No. 16-548

IN THE

Supreme Court of the United States

BELMORA LLC & JAMIE BELCASTRO,

Petitioners,

v.

BAYER CONSUMER CARE AG, BAYER HEALTHCARE LLC, AND MICHELLE K. LEE, DIRECTOR OF THE U.S. PATENT & TRADEMARK OFFICE,

Respondents.

On Petition for a Writ of Certiorari
to the United States Court of Appeals
for the Fourth Circuit

REPLY BRIEF FOR PETITIONERS

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REPLY BRIEF FOR PETITIONERS

Prior to the Fourth Circuit's decision in this case, courts generally recognized that the principle of territoriality imposed a real limit on who could sue for cancellation of a trademark or unfair competition under the Lanham Act. Respondents do not dispute that the Second Circuit has applied that principle to prevent foreign businesses from bringing suit against U.S. trademark owners under Section 43(a)—and that the Ninth Circuit has embraced the same result, carving out only a small exception for a subset of cases involving "famous marks." The Fourth Circuit's decision in this case departed radically from these precedents, thus deepening the existing circuit split and exposing U.S. trademark registrants to unprecedented liability. As the International Trademark Association (INTA)—the largest and most preeminent trademark advocacy group in the world—has explained, this issue "has extraordinary consequences for both domestic and foreign brand owners who may consider doing business in the United States." INTA Br. 24. If the question is left unresolved, a domestic $2.5 trillion dollar[1] industry will be without the benefit of clear, consistent principles of trademark establishment, use and enforcement.

Against these points, respondents principally argue that the Fourth Circuit's decision was correct, *i.e.*, that because Sections 14(3) and 43(a) of the Lanham Act deal with unfair competition, and not

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[1] *See* Emily Stewart, *These 15 Billion-Dollar Brands Are the Most Valuable in the U.S.*, TheStreet (June 4, 2015), *available at* https://www.thestreet.com/story/13174313/1/the-15-most-valuable-billion-dollar-brands-in-the-us.html (last visited February 8, 2017).

necessarily trademark infringement, territoriality is irrelevant. But that response assumes the answer to the Question Presented—and if respondents are correct, then the Court should grant certiorari because at least two circuits have taken a different approach.

In any event, respondents are not correct. By cleaving apart the unfair competition and trademark protections of the Lanham Act (and artificially cabining the principle of territoriality only to the latter), respondents have effectively turned the statute against itself. Respondents' rule would actually allow a foreign party to use the unfair competition provisions of the Lanham Act to not only unravel the protections granted to U.S. businesses by the Act's trademark-rights provisions, but also to punish U.S. registrants—under the same statute—for relying on rights granted by the United States Patent and Trademark Office ("PTO"). There simply is no evidence that when it enacted the Lanham Act, Congress intended to privilege foreign companies above American ones in this manner. Indeed, the evidence is precisely to the contrary.

Only this Court can resolve this issue because it stems from the Fourth Circuit's misunderstanding of *Lexmark International Inc. v. Static Control Components, Inc*., 134 S. Ct. 1377 (2014). There, the Court recognized that the Lanham Act extends a cause of action only to plaintiffs within the zone of interests Congress sought to protect. But the Court never indicated that it was abrogating the principle of territoriality, which has always informed that very same inquiry. Indeed, as respondents concede, the Court did not address territoriality at all (and it had no reason to, because both parties in *Lexmark* were domestic entities). Nevertheless, the Fourth Circuit overread *Lexmark* to dispose of a bedrock principle of federal unfair competition law. There is no benefit to further percolation because the Fourth Circuit, which believes itself bound by this Court's decision, cannot change tack without this Court's intervention.

I. The Circuit Conflict Warrants Immediate Resolution.

The petition explained that the courts of appeals are divided over how the principle of territoriality works in these cases. The Second and Federal Circuits have taken a strict view; the Ninth Circuit has recognized a limited exception for "famous marks"; and the Fourth Circuit in this case disregarded the principle altogether.

Respondents attempt to distinguish the cases in the split by arguing that the cases from the other circuits were about trademark infringement, and not unfair competition cases. But in *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 145 (2d Cir. 2007), the foreign plaintiffs brought (and the court upheld the dismissal of) false advertising and false association claims under Sections 43(a) of the Lanham Act, *i.e.*, the same unfair competition provisions at issue here. The gist of the claim was that the U.S. entity had opened an American clone of a restaurant in India, effectively passing itself off as an affiliate of the foreign company. And the court discussed the claim, including the importance of the territoriality principle, at length. *Id.* at 153-65 (discussing all of these principles in the context of the unfair competition claim); *id*. at 169-72 (discussing the false advertising claim).

Both respondents acknowledge that the Second Circuit did, in fact, apply the territoriality principle to foreclose a claim under Section 43(a). Bayer BIO 14; U.S. BIO 22. They argue that perhaps the Second Circuit did not think about the relevance of the territoriality principle much because its application was not contested—but that is no answer because the Second Circuit's holding plainly applied the principle of territoriality to bar the same action on facts that are indistinguishable from the ones here. That is the very definition of a circuit split. Moreover, in all likelihood, nobody raised the possibility of distinguishing between causes of action under the Lanham Act for purposes of the principle of territoriality because there is no basis for that distinction. That is why the decision below is clearly wrong.

