Extraterritorial Application of National Trademark Laws

Conflict of Laws and the Changing Nature of Sovereignty and Territoriality

*Bahareh Izadpanah & Mahmood Bagheri**

Abstract

Under public international rules all countries are equal sovereigns which have an absolute sovereignty within their territory. The globalization and economic integration and the advent of the internet has in fact blurred the clear-cut national borders making the concept of territoriality not effective and relevant in terms of the scope of exercise of national sovereignty. For this reason, a country like the United States with great economic, financial and military power could in fact have more meaningful power to exercise jurisdiction beyond its national borders. This is not only a legal assertion of jurisdiction but also a de facto power with the sanctionable remedies exercised within the United States with the deterrent effects beyond its national borders. Whether this exercise of power is legitimate under public international law is not a settled matter. Trademark law is one of the contexts in which the legitimacy of international application of national law should be examined.

Keywords: trademark, territoriality, extraterritoriality, corrective justice, conflict of laws.

A Introduction

This article examines the nature and scope of international application of trademark laws. The article first argues that trademark laws, as distinguished from tort law, are enacted based on the policy consideration and balancing various public and private interests and as matter of public law and welfare value. Unlike tort law, which is at least historically known as a mechanism to protect property rights on the basis of corrective justice, the modern intellectual property laws, including trademark laws, are triggered by economic analyses and justified by distributive justice in a specific political society called state or country.

This legal product of a specific country, however, and in the age of globalization, inevitably could be infringed in other countries which do not share the same

* Bahareh Izadpanah is an LLM student, Boston University. Mahmood Bagheri is Course Director for LLM in International Corproate Corporate Goverance, Financial Regulation and Economic Law, Institute of Advanced Legal Studies, University of London, e-mail: Mahmood.bagheri@sas.ac.uk.

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policies and economic priorities with the enacting country. As such, and naturally, a question arises as to the legitimacy of the extraterritorially application of the national trademark laws in other countries. Unlike the protection afforded to the owners of property in tort law, which are, by and large, recognized, accommodated and accepted by other countries through their own conflict of laws rules, trademark laws which are marked with national policies and considerations are not considered as neutral standards of justice underlined by corrective justice and therefore are denied application through conflict of laws rules of other countries.

In the face of the changing nature of the national borders and also blurred concept of territoriality and application of the effect theory, there should be new understanding between the enacting country of trademark laws and countries where these trademark laws could be infringed, as conflict of laws rules no longer solve this problem and an uncoordinated extraterritorial application of public law orientated laws based on national balancing of policies could not be expected to be respected by other countries which have no benefit in protection of another country's trademark laws. We shall discuss all the aforementioned issues.

B Policy Considerations in Trademark Law

A trademark is a label used as a device to inform the consumers of the source of some goods or services.[1] Why should trademarks be protected? Commentators believe "that trademark law can be best justified on the basis of economic purposes".[2] There is a difference between the function of the trademark law and other kinds of intellectual property law in that trademark law is about providing economic incentive for more investment[3] rather than providing more incentive for creativity in the society as in copyright and patent law.

The trade-off between costs of monopoly granted by trademark rights and benefits of investments in producing quality goods is the main reason for protecting trademarks.[4] If there is a defendable balance between the two, having regulations in the field of trademark law is reasonable.[5] If the costs of protecting trademarks are more than the benefits, then the system is not making sense economically, and not having a legal system to protect trademark rights would be more reasonable.[6]

1 William Kratzke, 'Normative Economic Analysis of Trademark Law', 21 *Mem. St. U. L. Rev.* 199, 205-207 (1991).

2 Barton Beebe, 'The Semiotic Analysis of Trademark Law', 52 *UCLA L. Rev.* 621 (2004) (The author has called this underlying theory 'the definitive theory of American trademark law' to emphasize the importance of the economic theories as the justifying theories for trademark law.) Dan L. Burk, 'Law and Economics of Intellectual Property: In Search of First Principle', UC Irvine School of Law Research Paper, at 61-62 (2012) (Acknowledging that all the justifications for intellectual property are not economic and utilitarian but still economic justifications are dominant.)

3 Ronald A. Cass & Keith N. Hylton, *Laws of Creation*, 126-127 (Cambridge, MA: Harvard University Press, 2013).

4 *Ibid.*, at 126-128.

