of the statute in its *Steele* opinion resembles more of the modern take on the prescriptive jurisdiction of Congress in the area of foreign relations[86] rather than the traditional subject matter jurisdiction analysis, which is primarily concerned with channeling cases between federal and state judicial systems in a domestic context.[87]

Furthermore, most modern "arising under" tests involve some balancing of federal and state interests, based upon federalism concerns,[88] yet federalism-related balancing is absent from the various tests for extraterritoriality. Federalism supplies the general rationale for the channeling function of subject matter jurisdiction pursuant to FRCP 12(b)(1): Federal courts are courts of limited jurisdiction under Article III of the Constitution, with power to hear specifically defined categories of cases, such as cases "arising under the Constitution, treaties, and laws of the United States."[89] Conversely, state courts are courts of general jurisdiction with the power and authority to hear any kind of case. A plaintiff does not have a right to be in federal court for a federal claim, unless Congress has created exclusive jurisdiction of the federal courts over a particular class of cases and the plaintiff can demonstrate that its claims "arise under" those laws through a well-pleaded complaint, that is, a complaint that raises federal issues in the claims (and does not anticipate them through defenses).[90]

Yet, according to 28 U.S.C. § 1338, federal and state courts share concurrent subject matter jurisdiction over Lanham Act cases.[91] This concurrent jurisdiction reflects the common law origins of current federal trademark law, rooted in the longstanding doctrine of unfair competition.[92] As a result, state courts may also

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[85] *Steele*, 344 U.S. at 282-84 (citing to Lanham Act §§ 39, 45, 15 U.S.C. §§ 1121, 1127) (emphasis added).

[86] In *Morrison*, the presumption was a matter of presumed congressional intent, a "canon of construction . . . rather than a limit upon Congress's power to legislate." Morrison v. Nat'l Austl. Bank Ltd., , 561 U.S. 247, 255 (2010).

[87] Wasserman, *supra* note 77, at 702 (quoting Lea Brilmayer's rule of substantive relevance: "The question is whether a particular fact may be pled and proven in order for the plaintiff to prevail in the identical civil action claiming a violation of the identical federal statute brought in state court") (citation omitted).

[88] *See, e.g.*, Grable & Sons Metal Prod., Inc. v. Darue Eng'g & Mfg., 545 U.S. 308, 312 (2005).

[89] U.S. CONST. art. III, §§ 1-2; 28 U.S.C. § 1331 (2012).

[90] Louisville & Nashville R.R. Co. v. Mottley, 211 U.S. 149, 151-54 (1908).

[91] *See* 28 U.S.C. § 1338(a) (2012).

[92] *Id.* This section confers exclusive jurisdiction on the federal courts for patent, copyright, and other types of claims but does not include trademark claims in this list of exclusivity. *See*

have opportunity to apply extraterritoriality tests.[93] Of course, federal courts often exercise diversity or supplemental jurisdiction over state or common law claims of unfair competition, in addition to federal question jurisdiction over the Lanham Act claims. The absence of federalism balancing factors within trademark law more generally and in the *Steele* opinion itself suggests that the core concern of *Steele* was Congressional power, not federal versus state judicial competence to adjudicate Lanham Act claims. Thus, *Steele* decided a question of prescriptive jurisdiction – a merits issue – despite (perhaps inadvertently) characterizing it as an issue of subject matter jurisdiction.

B. Parsing Jurisdiction: Rules in Books

At first glance what might appear to be an arcane procedural issue can be significant for strategic reasons. If successful, either type of dismissal—whether on subject matter jurisdiction grounds under FRCP 12(b)(1) or on the merits under FRCP 12(b)(6)—will give a defendant procedural advantage by not allowing the case to proceed to the next, fact-finding stage of litigation. But different dismissal motions raise corresponding doctrinal and strategic advantages or disadvantages. Whether a motion for dismissal is brought on grounds of subject matter jurisdiction pursuant to FRCP 12(b)(1) or on the merits pursuant to FRCP 12(b)(6) can matter in individual cases.[94] The differences between them fall into four broad categories: Construction of facts, standard of pleading those facts, preclusive effect of judgment, and timing of the motions. Extraterritoriality provides a fifth dimension of analysis that affects the other four factors.

1. Construing Facts

According to the *Arbaugh* court, a trial judge can review evidence on contested facts in a FRCP 12(b)(1) decision.[95] This power potentially takes the factual disputes away from the jury, which is institutionally empowered to find facts. In practice, some courts sometimes treat contested facts in a Rule 12(b)(1)

also, Trade-Mark Cases, 100 U.S. 82, 97 (1879) ("Here is no requirement that such person shall be engaged in the kind of commerce which Congress is authorized to regulate. It is a general declaration that anybody in the United States, and anybody in any other country which permits us to do the like, may, by registering a trade-mark, have it fully protected.").

[93] Two state court cases decided extraterritoriality of the Lanham Act between 1952 and 2016. Dornis, *supra* note 49, at 583-84.

[94] Of course, it is possible that the exact procedural device for challenging extraterritoriality may not make a difference, if the outcome of the extraterritoriality test is the same no matter what rule is applied. Answering that hypothetical scenario, however, would require an impossible experiment akin to a randomized controlled trial in which the same cases with the same facts are decided by the same judge on different rule-based motions. Some cases (such as *Trader Joe's* Ninth Circuit decision) suggest that the result might be the same either way. Yet, other cases (discussed below) point to a different conclusion. *See infra* Part I. C.

[95] Arbaugh v. Y & H Corp., 546 U.S. 500, 501-02 (2006).

motion in the "light most favorable to the plaintiff"—a standard that has long been associated with FRCP 12(b)(6) motions.[96] The Ninth Circuit differentiates between facial and factual attacks:

> A facial attack asserts the allegations contained in the complaint are insufficient on their face to invoke federal jurisdiction. A factual attack, in contrast, requires submission of evidence that calls into dispute the truth of the allegations that support jurisdiction.[97]

Where the challenge goes beyond the allegations in the complaint to their evidentiary sufficiency, through affidavits or otherwise, courts in the Ninth Circuit will review evidence on those contested facts per *Arbaugh*.[98] Otherwise the courts in the Ninth Circuit will view the facts alleged in the complaint in the light most favorable to the plaintiff.

2. The Requirement of Plausibility

More significantly, however, the facts undergirding a FRCP 12(b)(1) motion are not required to meet the "plausibility" pleading standard that is required of factual allegations on the merits. The Supreme Court's *Twombly* and *Iqbal* decisions up-ended the relatively liberal pleading standards of the federal procedural system.[99] Now, notice pleading of any claims under FRCP 12(b)(6) requires more than the mere factual possibility — but rather the factual plausibility — of claims being alleged in a complaint.[100] This pleading standard now applies to any substantive claims filed in federal court and can be particularly important where defendant is in possession of most of the relevant information (which is not necessarily as true of trademark cases as of employment discrimination cases). In any event, this more exacting pleading standard has not been applied to allegations of subject matter jurisdiction thus far.

3. Preclusive Effect

Additionally, a FRCP 12(b)(1) dismissal is not on the merits and therefore does not have preclusive effect. This leaves the door open for a persistent plaintiff to re-file in a different court—which could be viewed as an advantage to the plaintiff unless the alternative forum is viewed as less favorable. Since the

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[96] Conley v. Gibson, 355 U.S. 41, 45-46 (1957). Pursuant to FRCP 12(d), if factual allegations go beyond a pleading, then the 12(b)(6) motion is converted a FRCP 56 motion, which then turns on the presence or absence of any genuine dispute of material fact.

[97] *See generally* Hallatt II, 835 F.3d 960 (9th Cir. 2016).

[98] Both the district court and the Ninth Circuit treated the challenge as a facial one, without conflicting facts. *See Arbaugh*, 546 U.S. at 501.

[99] *See generally* Aschroft v. Iqbal, 556 U.S. 662 (2009); Bell Atlantic Corp. v. Twombly, 550 U.S. 516 (2007).

[100] *See generally* JOE S. CECIL ET AL., FED. JUDICIAL CTR., MOTION TO DISMISS FOR FAILURE TO STATE A CLAIM AFTER *IQBAL* (2011); *Aschroft*, 556 U.S. 662; *Bell Atlantic Corp.*, 550 U.S. 516.

plaintiff typically has the choice of where to file, a dismissal based on subject matter jurisdiction grounds essentially negates that choice and forces the plaintiff into its "option B," negating any initial forum-shopping decision. Nonetheless, the plaintiff still has a possible future day in court somewhere and some day because the dismissal based on subject matter jurisdiction is not considered to be on the merits.