The foreign grocery store chain plaintiff in *Grupo Gigante SA de CV v. Dallo & Co.*, 391 F.3d 1088, 1092 n.3 (9th Cir. 2004), likewise brought a Section 43(a) claim. The government acknowledges this (U.S. BIO 19), and notes that the Ninth Circuit did not discuss this claim separately in adopting and applying the famous marks doctrine. But the fact that the Ninth Circuit applied the same principles to the trademark and unfair competition claims in *Grupo Gigante* again proves the existence of the circuit split, because that is emphatically not what the Fourth Circuit did here. Moreover, the Fourth Circuit's holding that the territoriality principle has no bearing on the unfair competition claims is inconsistent with the Ninth Circuit's explicit declaration that "the territoriality principle is a long-standing and important doctrine within trademark law," which is "at its core, about protecting against consumer confusion and 'palming off.'" *Grupo Gigante*, 391 F.3d at 1094.

The petition also noted a conflict between the decision below and the Federal Circuit's decision in *Person's Co. v. Christman*, 900 F.2d 1565 (Fed. Cir. 1990). Respondents observe that the request for cancellation in *Person's* arose under Section 2(d) of the Lanham Act, and not Section 14(3). But none of the analysis in *Person's* itself turned on the textual distinctions between those provisions. Instead, the court of appeals in *Person's* reasoned very specifically that because the foreign plaintiff was suing to protect its foreign goodwill, the principle of territoriality counseled against allowing its claim to proceed. *See Person's*, 900 F.2d at 1569-70. If the same lawsuit had been brought under Section 14(3) of the Lanham Act, the same analysis would apply.[2]

In sum, the briefs in opposition do not seriously contest the existence of a circuit split, nor can they dispute that the cases involve either the same or substantially similar statutory provisions. Instead, they argue that perhaps the other courts of appeals would adopt the Fourth Circuit's view if given a chance

[2] Bayer argues that the Federal Circuit reached the opposite result in a case under Section 14(3), *Empresa Cubana Del Tabaco v. Gen. Cigar Co.*, 753 F.3d 1270 (Fed. Cir. 2014). But there, the foreign entity had first sought to register its mark in the United States. *Id.* at 1272. The situation is therefore distinguishable from this case, where Bayer has never used FLANAX in the United States and has even gone so far as to admit it has no intention of ever doing so.

to reconsider the issue after *Lexmark*. But in light of respondents' concession that in *Lexmark* this Court was not seeking to undermine the territoriality principle (Bayer BIO 18; U.S. BIO 17), that speculation is insufficient to justify a denial of certiorari.

II. This Case Is An Ideal Vehicle To Address The Question Presented.

Respondents dispute the suitability of this case as a vehicle first by arguing that it is in an interlocutory posture and presents egregious allegations. Bayer BIO 22; U.S. BIO 24. But that is simply another way to say that the case is up on a motion to dismiss, which means that we must assume the truth of respondents' egregious allegations. That is a feature, and not a criticism, of this case. Because the case arises on a motion to dismiss, the legal issue is presented cleanly, without any need to delve into a lengthy trial record or to resolve factual disputes. The question for the Court will be simple: whether the principle of territoriality prevents Bayer from pleading a claim that plausibly warrants damages under Section 43(a) of the Lanham Act, and from pursuing cancellation under Section 14(3) of the Lanham Act. Although Bayer is correct that this petition *can* be filed again later, it does not even attempt to explain why consideration at that time would be preferable.

Indeed, it would not. This case, in this posture, provides the ideal vehicle to issue guidance to the lower courts on the importance of territoriality because the principal risk that U.S. mark owners face in the future is that they will be sued by foreign businesses with no goodwill or use in the United States. Those lawsuits, like any lawsuit that lacks merit, should be dismissed early to deter them from being brought in the first instance. Adjudicating a case on the pleadings is the best way to clarify the metes and bounds of the law in a way that achieves Congress's purpose of providing important benefits to the owners of registered marks.

Bayer argues that the case is an "unwieldy" vehicle because it arises under multiple provisions of the Lanham Act. BIO 21. But again, that is a virtue of this case, not a drawback. Our contention is that, contrary to the Fourth Circuit's holding, territoriality is a bedrock principle that underlies each of these provisions of the Lanham Act, and accordingly bars the unfair competition cause of action available to foreign plaintiffs whose marks are not used in the United States. This case provides the opportunity for the Court to address the application of the territoriality principle to both Section 43(a) claims regardless of how they are couched, as well as claims seeking cancellation, and therefore bring clarity to both.

Bayer is also wrong to suggest (BIO 22) that BHC's claim would likely survive if Belmora prevails in this Court. First, BHC's claim is necessarily intertwined with that of its foreign affiliate (for example, the lower courts did not distinguish between them, and the district court dismissed all of Bayer's claims by resolving the question presented in Belmora's favor), and both Bayer entities are wholly owned subsidiaries of a foreign parent. Thus, resolution of the question presented is likely to address all of Bayer's claims. Second, to the extent BHC's claim is distinguishable from its Swiss affiliate, that again makes this case a good vehicle to compare the Lanham Act's protections for foreign and domestic businesses.