5 *Ibid.*

6 *Ibid.*

The underlying efficiency-enhancing function which justifies trademark law has been categorized into two main parts.[7] The first is that trademarks provide incentive for producers to invest in producing high-quality goods and services.[8]

The second main function is that trademarks reduce the search costs for the consumers and help them in finding their intended products or services, on the basis of their trust founded on their previous experiences or experiences of whom they have trust in.[9] This has been called "the dominant theoretical account" in reasoning protecting trademarks.[10] It means that consumers can distinguish one product from another and can choose to buy products that they are looking for, on the basis of the trust they have in a trademark. Reducing costs of the consumer search might affect the price of the goods in the market.[11] As the price consumers pay for the product usually includes the cost of finding the goods, if cost of finding the goods is reduced, it will lower the real price that consumers are paying.[12]

However, the economic benefits of protecting trademark law does not come without any costs.[13] Protecting trademarks force some costs on the society as well. That is why legislators try to strike some balance between the costs and benefits of protecting trademarks. Trademark rights grant some kind of monopoly and power over the price in the market since it helps the sellers protect themselves from some competition as they can raise the price above the price which would be observed in a competitive market.[14] Also having their trademarks protected for the trademark holder forces some costs on them as well and inevitably that cost is added to the price that consumers will pay for the goods and services bearing the trademark.

Another main cost protecting trademarks may cause is forgone benefits. When a producer finds the exclusive rights for using a trademark other competitors in the market will be deprived from using the same trademark or a confusingly similar one.[15] This causes some costs to them because they must forgo using the trademark and find an alternative to serve their own purposes.[16] This is also a value that consumers forgo when a second user is deprived from using the trademark.[17]

As a result, while trademark law has pro-competitive purposes, "overly restrictive trademark law rules can remove words from the language and features

7 Beebe, *Supra* note 2, at 621.

8 "Investments will be internalized to the party making investments", Cass & Hylton, *Supra* note 3, at 128. That is why if consumers cannot distinguish between different products, the producer's incentive will be relatively weak to invest in high-quality products. Cass & Hylton, *Supra* note 3, at 128-129.

9 Wiliam M. Landes & Richard Posner, 'The Economics of Trademark Law', 78 *Trademark Rep.* 267, at 271, 272 (1988).

10 Kratzke, *Supra* note 1, at 205-207.

11 Cass & Hylton, *Supra* note 3, at 130.

12 *Ibid.*

13 Landes & Posner, *Supra* note 9 (noting that this is true about any kind of property and specifically intellectual properties are costly kinds of property)

14 Cass & Hylton, *Supra* note 3, at 126-128.

15 Kratzke, *Supra* note 1, at 204-205.

16 *Ibid.*

17 *Ibid.*

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from competition".[18] Thus, legislators should be careful to strike a balance between the costs and benefits of protecting trademarks.

C Economic Justification for Protection of Trademark and the Relevance of Public and Private Law Dichotomy

The dominant role of economic justifications in trademark law is helpful when discussing the nature of trademark law. In deciding about the nature of trademark law, there is controversy among scholars as to whether intellectual property law is a part of private or public law.

Some scholars have noted that the key role of economic theories as the justifying theories for protecting intellectual property including trademarks removes the characteristics of private law from intellectual property law and draws it closer to public law subsets such as competition law and tax law.[19] As was explained earlier, intellectual property regulations, especially in the trademarks context, are considerably impressed by economic considerations. Thus, it can be concluded that trademark law in many parts is more accommodating in favour of economic welfare of the society as a whole rather than private rights. This makes the public law dimension of trademark law quite visible.

Nevertheless, the intellectual property system is a multidimensional system that cannot be placed in either of the two categories of private or public law system with certainty since the private law dimension of this system is not deniable. For instance, trademark rights grants the right holder a monopoly in the market, which enables the right holder to set a higher price for the product.[20] This can deprive a part of the society from being able to access the product.[21] Moreover, some scholars have noted that two dominant justifications for the property law system also support the intellectual property law system and as a result the intellectual property law system is a part of the property law system too.[22] Some scholars have on the other hand noted that the same property law theories have been used to justify intellectual property law.[23] However, it is obvious that the intellectual property system cannot be assumed as a mere instrument to protect private rights as the public dimension of intellectual property law is an important

18 Graeme B. Dinwoodie & Mark D. Janis, *Trademark Law and Theory: A Handbook of Contemporary Research*, 70-71 (Cheltenham: Edward Elgar, 2009).