4. Timing

A dismissal on FRCP 12(b)(1) grounds also has some material procedural advantages for a defendant, such as the ability to be made at any time, even on appeal, or be raised *sua sponte* by the judge.[101] It might also result in dismissal of any supplemental jurisdiction claims based on state law, which are often alleged in cases invoking the Lanham Act. Moreover, for a defendant arguing that the reach of a U.S. statute is overly-broad, the symbolic significance of having a dismissal based on lack of subject matter jurisdiction, rather than on the merits, might be important.[102]

5. Impact of Extraterritoriality Analysis

Taken together, some characteristics of FRCP 12(b)(1) motions possibly make these types of motions more plaintiff-friendly than FRCP 12(b)(6) motions. Most importantly, a dismissal on subject matter jurisdiction grounds typically does not end the case, so a plaintiff may have another bite at the proverbial apple in a different court.[103] Furthermore, Rule 12(b)(1) motions, unlike Rule 12(b)(6) motions, are not held to the standard of factual plausibility and any contested factual allegations may be subject to an evidentiary hearing. Typically, these factual issues go to the original jurisdiction of the federal district courts, such as citizenship of the parties. In an extraterritoriality analysis, the factual allegations address whether the plaintiff has satisfied the effects test—resulting in a potentially much larger scope of facts not subject to the plausibility pleading standard. In addition, Rule 12(b)(1) motions may not include other defenses, such as those listed under FRCP 8(c).[104] For all these reasons it might be easier for a plaintiff to withstand dismissal if extraterritoriality is analyzed via Rule 12(b)(1). Among the FRCP 12(b)(1) characteristics that tend to favor defendants is that these motions can be raised at any time.

However, the extraterritoriality question changes this general calculus. Typically, if a federal court dismisses the case based on lack of subject matter

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[101] Fed. R. Civ. P. 12(h)(3).

[102] *Cf.* Wasserman, *supra* note 46, at 312 (discussing the position of religious organizations that did not want secular authority to reach into religious affairs in the context of Hosanna-Tabor Evangelical Lutheran Church and Sch. v. EEOC, 565 U.S. 171 (2011)).

[103] *See* Fed. R. Civ. P. 8(d).

[104] Fed. R. Civ. P. 8(c) (listing defenses such as statute of limitations); 5B CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE AND PROCEDURE CIVIL §1350 (3d ed. 2004).

jurisdiction, then the plaintiff can re-file in state court, which then considers the same exact question of extraterritoriality. Furthermore, in the case of the extraterritorial analysis, an alternative forum presumably might also be *another country's* court (in addition to a state court with regard to any state law claims).[105] For instance, Trader Joe's had arguable legal avenues in Canada — even without a registered Canadian mark — but presumably decided against filing in Canada, favoring its home court advantage in the U.S. for strategic reasons.[106] In these kinds of cases, the alternative forum is often alternative to both federal *and* state courts. For a plaintiff seeking a favorable application of U.S. law as opposed to a possibly more hostile application of foreign law in a foreign jurisdiction, this can pose a strategic disadvantage. It may also impact the issue of scope of claims and remedies.[107]

A theoretical disadvantage for plaintiffs of a Rule 12(b)(6) dismissal on the merits is that these dismissals are more likely to have preclusive effect.[108] State courts are often faced with re-filed complaints after a federal court dismisses a case on the merits and with prejudice. In most cases, the common law doctrine of claim preclusion will apply to bar the re-filing. In the case of foreign (particularly other non-common law) courts, the preclusive effect of a Rule 12(b)(6) dismissal may depend upon whether a foreign jurisdiction has a similar preclusion doctrine.[109] Such a dismissal raises the possibility of not having a second bite at the apple, whether in the U.S. or in another country. Conversely, if the motion is granted, the defendant will win — possibly for all time, since it is often considered a final judgment on the merits — unless reversed on appeal. For all these reasons and more, FRCP 12(b)(1) motions are not completely fungible with Rule 12(b)(6) motions.

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[105] Trader Joe's' complaint contained allegations of violations of Washington state law. The Ninth Circuit affirmed the dismissal of these claims, finding that they did not reach extraterritorially. *See generally* Katherine Florey, *Bridging the Divide: The Case for Harmonizing State and Federal Extraterritoriality Principles After Morrison and Kiobel*, 27 PAC. MCGEORGE GLOBAL BUS. & DEVELOP. L. J. 197 (2014); Katherine Florey, *State Law, U.S. Power, Foreign Disputes: Understanding the Extraterritorial Effects of State Law in the Wake of Morrison v. National Australia Bank*, 92 B.U. L. REV. 535 (2012).

[106] *See supra* Part II C

[107] Trimble, *supra* note 43.

[108] District courts will often allow leave to amend under Rule 15 and therefore allow at least one Rule 12(b)(6) dismissal without prejudice to amendment. *See, e.g.,* Runnion v. Girl Scouts of Greater Chi. & Nw. Ind., 786 F.3d 510, 521 (7th Cir. 2015).

[109] Again, a successful Rule 12(b)(6) motion, particularly one granted after opportunity to amend to cure defects after successive motions, may be granted "with prejudice." JOE S. CECIL ET AL., *supra* note 100, at 7 n.12 (citing Chudnovsky v. Leviton Mfg. Co., 158 F. App'x 312, 314 (2d Cir. 2005)).

C. Parsing Jurisdiction: Laws and Rules in Action[110]

Interestingly, what seemed to have irked counsel for Trader Joe's was not the district court's reliance on federal subject matter jurisdiction *per se* (although the lawyers did argue vigorously against its application, as will be discussed below). Rather, their main objection appeared to be that the case was dismissed "with prejudice."[111] Having been given ample opportunity to amend its original complaint (and having in fact done so), Trader Joe's chose to move forward with the same allegations in its second amended complaint.[112] Notably, both parties seem to have agreed that FRCP 12(b)(1) or FRCP 12(b)(6) were perfect substitutes for deciding the issue of extraterritoriality even though, as the preceding section demonstrates, these motions have different procedural consequences. Overall, these incongruities reflect the messiness of laws (and rules) "in action" — which this section considers briefly.

In its appellate brief, Trader Joe's argued that:

> Under the federal question statute, 28 U.S.C. § 1331, district courts have subject-matter jurisdiction over all claims arising under federal law, including the Lanham Act. While Congress may place additional limits on this jurisdiction, it must do so using clear language. *Arbaugh v. Y & H Corp.* . . . .
>
> Relying on *Timberlane* and other pre-*Arbaugh* case law, the district court found that the Lanham Act limited its subject-matter jurisdiction over claims with extraterritorial reach. But nothing in the Lanham Act expresses any congressional intent—much less clear intent—to restrict the subject-matter jurisdiction of federal courts in Lanham Act cases. On the contrary, through "sweeping" language, Congress extended the Lanham Act to all "commerce within the control of Congress." 15 U.S.C. § 1127.[113]

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[110] The data discussed in this part of the article is based on Professor Tim Dornis's database comprised of all published cases between 1952 and 2016. Tim W. Dornis, Database of Post-*Steele* Cases (2016) (unpublished) (on file with author) [hereinafter Dornis Database].

[111] Brief for Appellant at 17, Hallatt II, 835 F.3d 960 (9th Cir. 2016) (No. 14-35035) ("Although Hallatt never sought dismissal without leave to amend, and even though Trader Joe's expressly requested leave to amend in its opposition (D. Ct. Dkt. No. 28 at 18), the court dismissed Trader Joe's Lanham Act claims *with prejudice* and without leave to amend") (emphasis added). At oral argument, however, counsel for Trader Joe's specifically disclaimed any desire to further amend – despite having (and ultimately taking) the opportunity to amend its complaint. Transcript of Oral Argument, Hallatt II, 835 F.3d 960 (9th Cir. 2016) (No. 14-35035).

[112] Transcript of Oral Argument, Hallat II, *supra* note 111. It is not clear why the district court chose to grant Hallatt's Rule 12(b)(1) motion "with prejudice," — which is an indication that the court thought it ought not to be re-filed anywhere, despite the jurisdictional basis for dismissal.