III. The Question Presented Is Important.

Respondents downplay the importance of this case, observing that the specific fact pattern here has not previously resulted in a substantial number of cases. But that backward-looking argument elides the significance of both the Question Presented and the decision below. This case is not important because of anything that happened before the Fourth Circuit's decision. The case is important because the Fourth Circuit's decision, if allowed to stand, would mark a radical departure from the foundational principle of territoriality, and would invite foreign businesses to attempt to use the Lanham Act to undermine their U.S. competitors—including businesses with registered trademarks in the United States. Those lawsuits will impose substantial costs on U.S. businesses, and sow uncertainty about whether and how those businesses can exploit their intellectual property and assert their rights.

There is no need to take our word for this. INTA's amicus brief is the most credible source before the Court on the question of importance, and that venerable institution has argued that the Question Presented constitutes "an issue of great importance to trademark owners." INTA Br. 4. INTA has explained that uncertainty over the Question Presented "impedes the free and fair exercise of commerce by

U.S. and foreign brand owners alike and places consumers at risk of confusion, mistake and deception." *Id.* 6. Indeed, the conflicting rulings by the courts of appeals "have also led to, and will continue to cause, forum shopping, inconsistent outcomes, and consumer confusion." *Id.* 3. Moreover, "the relative precedential influence of the *Belmora* decision will be greater than decisions from other circuits because many cases involving foreign trademark owners will be filed in the Eastern District of Virginia," where appeals from the PTO's Trademark Trial and Appeal Board decisions are often venued. *Id.* 23.

IV. The Fourth Circuit's Decision Is Wrong.

In light of the foregoing, we will not dwell on the merits at this stage. But it does bear pointing out that the topics of dispute are relatively clear, and that this Court is in an ideal position to resolve them.

Respondents argue that territoriality is only a principle of trademark law, which has no relevance to the proper interpretation of the unfair competition provisions of the Lanham Act. That argument erects a false dichotomy within unfair competition between false advertising and trademark infringement. As Professor McCarthy explains, Section 43(a) prohibits "two major and distinct types" of conduct with "separate . . . substantive rules and applicability." 5 J. Thomas McCarthy, *McCarthy on Trademarks & Unfair Competition* § 27:9. To make out a false advertising claim under Section 43(a)(1)(B), a complaint must allege that an advertisement about a product has a tendency to deceive prospective purchasers about the nature or characteristics of the product. *Id*. Bayer's claim, as analyzed at length by the Fourth Circuit, is premised on alleged rights and damage entirely and solely circumscribed by Bayer's own overseas sales and its use of an identical trademark. But a "misrepresentation about the nature or characteristics of a product" is not a "misrepresentation" that one's products are the products of another. This is simply classic passing-off: false association, not false advertising.

Thus, the rule is simple. If a plaintiff's claim rises or falls on the premise that its brand name functions as a trademark in the minds of consumers, "the proper analytical framework in which to assess this claim is the law of trademarks." *E.g.*, *Parks, LLC v. Tyson Foods, Inc*., 186 F. Supp. 3d 405, 415 (E.D. Pa. 2016) (citing McCarthy). That is Bayer's claim, and both Bayer and the government admit that a trademark infringement claim based on a foreign mark cannot lie. The Fourth Circuit has both misread *Lexmark* as a license to extend standing under the Lanham Act to unfair advertising claims in a manner unsupported by the statutory language—precisely what *Lexmark* warns courts not to do—while gravely distorting the fundamental distinction between unfair advertising and trademark infringement.

Relatedly, respondents' rule (and the Fourth Circuit's decision) turn the Lanham Act against itself by subjecting protected U.S. trademark registrants to unfair competition liability for the use of their marks. Time and again, this Court has stressed the protection that registration is meant to afford to U.S. businesses. *See B&B Hardware, Inc. v. Hargis Indus*., 135 S. Ct. 1293, 1310 (2015) (describing the "substantial" benefits of registration, including that registration is "prima facie evidence of the validity of the registered mark"); *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 193 (1985) (explaining that in the Lanham Act "Congress determined that . . . trademarks should receive nationally the greatest protection that can be given them.") (quotation marks omitted). By subjecting owners of U.S. marks to liability merely for using their marks, however, the decision below clashes with these precedents.

Finally, and importantly, this Court's decision in *Lexmark* does not compel this result. In *Lexmark*, this Court recognized that the scope of the cause of action is narrower than the text might suggest; it added a "zone of interests" analysis to the Article III standing inquiry and concluded that only business competitors could bring actions under Section 43(a). Respondents have cited no evidence whatsoever that Congress intended for this "zone of interests" to encompass foreign businesses with no goodwill or use in the United States, and no intent to use their marks in the United States. That is the true import of *Lexmark*, and it is directly contrary to the decision below.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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