19 Ted Sichelman, 'Purging Patent Law of "Private Law" Remedies', 92 *Tex. L. Rev.* 517, at 529-534 (2014). (Noting the incompatibility of system of intellectual property law with the private law; acknowledging that the aim of the patent law system is not preventing or compensating harms but its optimizing inventive activities for benefit of the public.)

20 Prasadi Wijesinghe, 'Conflict between Private Rights and Public Interest in Intellectual Property Rights Law', at 2-3 (2018). https://ssrn.com/abstract=3160532 or http://dx.doi.org/10.2139/ssrn.3160532.

21 *Ibid.*

22 Lawrence C. Becker, 'Deserving to Own Intellectual Property', 68 *Chi.-Kent L. Rev.* 609-612 (1992) (claiming that labor desert and utilitarian theories are the main justification for both property law system and intellectual property law system).

23 Sichelman, *Supra* note 19, at 520.

fact which needs to be taken into consideration. The departure from tort law and affording further and extra protection to the owners of trademarks could not be justified only based on the same reasoning which is the basis of tort law and other private law institutions; rather, it is based on economic, welfare and distributive justice justifications. For this reason, it is more similar to public law.

It seems like the dominant role of economic justifications can also be explanatory about the purpose triggered by trademark law, which is more similar to distributive justice goals rather than corrective justice. Distributive justice principle refers to the equal distribution of burdens and goods between members of a society.[24] On the other hand, corrective justice refers to equality in a relationship between the two parties of a transaction or putting the owner of the property in place before the infringement and trespass to the property.[25] Corrective justice is a bipolar concept which is about "equalization of correlative gains and harms in an interaction", while distributive justice is a proportional concept referring to the equal share of each individual in a specific society.[26] Traditionally, it has been thought that private law is justified by the notion of corrective justice while public law is based on distributive justice goals.[27]

Answering the question whether trademark law is based on distributive or corrective justice goals is not easy. Some scholars believe that intellectual property law in general is merely triggered by economic concerns and that distributive justice theories have no role in the formation of intellectual property law.[28] Under this approach, there is contradiction between the goal of the distributive justice theories and the general goal of intellectual property law, which promotes inequality in the society.[29] Others have argued that distributive justice concerns can be noticed in parts where interference by the government is justified for narrowing the legal protection for concerns over public access to information and drugs.[30] These considerations can be assumed as a part of distributive justice concerns.[31] Others have made a comparison between other parts of intellectual property and

24 Marc Loth, 'Corrective and Distributive Justice in Tort Law: On the Restoration of Autonomy and a Minimal Level of Protection of the Victim'. 22(6) *Maastricht J. Eur. Comp. L.* 788, at 788-811 (2015); Tilburg Private Law Working Paper Series No. 4/2018, at 794 (2018)

25 Ernest J. Weinrib, *The Idea of Private Law*, 61-63 (Cambridge, MA: Harvard University Press, 1995).

26 *Ibid.*

27 Also many commentators believe that distributive concerns have entered the field of private law and they have also supported it. *See* Mahmood Bagheri, 'Conflict of Laws, Economic Regulations and Corrective/Distributive Justice', 28 *Univ. Pennsylvanian J. Int. L.*, 114-120 (2006).

28 Kapczynski, Amy, 'The Cost of Price: Why and How to Get Beyond Intellectual Property Internalism', Faculty Scholarship Series, Paper 4694, at 2021 (2012).

29 Professor Kapczynski believes that the current system of the intellectual property law, which is based on exclusive rights, is in tension with values of distributive justice and it makes accessing the information difficult for the poor and government procurement and common law based theories "can be more easily directed at the needs of the poor". *Ibid.*

30 Commentators have mentioned some exceptions in copyright law for helping users who otherwise cannot afford copyright created expenses, limited production by libraries and public performances by governmental bodies and nonprofit veterans' organizations and also the more open-ended fair use doctrine. Molly Shaffer Van Houweling, 'Distributive Values in Copyright', 83 *Tex. L. Rev.* 1535, at 1542-1545 (2004).

31 *Ibid.*

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trademark law and addressed the same distributive justice purposes for trademark law similar to copyright law.[32] Professor Gordon has justified the tendency in the American judicial system towards providing the right holders with broader protection[33] of their copyright in the past twenty years on the basis of corrective justice theories.