[113] Brief for Appellant, *supra* note 111, at 19; *see also* Brief for Appellee at 19, Hallatt II, 835 F.3d 960 (9th Cir. 2016) (No. 14-35035) ("[i]f the Court were to find that Arbaugh applies and that the question of extraterritorial application of the Lanham Act is a merits question

Trader Joe's argument seems sufficiently straightforward on its face. Nevertheless, the previous sections show why the doctrinal situation is a bit more complex than presented by this brief. In reality, as a strategic matter, it is unlikely that Trader Joe's would have re-filed in state court after dismissal in federal court.[114] Nor was it blind-sided by a Rule 12(b)(1) motion made after the pre-trial period (as had been the case in *Arbaugh*). Instead, Trader Joe's was likely worried about litigating in Canada where its legal position might be less favorable or result in delay.[115]

Moreover, the Trader Joe's brief did not cite to any caselaw besides *Arbaugh* to support its point regarding the distinction between merits and subject matter jurisdiction. This is not as surprising. Prior to *Trader Joe's*, no other circuit court had held that extraterritoriality should be treated as a merits issue in the context of the Lanham Act. In fact, at least seven circuit courts continue to characterize this as a subject matter jurisdiction question still controlled by *Steele*.[116] As of

rather than a subject matter jurisdiction question, the Timberlane inquiry remains the same. Indeed, if the Court were to so hold and remand this matter, Hallatt would simply be required to file the identical motion, but characterize the motion as a Rule 12(c) motion for judgment on the pleadings.").

[114] If Trader Joe's had re-filed in state court, the claim might have been precluded. In the event that the state court heard the case, then the extraterritoriality test would be the same as the test applied in the federal district court – yet another clue that it is not a question about subject matter jurisdiction. Wasserman, *supra* note 77, at 702 (citing to Lea Brilmayer's rule of substantive relevance).

[115] E-mail from Carys Craig, Associate Professor, Osgoode Hall Law School, to author (Feb. 4, 2019) (on file with author) ("We do have case law that suggests that mere advertising in Canada in the absence of providing any actual services in Canada is not sufficient to constitute use in Canada . . . . That said, they still had plenty of avenues open to them, if they wanted to protect their position *in Canada*. First, they could have commenced use in Canada and could then have immediately obtained the registration. Alternatively (although this would have meant giving up their 2010 priority date), they could have re-applied to register in Canada on the basis of their US registration without use in Canada (s. 16(2)), or by showing that they had made the mark well known in Canada through advertising to potential dealers/users (s. 16(1)).."); *see also* E-mail from Carys Craig, Associate Professor, Osgoode Hall Law School, to author (Mar. 4, 2019) (on file with author) ("Trader Joe's could also have asserted common law trademark rights in the Vancouver/BC area by providing evidence that its reputation and goodwill extended over the US-Canada border notwithstanding the absence of local use (cp. Orkin Exterminating Co. Inc. v. Pestco Co., 50 OR (2d) 726). In the Orkin case, a Canadian company adopted a well-known but purely US-based mark and was held liable for passing off in Ontario.").

[116] Paulsson Geophysical Servs., Inc. v. Sigmar, 529 F.3d 303, 309 (5th Cir. 2008) (conducting a Lanham Act extraterritorial analysis under FRCP 12(b)(1)); McBee v. Delica Co., Ltd., 417 F.3d 107, 120 (1st Cir. 2005) (same); Scanvec Amiable Ltd. v. Chang, No. 02–4385, 2003 WL 22597067, at *180-81 (3d Cir. 2003) (same); Liberty Toy Co. v. Fred Silber Co., No. 97-3177, 1998 WL 385469, at *6 (6th Cir. 1998) (remanding for application of "substantial effects" test under FRCP 12(b)(1)); Nintendo of Am., Inc. v. Aeropower Co., Ltd., 34 F.3d 246, 250-51 (4th Cir. 1994) (analyzing Lanham Act extraterritorial analysis

the time of this publication, no circuit court has followed the lead of the Ninth Circuit in jettisoning this categorization – though some district courts seem to have done so.[117]

In circuits that explicitly classify this issue as a question of subject matter jurisdiction, some lower courts have nonetheless decided this issue on FRCP 12(b)(6) grounds. Examination of a recently compiled database of all Lanham Act extraterritoriality cases decided between 1952 and 2016 reveals that forty-four cases were decided on preliminary motions.[118] Of the forty-four cases, at least fifteen courts decided extraterritoriality on Rule 12(b)(6) grounds.[119] The other twenty-nine (including the *Trader Joe's* district court) were decided on FRCP 12(b)(1) grounds.[120] Twelve of these forty-four cases overlapped both categories and involved simultaneous consideration of Rules 12(b)(1) and 12(b)(6).[121] In addition, out of these twelve cases, four courts found subject

under FRCP 12(b)(1)); Am. Rice, Inc. v. Arkansas Rice Growers Co-op. Ass'n, 701 F.2d 408, 417 (5th Cir. 1983) (same); Vanity Fair Mills, Inc. v. T. Eaton Co., 234 F.2d 633, 642 (2d Cir. 1956) (same). In addition, some district courts have resolved this in favor of subject matter jurisdiction despite the absence of controlling precedent. *See* Int'l Acad. of Bus. & Fin. Mgmt., Ltd. v. Mentz, No. 12-CV-00463-CMA-BNB, 2013 WL 212640 (D. Colo. Jan. 18, 2013) (finding lack of subject matter jurisdiction under "substantial or significant" effects test); Basis Int'l Ltd. v. Research in Motion Ltd., 827 F. Supp. 2d 1302, 1306 (D.N.M. 2011) (finding subject matter jurisdiction under "significant effects" test).

[117] IMAPizza, LLC v. At Pizza Ltd., 334 F. Supp. 3d 95, 121 (D.D.C. 2018); IPOX Schuster, LLC v. Nikko Asset Mgmt. Co., 191 F. Supp. 3d 790, 804 (N.D. Ill. 2016) ("The Court will thus analyze Nikko's motion under Rule 12(b)(6), accepting the well-pleaded allegations in IPOX's complaint as true and drawing all reasonable inferences in IPOX's favor").

[118] Dornis Database, *supra* note 110.

[119] *Id.*

[120] *Id.*

[121] *See, e.g.,* JMC Rest. Holdings, LLC v. Pevida, No. 14CV6157WFKVMS, 2015 WL 9450597, at *4 (E.D.N.Y. Dec. 22, 2015) (granting FRCP 12(b)(1) and 12(b)(6) motions); Kroma Makeup EU, Ltd. v. Boldface Licensing + Branding, Inc., No. 6:14-CV-1551-ORL, 2015 WL 1708757, at *15 (M.D. Fla. Apr. 15, 2015) (denying FRCP 12(b)(6) dismissal after defendant moved for both FRCP 12(b)(1) and 12(b)(6) dismissals); Gibson Brands Inc. v. Viacom Int'l Inc., No. CV 12-10870 DDP AJWX, 2013 WL 5940826, at * 6 (C.D. Cal. Nov. 5, 2013) (granting FRCP 12(b)(1) dismissal and dismissing FRCP 12(b)(6) motion as moot), *rev'd and remanded*, 640 F. App'x 677 (9th Cir. 2016); Hong Leong Fin. Ltd. (Singapore) v. Pinnacle Performance Ltd., No. 12 CIV. 6010 JMF, 2013 WL 5746126 (S.D.N.Y. Oct. 23, 2013) (finding subject-matter jurisdiction but dismissing under FRCP 12(b)(6)); RMS Titanic, Inc. v. Zaller, 978 F. Supp. 2d 1275, 1304 (N.D. Ga. 2013) (granting FRCP 12(b)(1) dismissal after defendant moved for both Rules 12(b)(1) and 12(b)(6) dismissals); Airwair Int'l Ltd. v. Vans, Inc., No. 5:12-CV-05060-EJD, 2013 WL 3786309 (N.D. Cal. July 17, 2013) (granting FRCP 12(b)(1) dismissal after defendant moved for both FRCP 12(b)(1) and FRCP 12(b)(6) dismissals); Schreiber v. Dunabin, 938 F. Supp. 2d 587, 601-02 (E.D. Va. 2013) (granting FRCP 12(b)(1) and FRCP 12(b)(6) motions); Pinkberry, Inc. v. JEC Int'l Corp., No. CV 11-6540 PSG PJWX, 2011 WL 6101828, at *8 (C.D. Cal. Dec. 7, 2011)

matter jurisdiction but then dismissed on the merits.[122] Notably, a recent case not captured in this data set, *Charisma World Wide Corp., S.A. v. Avon Products Inc*.,[123] exemplifies a 12(b)(6) dismissal despite controlling circuit precedent treating this question as a Rule 12(b)(1) issue.

Furthermore, at least twenty-two courts have decided this issue on summary judgment under FRCP 56 — and at least one after a jury trial.[124] This may reflect the fact that objections based on subject matter jurisdiction can be raised at any time.[125] Or, despite stated precedent, it may be that these courts already view prescriptive jurisdiction as at least partly a merits issue in the context of the Lanham Act. In the larger strategic context, little to no empirical evidence exists of cases re-filed in state court after a federal court's FRCP 12(b)(1) dismissal.[126] And with only one exception,[127] no published case decided after *Steele* shows that a Rule 12(b)(1) motion or dismissal was made after an early pretrial stage of litigation.

Overall, this empirical analysis indicates that despite broad judicial consensus at the circuit court level, which still treats extraterritoriality nominally as a subject matter jurisdiction question, the actual practice on the ground since *Steele* has been variable. Therefore, the Ninth Circuit's holding is not completely out of line with other decisions. Returning to the Ninth Circuit's analysis in *Trader Joe's*:

> The constitutional source of [congressional] authority [to regulate interstate and foreign commerce under the Commerce Clause] is the same whether or not the alleged infringement implicates the extraterritorial scope of the Lanham Act: *Congress can no more regulate intrastate, non-commercial*

(granting FRCP 12(b)(1) dismissal and dismissing FRCP 12(b)(6) motion as moot); Mertik Maxitrol GMBH & Co. KG v. Honeywell Techs. Sarl, No. 10-12257, 2011 WL 1454067, at *8 (E.D. Mich. Apr. 13, 2011) (finding subject-matter jurisdiction but dismissing under FRCP 12(b)(6); Warnaco Inc. v. VF Corp., 844 F. Supp. 940 (S.D.N.Y. 1994) (raising and finding subject-matter sua sponte and dismissing defendant's FRCP 12(b)(6) motion); Spartan Chem. Co. v. ATM Enterprises of Am., 1986 U.S. Dist. LEXIS 29147 (N.D. Ill. Feb. 19, 1986) (finding subject-matter jurisdiction but dismissing under FRCP 12(b)(6); Ramirez & Feraud Chili Co. v. Las Palmas Food Co., 146 F. Supp. 594 (S.D. Cal. 1956) (finding subject-matter jurisdiction and denying FRCP 12(b)(6) dismissal) *aff'd*, 245 F.2d 874 (9th Cir. 1957).

[122] Dornis Database, *supra* note 110.

[123] 243 F. Supp. 3d 450 (2017).

[124] *See, e.g.*, Groeneveld Transport Efficiency, Inc. v. Lubecore Intern., Inc., 730 F.3d 494 (6th Cir. 2013).

[125] Fed. R. Civ. P. 12(h)(3).

[126] *See* Dornis, *supra* note 49, at 572. The cases listed in the Dornis database do not include cases decided after 2016. *See* Dornis Database, *supra* note 110.

[127] *See* Aerogroup Intern., Inc v. Marlboro Footworks, Ltd., 955 F.Supp. 220 (1997). Again, this statement does not cover post-2016 decisions.

> *possession of another's mark . . . than trademark infringement that occurs entirely outside of the country's borders.*[128]

This language indicates that the court was grappling with a question of prescriptive jurisdiction: What constitutes activity "in commerce" sufficient to allow Congress to assert its regulatory authority over this activity pursuant to its interstate and foreign commerce power? However, the opinion does not explicitly discuss the difference between prescriptive and adjudicative jurisdiction. Nor does it explicitly address the Supreme Court's analysis of the Lanham Act with regard to purely intrastate commerce – as, for example, in *The Trade-Mark Cases*.[129] Instead, the decision relies heavily on Ninth Circuit precedent such as *La Quinta Worldwide v. Q.R.T.M., S.A. de C.V.*,[130] wherein the court held that intrastate commerce was not within the ambit of Congress' power to regulate pursuant to its commerce power. In regards to any conflicting Ninth Circuit precedent, the decision also relied on *Miller v. Gammie*, which instructs Ninth Circuit panels to consider the effect of Supreme Court decisions on prior circuit precedent.[131] Following *Miller*, if a Supreme Court decision undercuts the theory or reasoning behind the prior precedent, a Ninth Circuit panel can ignore a previous panel's precedent.[132] Yet, while both *Arbaugh* and *Morrison* strongly indicate that the Supreme Court wants to put its jurisdictional house in order, so to speak, they are too domain-specific to undercut *Steele* and its progeny entirely.[133]

At the very least, the Ninth Circuit's reasoning as well as the variation among courts suggest an on-going conceptual confusion about the basis for the jurisdictional categorization of extraterritoriality. While courts nominally treat this issue as one of subject matter jurisdiction in the context of the Lanham Act, it is an issue that can also be decided on the merits via FRCP 12(b)(6). As Justice Scalia noted in *Morrison*:

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[128] *Hallatt II*, 835 F.3d 960, 967 (9th Cir. 2016) (emphasis added).

[129] *Cf. Trade-Mark Cases*, 100 U.S. 82, 97 (1879) ("Here is no requirement that such person shall be engaged in the kind of commerce which Congress is authorized to regulate. It is a general declaration that anybody in the United States, and anybody in any other country which permits us to do the like, may, by registering a trade-mark, have it fully protected.").

[130] La Quinta Worldwide LLC v. Q.R.T.M., S.A. de C.V., 762 F.3d 867, 872 (9th Cir. 2014).

[131] Miller v. Gammie, 335 F.3d 889, 899 n.4 (9th Cir. 2003) (en banc).

[132] *See Hallatt II*, 835 F.3d at 967-68 n.4 (citing to *Miller*, 335 F.3d at 893). The *Miller* rule, however, does not give a great deal of guidance to Ninth Circuit panels on how to assess the undercutting theory, and therefore has led to some uncertainty in its application. *See* BENNETT EVAN COOPER, FEDERAL APPELLATE PRACTICE: NINTH CIRCUIT § 20:4 (2018) (Prior Ninth Circuit Decisions: Exceptions to Law of Circuit).

[133] *See generally* Rochelle Dreyfuss & Linda Silberman, *Misappropriation on a Global Scale: Extraterritoriality and Applicable Law in Transborder Trade Secrecy Cases*, 8 CYBARIS INTELL. PROP. L. REV. 265, 265, 297 (2017) ("These cases suggest that the type of intellectual property might matter to the extraterritorial analysis.").

> In view of this error, which the parties do not dispute, petitioners ask us to remand. We think that unnecessary. Since nothing in the analysis of the courts below turned on the mistake, a remand would only require a new Rule 12(b)(6) label for the same Rule 12(b)(1) conclusion.[134]

Perhaps it is not an urgent matter to tidy up this uncertainty. Yet, the courts may be missing nuanced costs and benefits attached to either motion when they fail to remand to the district court for a hearing on the merits. Wasserman argues that the entanglement of jurisdiction with merits is simply wrong. As he states:

> Congress has made them distinct. . . . Relevant positive law establishes that there is a cause of action, there is jurisdiction, and the two must be handled differently.[135]

And the Supreme Court itself has signaled dissatisfaction with "drive-by jurisdictional rulings,"[136] making it even more appropriate for the Court to step in and clarify the jurisdiction or merits question in the extraterritoriality analysis for the Lanham Act.

II. EFFECTS OF THE EFFECTS TEST

A. Effects in Books

Part I argues that the *Steele* Court may have made a category mistake, confusing prescriptive jurisdiction with adjudicative jurisdiction. The Court mischaracterized the nature of the jurisdictional question presented — possibly because the effects test was still in its infancy when *Steele* was decided. Indeed, Bulova's brief did not seem to characterize the extraterritoriality issue as one of subject matter jurisdiction. Instead, Bulova had argued:

> The existence of jurisdiction to protect foreign commerce against other types of anti-competitive acts abroad is illustrated in a long line of Sherman Act cases. The basis for jurisdiction embraces two principal aspects— personal jurisdiction over one or more of the alleged conspirators, whether domestic or foreign . . . *and the effect of the alleged acts or conduct upon the foreign commerce of the United States under the Sherman Act*.[137]

This Part argues that the effects test itself, regardless of its jurisdictional classification, also needs updating and clarification.[138] The Supreme Court's stance toward extraterritorial jurisdiction analysis, whether prescriptive or adjudicative, has evolved considerably since *Steele*. As previously stated, the

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[134] Morrison v. Nat'l Aus. Bank, Ltd., 561 U.S. 247, 354 (9th Cir. 2003).

[135] Wasserman, *supra* note 77, at 672.

[136] Arbaugh v. Y & H Corp., 546 U.S. 500, 511 (2006) (quoting Steel Co. v. Citizens for Better Env't, 523 U.S. 83, 91 (1998)).

[137] Brief for Respondent at 28, Steele v. Bulova Watch Company, Inc., 342 U.S. 280 (1952) ((No. 38), 1952 WL 82566) (emphasis added).

[138] *See generally* Austen Parrish, *The Effects Test: Extraterritoriality's Fifth Business*, 61 VAND. L. REV. 1455 (2008).

RJR Nabisco test involves two steps: first, ascertaining whether the statute gives "clear affirmative indication that it applies extraterritorially" and second determining "whether the case involves a domestic application of the statute."[139] Yet *Steele* begs the question of whether the Lanham Act includes a "clear, affirmative" indication that Congress intended its extraterritorial application. *Steele* was decided under an incipient analytical framework for assessing extraterritorial reach — a framework that has developed tremendously in the intervening sixty-plus years.

Even if step one of *RJR Nabisco* is indeed satisfied, and it is well-settled as a matter of statutory interpretation that Congress did intend the Lanham Act to reach beyond the borders of the U.S., it is not clear how the second step incorporates Lanham Act-related effects, especially if these effects are primarily or wholly reputation based. As Professor Tim Dornis has observed:

> Notably, the development of "effects on US commerce" into the most influential test element and its widely overlooked foundation in pre-Lanham Act common law doctrine can be explained as one of the most determinative features of current law.[140]

And finally, neither step of *RJR Nabisco* clearly addresses the role of comity and other factors. A court's decision to apply a statute extraterritoriality is one of discretion, not mandate. If the statute is silent, then non-statutory factors are necessary to guide the decisions of courts. The courts currently applying the effects test are relying on a multi-factored set of judicially-developed standards to engage in this guided discretion.

The Supreme Court's recent look at the "conduct and-or effects" test in *Morrison* found that test, as developed by the lower courts in the context of securities fraud, to be sadly lacking.[141] The majority went on to decry the unpredictability and uncertainty caused by the conduct and-or effects test,[142] and

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[139] RJR Nabisco, Inc. v. European Cmty., 136 S. Ct. 2090, 2094 (2016) ("If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad; but if the conduct relevant to the focus occurred in a foreign country, then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory.").

[140] Dornis, *supra* note 49, at 572; *see generally* TIM W. DORNIS, TRADEMARK AND UNFAIR COMPETITION CONFLICTS HISTORICAL-COMPARATIVE, DOCTRINAL, AND ECONOMIC PERSPECTIVES (2017).

[141] Morrison v. Nat'l Austl. Bank Ltd., 561 U.S. 247, 257-58 (2010) (quoting Bersch v. Drexel Firestone, Inc., 519 F.2d 974, 985 (1975)) (the "Second Circuit had excised the presumption against extraterritoriality from the jurisprudence . . . and replaced it with the inquiry whether it would be reasonable (and hence what Congress would have wanted) to apply the statute to a given situation. As long as there was prescriptive jurisdiction to regulate, the Second Circuit explained, whether to apply § 10(b) even to "predominantly foreign" transactions became a matter of whether a court thought Congress 'wished the precious resources of United States courts and law enforcement agencies to be devoted to them rather than leave the problem to foreign countries.'").

[142] *Id.*

replaced this multi-factor test with a neon-bright line rule that the purchase and sale of securities must be in the U.S. for the federal courts to exert prescriptive jurisdiction over a federal securities fraud case:

> For it is a rare case of prohibited extraterritorial application that lacks all contact with the territory of the United States. But the presumption against extraterritorial application would be a craven watchdog indeed if it retreated to its kennel whenever some domestic activity is involved in the case.[143]

Justices Stevens and Ginsburg concurred only in the judgment. Their view was that

> *[T]he real question in this case is how much, and what kinds of, domestic contacts are sufficient to trigger application of § 10(b).* In developing its conduct and-or effects test, the Second Circuit endeavored to derive a solution from the Exchange Act's text, structure, history, and purpose. Judge Friendly and his colleagues were well aware that United States courts 'cannot and should not expend [their] resources resolving cases that do not affect Americans or involve fraud emanating from America.'[144]

Morrison casts considerable uncertainty upon *Steele*. To be sure, the specific question considered by *Morrison* involved the application of a type of effects test in lieu of the first step — whether the statutory language indicates its extraterritorial application. This threshold question arguably was answered in the affirmative by *Steele* and even possibly endorsed by *Morrison*, which cited approvingly to *Steele* in passing.[145] The cumulative inference from this and other relatively recent and approving citations[146] is that the Supreme Court still approves of *Steele*. But, does the Lanham Act truly indicate a "clear, affirmative" intent by Congress to legislate extraterritorially?

Furthermore, would not the general skepticism expressed in *Morrison* toward the "conduct-and-or effects" test within the context of federal securities laws equally apply to the effects test (or more accurately, tests) developed in the wake of *Steele*? Different circuits have articulated various effects tests. For example,

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[143] *Id.* at 266.

[144] *Id.* at 281 (Stevens and Ginsburg, JJ., concurring) (emphasis added).

[145] *Id.* at 283 n.11.

[146] *See* E.E.O.C. v. Arabian American Oil Co. (Aramco), 499 U.S. 244, 251 (1991) ("In *Steele,* we addressed whether the Lanham Act, designed to prevent deceptive and misleading use of trademarks, applied to acts of a United States citizen consummated in Mexico . . . . The EEOC's attempt to analogize these cases to *Steele* is unpersuasive. The Lanham Act by its terms applies to 'all commerce which may lawfully be regulated by Congress.' . . . The Constitution gives Congress the power '[t]o regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes.' U.S. Const., Art. I, § 8, cl. 3. Since the Act expressly stated that it applied to the extent of Congress' power over commerce, the Court in *Steele* concluded that Congress intended that the statute apply abroad.")

Id. at 252.

in the early and influential *Vanity Fair v. Eaton* case,[147] the Second Circuit required "substantial" effect — a rule that was subsequently adopted by a few other circuits.[148] Others, like the Ninth Circuit, require only "some" effect."[149] And still other circuits have articulated this test as "significant" effect.[150] The Restatement (Fourth) of U.S. Foreign Relations Law offers the "substantial" effect version of prescriptive jurisdiction.[151]

The Ninth Circuit has a specific judicial gloss on its "some effect" test. As enunciated in 1975, the Ninth Circuit's *Timberlane* test states a tripartite rule of reason in the context of antitrust extraterritoriality:

> As acknowledged above, the antitrust laws require in the first instance that there be *some effect* actual or intended on American foreign commerce before the federal courts may legitimately exercise subject matter jurisdiction under those statutes. Second, a greater showing of burden or restraint may be necessary to demonstrate that the effect is sufficiently large to present a cognizable injury to the plaintiffs and, therefore, a civil violation of the antitrust laws. . . . Third, there is the additional question which is unique to the international setting of whether the interests of, and links to, the United States including the magnitude of the effect on American foreign commerce are sufficiently strong, vis-a-vis those of other nations, to justify an assertion of extraterritorial authority.[152]

Since this original formulation, the Ninth Circuit has also developed seven different "comity" factors to assess further the third part of the test:

[1] the degree of conflict with foreign law or policy,

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[147] Vanity Fair Mills, Inc. v. T. Eaton Co., 234 F.2d 633, 642 (2d Cir. 1956) (adopting test requiring "substantial effect" on United States commerce).

[148] Int'l Cafe, S.A.L., v. Hard Rock Cafe Int'l (U.S.A.), Inc., 252 F.3d 1274, 1278 (11th Cir. 2001) (finding no "substantial effect" on United States commerce); Liberty Toy Co. v. Fred Silber Co., No. 97-3177, 1998 WL 385469, at *6 (6th Cir. 1998) (remanding for application of "substantial effects" test); Vanity Fair Mills v. T. Eaton Co., 234 F.2d 633, 642 (2d Cir. 1956) (adopting test requiring "substantial effect" on United States commerce).

[149] Paulsson Geophysical Servs., Inc. v. Sigmar, 529 F.3d 303, 309 (5th Cir. 2008) (finding subject matter jurisdiction given "some effect" on United States commerce); Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass'n, 701 F.2d 408, 414 (5th Cir. 1983) (requiring "some effect" on United States commerce); Wells Fargo & Co. v. Wells Fargo Express Co., 556 F.2d 406, 428 (9th Cir. 1977) (adopting the *Timberlane* "some effects" rule of reason in the context of the Lanham Act).

[150] McBee v. Delica Co., Ltd., 417 F.3d 107, 120 (1st Cir. 2005) (adopting test requiring "significant effect" on United States commerce); Nintendo of Am., Inc. v. Aeropower Co. Ltd., 34 F.3d 246, 250-51 (4th Cir. 1994) (requiring "significant effect" on United States commerce). *See also* Scanvec Amiable Ltd. v. Chang, 80 F. App'x 171, 181 (3d Cir. 2003) (adopting a variant satisfied by either significant or substantial effect).

[151] *See* RESTATEMENT (FOURTH) OF FOREIGN RELATIONS LAW § 402 (2018).

[152] Timberlane Lumber Co. v. Bank of America, N.T. & S.A., 549 F.2d 597, 613-15 (9th Cir. 1976) (emphasis added).

> [2] the nationality or allegiance of the parties and the locations or principal places of business of corporations,
>
> [3] the extent to which enforcement by either state can be expected to achieve compliance,
>
> [4] the relative significance of effects on the United States as compared with those elsewhere,
>
> [5] the extent to which there is explicit purpose to harm or affect American commerce,
>
> [6] the foreseeability of such effect, and
>
> [7] the relative importance to the violations charged of conduct within the United States as compared with conduct abroad.[153]

Steele's original doctrinal framework did not provide any of these glosses (whether "substantial," "significant," or "some" effects), and listed only a few relevant comity factors. Whatever the exact form of the effects test, courts such as the Ninth Circuit engage in guided discretion regarding the decision to extend the extraterritoriality presumably allowed by the Lanham Act.

As various scholars have noted, comity is an ill-understood term. Succinctly defined as "deference to foreign government actors that is not required by international law but is incorporated in domestic law,"[154] this characterization belies the complexity of comity in all its forms as it is currently deployed. For example, "[d]eference to foreign lawmakers has been categorized as 'prescriptive comity,' deference to foreign tribunals has been labelled as 'adjudicative comity,' and deference to foreign governments as litigants can be called 'sovereign party comity.'"[155] The first comity factor considered by the

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[153] *Hallatt II,* 835 F.3d 960, 973-75 (9th Cir. 2016). The Ninth Circuit developed these multiple factors in *Star-Kist Foods, Inc. v. P.J. Rhodes & Co*. 769 F.2d 1393, 1395 (9th Cir. 1985).

[154] Dodge, *supra* note 47, at 2078; *see also* Joel R. Paul, *The Transformation of International Comity*, 71 L. & CONTEMP. PROBS. 19, 20 (2008) ("Scholars and courts have characterized international comity inconsistently as a choice-of-law principle, a synonym for private international law, a rule of public International law, a moral obligation expediency, courtesy, reciprocity, utility, or diplomacy. Authorities disagree as to whether comity is a rule of natural law, custom, treaty, or domestic law. Indeed, there is not even agreement that comity is a rule of law at all. Although other jurisdictions sometimes employ the term comity as a synonym for diplomatic immunity, in the United States comity has served as a principle of deference to foreign law and foreign courts.").

[155] *See generally* Paul, *supra* note 154; *see also* Gardner, *supra* note 47, at 393 ("When people speak of *forum non conveniens* as a comity doctrine, they usually have in mind *negative adjudicative comity*—of restraining the U.S. court's exercise of jurisdiction to avoid are meant to demonstrate respect for foreign legal systems. But such dismissals can run counter to *positive* comity commitments as well: either the *positive adjudicative comity* commitment to allow foreigners access to U.S. courts, or the *positive prescriptive comity* commitment to apply foreign law when appropriate. Too little sensitivity to these positive

Ninth Circuit — that is, the degree of conflict with foreign law or policy—does not begin to capture all these different aspects of the term.

As to the question of the jurisdiction-merits classification previously discussed in Part I, these additional seven factors complicate the question of adjudicative or prescriptive jurisdiction by adding a layer referred to as prescriptive comity (as opposed to adjudicative comity).[156] In addition to satisfying comity concerns, courts also still must find personal jurisdiction over non-resident defendants, which may form an additional barrier to hearing a case.[157] Parenthetically, more than a passing phenotypic resemblance exists between Judge Learned Hand's articulation of the effects test in the 1945 *Alcoa* decision[158] and the Supreme Court's personal jurisdiction "contacts" test in *International Shoe v. State of Washington*,[159] decided in the same year. Both of these tests exemplify an urge to fashion a "reasonableness" test perceived during the mid-century as more responsive to cross-border commercial activity than the rigid territorially-based tests prevalent then. However, it goes without saying that this fairness or reasonableness-based approach to prescriptive jurisdiction on the one hand, and personal jurisdiction on the other, faces tremendous challenges in this era of digitized and pervasive global commerce. With trademark law's extraterritorial reach, "national and international regimes are competing for the right to regulate."[160]

Since *Steele*, the circuits have served as laboratories for the development of different versions of the effects test to guide discretion of the courts. And regardless of whether the doctrinal differences in these circuit-specific tests cause differences in outcome, it is now apparent that the circuits have different

comity commitments in transnational litigation can undermine reciprocity between countries, which in turn jeopardizes the interests of private parties.").

[156] *See generally* Gardner, *supra* note 47 (discussing adjudicative comity in the doctrine of *forum non conveniens*); Dodge, *supra* note 45, at 2124 ("Even when adjudicative comity operates as a principle of restraint—the area in which international comity doctrines like *forum non conveniens* most frequently take the form of standards—more rule-like alternatives exist.").

[157] *See* PAUL GOLDSTEIN & MARKETA TRIMBLE LANDOVA, INTERNATIONAL INTELLECTUAL PROPERTY: CASES AND MATERIALS 39-40 (Foundation Press 4th ed. 2015) ("Personal Jurisdiction, Subject Matter Jurisdiction, and the Territorial Scope of Applicable Law. What connections exist among personal jurisdiction, subject matter jurisdiction, and the territorial scope of applicable law? Although they are three separate concepts, an inquiry into the territorial scope of applicable law can arise in analyses of personal jurisdiction and subject matter jurisdiction.").

[158] Austen Parrish, *The Effects Test: Extraterritoriality's Fifth Business*, 61 VAND. L. REV. 1455, 1472 (2008) (citing to United States v. Aluminum Co. of Am. (Alcoa), 148 F.2d 416, 443-44 (2d Cir. 1945)) (noting that Judge Hand held "that agreements, though made abroad, are still unlawful if they are intended to affect imports and actually do affect them").

[159] *See* Int'l Shoe Co. v. Wash., 326 U.S. 310 (1945); *see also generally* Paul, *supra* note 154.

[160] Morris, *supra* note 46, at 47.

rates of finding extraterritoriality.[161] The Ninth Circuit reasoning in *Trader Joe's* arguably exemplifies why its rate is the highest among circuits.

B. Effects in Action

Trader Joe's had argued to the Ninth Circuit that the *Timberlane* factors were superseded by *Arbaugh* and other cases.[162] However, the Ninth Circuit declined the appellant's invitation to re-write the *Timberlane* test.[163] While it rejected the subject matter jurisdiction label, it then evaluated on the merits whether Hallatt's activities had "some effect" on American commerce. It viewed its application of *Timberlane* as fulfilling step two of *RJR Nabisco*:

> We next consider the limits, if any, Congress imposed on the Act's extraterritorial application. See *RJR Nabisco*, 136 S.Ct. at 2101 (discussing ''step two''). In 15 U.S.C. § 1127, Congress directed that the Lanham Act applies to ''all commerce which may lawfully be regulated by Congress.'' Whether this provision sweeps foreign activities into the Act's proscriptive reach depends on a three-part test we originally applied to the Sherman Act in *Timberlane* . . . . See *Wells Fargo*, 556 F.2d at 427 (extending Timberlane test to the Lanham Act).[164]

With this doctrinal backdrop, the Ninth's Circuit found that:

> Plaintiffs usually satisfy *Timberlane*'s first and second prongs by alleging that infringing goods, though sold initially in a foreign country, flowed into American domestic markets . . . .
>
> *Trader Joe's alleges that Hallatt's foreign conduct has ''some effect'' on American commerce because his activities harm its reputation and decrease the value of its American-held trademarks*. It argues that Hallatt violates 15 U.S.C. § 1114(1)(a), the Lanham Act's general prohibition on trademark infringement, by transporting and selling Trader Joe's goods without using proper quality control measures or established product recall practices.[165]

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[161] *See generally* Dornis, *supra* note 49, at 572.

[162] It is not at all clear whether the *Timberlane* test remains viable on its own terms. The test was first devised for antitrust cases, and it has since been abandoned in that context. *See* McGlinchy v. Shell Chem. Co., 845 F.2d 802, 814 (9th Cir. 1988) (explaining that the *Timberlane* decision is superseded by statute). The test also was devised as a method for determining the limits of subject-matter jurisdiction, rather than the substantive scope of the statute, but concerns about the limited reach of judicial power are no longer at issue." Brief for Appellant, *supra* note 111, at 32.

[163] *See Hallatt II*, 835 F.3d 960, 963 (9th Cir. 2016). The original *Timberlane* opinion blurred the lines between Rules FRCP 12(b)(1), FRCP 12(b)(6), and FRCP 56, ultimately deciding the case on the merits, despite its language referencing subject matter jurisdiction. Timberlane, Lumber Co. v. Bank of America, N.T. & S.A, 549 F.2d 597, 601-03 (1976).

[164] *Hallatt II*, 835 F.3d at 969.

[165] *Hallatt II*, 835 F.3d at 969-70 (emphasis added).

Extraterritoriality aside, this "any harm to goodwill" approach to satisfying the "some effects" test has potential to create mischief in U.S. trademark doctrine. The court specifically did not limit its holding to the facts, which involve perishable food products where the risk to human health is greater than other areas of re-sold goods.[166] Although the court invoked Section 1114 of the statute based on consumer confusion, its holding relies almost entirely on potential reputation-based damage that may or may not have caused confusion or have occurred within the borders of the U.S.[167]

In the course of the court's denial of the FRCP 12(b)(6) motion, the Ninth Circuit also minimized a potential first sale defense:

> Trader Joe's seeks to circumvent the first sale doctrine, which establishes that "resale by the first purchaser of the original article under the producer's trademark is generally neither trademark infringement nor unfair competition." *The quality control theory of infringement is cognizable under the Lanham Act notwithstanding the first sale doctrine:* "[d]istribution of a product that does not meet the trademark holder's quality control standards may result in the devaluation of the mark by tarnishing its image."[168]

And despite clear statements in both appellate briefs, as well as in oral argument, that Trader Joe's had not commenced use and therefore did not have enforceable rights yet in Canada,[169] the Ninth Circuit downplayed the importance of "use" in the context of enforceable trademark rights, preferring to focus on use inside the territorial boundaries of the U.S. rather than the lack of use inside Canada.[170] It also did not consider the application of any applicable Canadian first sale defense. If comity doctrines call on courts either "to avoid stepping *on* the toes

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[166] *Id.* at 963, 970.

[167] *Id.* at 977.

[168] *Id.* at 970 (emphasis added) (citation omitted).

[169] Hallatt had argued:

> Trader Joe's does not have enforceable trademark rights in Canada, as it has not yet commenced use of the marks in Canada. . . . Moreover, even if Trader Joe's had enforceable rights in Canada—which it does not—Canada has its own trademark law which does not mirror the U.S. trademark law and which, indeed, has some significant differences from U.S. law in material respects [citing to sources analyzing Canadian anti-dilution laws].

Appellee's Answering Brief at 31, Trader Joe's v. Hallatt, 835 F.3d 960 (9th Cir. 2016) (No. 14-35035). Trader Joe's had argued:

> Trader Joe's . . . has two trademark applications pending in Canada. Those applications do not constitute an adversarial proceeding between the parties. While Canadian law, like U.S. law, allows for opposition of a trademark application, Hallatt has never availed himself of this process. It is too late for him to do so now, because the Canadian Intellectual Property Office issued notices of allowances for both of Trader Joe's applications in 2012.

Brief for the Appellant, *supra* note 111, at 45 (citation omitted).

[170] *Hallatt II*, 835 F.3d at 973.

of foreign states" or "to step temporarily *into* the shoes of foreign sovereigns to protect those sovereigns' interests,"[171] then a more comprehensive analysis of conflicts and comity might consider whether Trader Joe's should have waited until it perfected its pending Canadian applications before filing suit (1) in Canada; (2) against a Canadian citizen; (3) for activities in Canada; and (4) in connection with what is essentially a Canadian business operation. While it may be true that no adversarial proceeding existed in Canada, that is because there was *no use* by Trader Joe's as an on-going business in Canada.[172]

The U.S. court's minimization of the current use requirement in Canadian trademark law, similar to U.S. law's contemporary "use in commerce" requirement, raises an issue of whether U.S. courts have the institutional competence to analyze comity factors such as the degree of conflict with foreign law or policy, or the relative importance of the violations within the United States as compared with conduct abroad. After all, *Trader Joe's* involved relatively easy-to-understand common law jurisprudence in Canada: an English (and French) language jurisdiction.

If prescriptive comity is supposed to function as a type of deference to foreign lawmakers,[173] *Trader Joe's* indicates that courts can pay lip service to it in the context of the Lanham Act. This approach is in direct contrast to the *Morrison* Court's injunction that only direct sales of securities within the domestic territory of the U.S. can trigger liability under the federal securities laws. The arguably favorable attitude toward extraterritorial application of the Lanham Act further opens the door for litigants (whether U.S. nationals or not) to take advantage of more favorable laws in the U.S. regarding anti-dilution or other claims, without an adequate showing of connecting activities within the U.S.[174]

Across circuits, courts have found extraterritorial application in over 60 percent of reported cases.[175] Post-*Steele* extraterritoriality analysis has evolved towards plaintiff-friendliness, whether it relates to procedure and substance. In analyzing the decisions of courts applying the *Timberlane* test between 1952-2016, Dornis has found a high correlation between the effects test favoring

[171] Gardner, *supra* note 47, at 392-93 (original emphasis).

[172] Canada is transitioning to a registration-based system of trademark rights. But as of the time of this writing, Canadian trademark laws are use-based. Bita Amani & Carys Craig, *The 'Jus' of Use: Trademarks in Transition*, 30 I.P.J. 217, 220 (2018).

[173] Dodge, *supra* note 47, at 2078.

[174] *Cf.* Morrison v. Nat'l Austl. Bank Ltd., 561 U.S. 247, 270 (2010) ("While there is no reason to believe that the United States has become the Barbary Coast for those perpetrating frauds on foreign securities markets, some fear that it has become the Shangri–La of class-action litigation for lawyers representing those allegedly cheated in foreign securities markets.").

[175] Dornis, *supra* note 49, at 594 ("US nationals and entities can be expected to crowd the defendant's bench. . . . The majority of disputes (68.43%) featured at least one US national or entity on the defendant side."). Of course, these statistics have to be taken with a grain of salt, as reported cases do not represent the whole universe of decisions. *See generally* McCuskey, *supra* note 42.

extraterritoriality and a judicial decision in favor of extraterritoriality: 88.46%.[176] In addition, he found that *Timberlane*'s seven additional comity factors appears to be fully determinative, both when favoring and when disfavoring extraterritoriality.[177] *Trader Joe's* is no different from other cases in the Ninth Circuit in this regard.

The *Trader Joe's* decision is reflective of the highly dynamic nature of globalized and digitized business and the attendant trademark goodwill of U.S.-based companies. The involvement of U.S. actors and U.S. interests in many of these cases also suggests that extraterritorial reach of the Lanham Act is defensible, at least when involving U.S. parties.[178] But even if that is so, it may not be consistent with trademark policy, which the next section considers.

C. Combining Books and Action: The "Glocalization"[179] of Trademark Policies

The effects test does not produce certainty, predictability, or reproducibility of results. This section briefly argues a different point: The extraterritoriality tests are not well-calibrated to core trademark policies of avoiding consumer confusion or protecting legitimate business investment. In tandem with a liberal effects test: (1) the anti-dilution theories of relief will have greater, perhaps outsized, influence relative to other theories of harm based upon consumer confusion; and (2) the first sale doctrine will be eroded almost completely, to the detriment of businesses that rely on this long-standing principle of international exhaustion. While these trends may help certain U.S. industries, they will certainly harm others such as the increasing proportion of commerce engaged in by so-called "third party sellers."

Because the *Trader Joe's* complaint alleged only reputational and not economic damage, the most plausible theory of recovery on the record presented before the court was anti-dilution[180] of trademark goodwill—propounded through a "quality control" exception to exhaustion. Thus, it is not a stretch to say that the court endorsed a transnational goodwill concept through its finding

[176] Dornis, *supra* note 49, at 607-609 ("Among 63 [non-*Timberlane* test] opinions that found the result of the effects test to favor extraterritoriality, courts applied the Lanham Act 96.83% of the time.").

[177] *Id.* at 607.

[178] Dornis, *supra* note 49, at 594 ("More concretely, 31.58% (42 out of 133) of cases involved only US nationals or entities as defendants, and 36.84% (49 out of 133) involved at least one US defendant together with foreign individuals or entities. Only 17.29% (23 out of 133) of the disputes featured a defendant bench comprised solely of foreign individuals or corporations.").

[179] Piero Bassetti, *Editorial*, GLOCALISM: JOURNAL OF CULTURE, POLITICS AND INNOVATION (2013).

[180] 15 U.S.C. § 1125 (2012).

of "some effect" on U.S. commerce.[181] Yet as the Supreme Court famously proclaimed in *Hanover Star Milling Co. v. Metcalf*: "the mark, of itself, cannot travel to markets where there is no article to wear the badge and no trader to offer the article. . . . [T]he trade-mark right assigned . . . [cannot be] greater in extent than the trade in which it [is] used."[182] By enlarging the scope of transnational goodwill, the effects test becomes a proxy for global anti-dilution claims without statutory defenses[183] or common law defenses such as exhaustion.[184] This is especially true if courts decide cases on preliminary motions, before defendants have a full opportunity to raise defenses.[185]

Moreover, the continual erosion of the international exhaustion rule in trademark law through a broadened scope of exceptions has impacts on not just foreign, but also American, businesses. For example, as of late 2017, more than 300,000 small and medium enterprises were vendors on Amazon Prime alone.[186] On-line retail platforms such as Amazon, eBay, Etsy, and Walmart accounted for a majority of the approximately $1.86 trillion global web sales in 2018.[187] A large percentage of sales on these platforms are transacted through re-sellers, colloquially known as third party sellers, many based in the U.S.[188]

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[181] *Cf.* Morris, *supra* note 46, at 83-84 ("[W]hen trademark laws are extraterritorially applied, they in effect create some form of universal guarantee or global norm . . . . As a result, international intellectual property rules are increasingly shaped by private regulatory activities.").

[182] 240 U.S. 403, 416-17 (1916) (internal quotation marks omitted). *But see* Belmora LLC v. Bayer Consumer Care AG, 819 F.3d 697 (4th Cir. 2016) (finding that use within the U.S. is not a pre-requisite to an unfair competition claim based upon section 43(a)).

[183] 15 U.S.C. § 1125(c)(3) (2012).

[184] *Cf.* Brief of 25 Intellectual Property Law Professors et al. as Amici Curiae Supporting Petitioner, Kirtsaeng v. Jon Wiley & Sons, 568 U.S. 519 (2013) (No. 11-697) (describing common law origins of the first sale doctrine in the context of copyright law).

[185] It may be that the extraterritoriality issue should be raised in a preliminary hearing, analogous to a *Markman* hearing in patent law, so as to allow the court to consider the full range of claims and defenses on a developed evidentiary record. *See, e.g.*, Markman v. Westview Instruments, Inc., 517 U.S. 370 (1996).

[186] *See* Pamela N. Danziger, *Thinking of Selling on Amazon?: Here are the Pros and Cons*, FORBES (Apr. 27, 2018, 1:55 PM) https://www.forbes.com/sites/pamdanziger/2018/04/27/pros-and-cons-of-amazon-marketplace-for-small-and-mid-sized-businesses/#1886fb416867 [https://perma.cc/7NSQ-K3GP].

[187] *See* Fareeha Ali, *Inforgraphic: What are the Top Online Marketplaces?*, DIGITAL COM. 360 (Feb. 8, 2019) https://www.digitalcommerce360.com/article/infographic-top-online-marketplaces/ [https://perma.cc/MSF5-KAMY] ("The top online marketplaces in the world sold $1.86 trillion in 2018. Sales on marketplace sites . . . accounted for 52% of global web sales in 2018, according to Internet Retailer's analysis.").

[188] Rachel Siegel, *'Flesh and blood robots for Amazon': They raid clearance aisles and resell it all online for a profit*, WASH. POST (Feb. 8, 2019) https://www.washingtonpost.com/business/economy/flesh-and-blood-robots-for-amazon-they-raid-clearance-aisles-and-resell-it-all-online-for-a-profit/2019/02/08/f71bff72-2a60-

The trademark owner's ability to engage in quality control along global supply chains (or "global value networks") is a serious concern, particularly in the case of food, pharmaceuticals, and other items for which quality control is important to consumer health.[189] However, the quality control exception has become a rationale for trademark owners to wield virtually absolute control over subsequent sales of all manner of goods, in defiance of the exhaustion principle's policy against restraint of trade in chattel via intellectual property. As Charles Colman has observed:

> [T]he purported "general rule"—"that a trademark owner's authorized initial sale of its product exhausts the trademark owner's right to maintain control" — has now become the exception.[190]

Other scholars have documented the expanding and often legitimate functions of trademark goodwill in global markets.[191] Yet absent multilateral consensus about the legal treatment of goodwill, an overly-broad application of U.S. principles via the effects test unilaterally imposes these U.S. perspectives and values upon the rest of the world through the actions of private actors able to take strategic advantage of different legal rules across borders. This could backfire, harming U.S. interests in the international sphere, if individual profit maximization distorts the general social welfare produced by healthy competition among firms.

CONCLUSION: KONDO-ING *STEELE* IN LIGHT OF *TRADER JOE'S*

Steele is fairly formidable precedent. It continues to impact decisions about the extraterritorial reach of the Lanham Act and it has been cited over 2,000 times, as befits a pioneering case involving extraterritorial application of U.S. laws. While its authority remains solid in many respects, it has an uncertain

11e9-984d-9b8fba003e81_story.html?noredirect=on&utm_term=.b4109c7ffb45 [https://perma.cc/25HZ-2HBZ]. *See also* Feng Zhu & Qihong Liu, *Competing with complementors: An empirical look at Amazon.com*, STRATEGIC MGMT. J. 2618, 2624 (2018) (estimating that 40 percent of Amazon's sales in 2013 were attributable to third party sellers).

[189] Margaret Chon, *Trademark Goodwill as a Public Good: Brands and Innovations in Corporate Social Responsibility*, 21 LEWIS & CLARK L. REV. 277, 297 (2017).

[190] Charles E. Colman, *Post-Kirtsaeng, 'Material Differences' Between Copyright and Trademark Law's Treatment of Gray Goods Persist* 6 (N.Y.U. Pub. L. & Legal Theory Working Paper No. 13-40, 2013) ("[O]ne federal court after another . . . has added to the list of potentially "material" differences between goods for purposes of trademark liability, [thus] dealing in most types of gray goods has become a risky endeavor. The boundaries of permissible conduct are difficult to locate in the case law. . . .").

[191] Graeme Dinwoodie has differentiated between social and commercial practices around trademark rights in common law countries, which are based on use, and political authority regarding trademark rights, which correlate heavily with civil law jurisdictions, arguing that an overly-expansive view of "use" possibly exacerbates the differences between common law jurisdictions (which require use) and civil law jurisdictions (which are registration-based). Dinwoodie, *supra* note 52, at 888, 913, 918; *see also* Austin, *supra* note 29, 412-19.

relation to more recent cases such as *Arbaugh* and *Morrison*, which frown on unnecessary subject matter jurisdictional characterizations. Furthermore, *Steele*'s complete reliance on Section 45 of the Lanham Act arguably does not comport with the *RJR Nabisco's* rule of "clear, affirmative indication" of Congressional intent to extend the Lanham Act extraterritorially. Finally, *Steele*'s ambiguous "effects test" has allowed the development of a possibly over-broad scope of extraterritoriality in subsequent caselaw, which flies in the face of the *Morrison* reasoning.

The current version of the effects test seems to be a conceptual hybrid existing somewhere between jurisdiction and merits. It may be that the federal common law of extraterritoriality is simply too heterogeneous to fit into the current vehicles provided by the FRCP.[192] Much of the evidence and arguments presented here suggest that the *Steele* extraterritoriality test is an issue that should be characterized as an issue on the merits. If so, then as the Supreme Court did with Title VII in *Arbaugh* and the Securities and Exchange Act in *Morrison*, it can take swift action with the Lanham Act. On the other hand, if this issue is essentially a jurisdictional one, despite the *Morrison* ruling, then either the Court should address the new circuit split or Congress should enact a jurisdictional statute[193] to make this jurisdictional classification clear.

As importantly, the Court can also give greater guidance to future courts and parties about how to approach the discretion-laden decision to apply U.S. law to activities impacting U.S. commerce in this era of increasingly globalized trademark goodwill. It can and should "kondo"[194] the status of prescriptive jurisdictional disputes in the Lanham Act— instead of over-relying on federal common law with its tortuously slow development in the face of fast-moving commercial activities.

[192] The current situation with the law of extraterritorial jurisdiction might be analogized to the common law of pendent and ancillary jurisdiction prior to the enactment of section 1367. 28 U.S.C. § 1367 (2012).

[193] Or perhaps, more narrowly, Congress could amend the Lanham Act to make clear that extraterritoriality is a jurisdictional inquiry in the specific context of trademark law. *Id.*

[194] Zimmer, *supra* note 1.