Of course, before the emergence of trademark law, trademarks were primarily protected by tort law, which is based on the corrective justice notion. However, the market and private law failure triggered protection of trademarks with more effective measure, which was the trademark law, which was mainly justified by public and welfare concerns and distributive justice criteria. In fact, the shift from tort law to intellectual property law was to provide the right holders with stronger protection for the good of the whole society and not only for the right holders. Thus, as the predominant characteristic of tort law is corrective justice, the predominant characteristics of intellectual property law is distributive justice. Using the same methods as private law occasionally in intellectual property law does not change this fact.

Distributive justice in its broad meaning[34] is the main consideration in the current intellectual property law system and especially trademark law since the economic justifications are the dominant explanation in this system. Although it cannot be denied that in some parts characteristics of private law and corrective justice flavour can be seen, it is safe to say that distributive justice is the predominant consideration in intellectual property law in this sense, similar to other public law fields like tax law and competition law.

D Implications of the Public Interest Criteria on the Nature of the Trademark Law in the International Context

Protection of property rights, including trademarks under the tort law, are tolerated across national borders through national conflict of laws rules. Conversely, trademark law is territorially similar to other areas of intellectual property law. Territoriality in trademark law means that trademark rights are granted on a

32 Among those distributive justice values it is helping marginalized members of the society to benefit from their works and investments and empowerment of individuals and enterprises.

33 It has been argued by Professor Gordon that the judicial system in the United States has broadened the protection of copyrights by making decisions about copyrights on the basis of property law standards and by assuming copyright as ownership. It means that those defences that were limited to tort and property law are now being accepted in courts about intangible rights as well to help the right holders benefit from the fruits of their labor and that on the basis of corrective justice norms about intangible property like tangible property no one should be able to reap where another has sown. Wendy J. Gordon, 'On Owning Information: Intellectual Property and the Restitutionary Impulse', 78 *Va. L. Rev.* 149, at 171-178 (1992).

34 The broad meaning as opposed to the narrower meaning reduces each and every legal theory and function to either distributive or corrective justice.

country to country basis.[35] As a result, if a right holder wishes to have their trademark protected in different countries, they need to follow the rules in each of the desired countries to file that trademark.[36] Also, if trademark rights granted in different countries are infringed, the right holders need to invoke the law of all the individual nations.[37]

It seems like territoriality of trademark laws can be best explained on the basis of the key role of public policies and importance of distributive justice considerations in intellectual property law. Economic conditions and priorities in each country differ from other countries; therefore, the same public regulations and the same economic policies do not necessarily lead to the same results in every country.[38] Thus, each sovereign state in setting economic policies and the details of intellectual property law including trademarks considers the economic conditions in their own specific country. That is why when countries decide to apply their national laws to the alleged infringing activities in other countries, this approach might force some costs to the economic system in the country in which the infringing activities have taken place and might disrupt the intended economic balance in that specific country. In fact, with the extraterritorial application of trademark law, courts are forcing the static costs to the economic system in the country in which the alleged infringing activities have taken place while the balance of those costs with benefits of protecting trademark rights in that country is not definite and is not even thought about.

The same concern does not exist in the extraterritorial application of tort law for any properties, including trademarks when protected under tort law, which are traditionally assumed to be subsets of private law and following corrective justice goals and neutral to public policy concerns. Thus, since private law is merely about relationships between individuals it does not make the nation states concerned to apply legal rules of another country to activities that have taken place in their own territory. This has happened by means of conflict of law rules in private law matters for many years without serious controversies. On the other hand, as was said, nation states are not willing to apply public law rules of other countries extraterritorially since these legal fields are interwoven with public policy considerations and distributive justice goals, and applying them extraterritorially can disrupt the economic order of the nation states where the activities have taken place there. There is the same concern about intellectual property law similar to tax law rules and competition law and other legal rules with public law flavour.

35 Territoriality in trademark law has two different aspects. One of them is domestic and the other aspect is international. For more details about two different aspects *see* Graeme Austin, 'The Territoriality of United States Trademark Law', Arizona Legal Studies Discussion Paper No. 06-20, 3-12 (2013).

36 *Ibid.*

37 *Ibid.*

38 Different policies of countries in the field of intellectual property law has made harmonization of the laws difficult. *See* Rita Matulionyte, *Law Applicable to Copyright: A Comparison of ALI and CLIP Proposals*, 13-18 (Cheltenham: Edward Elgar Publishing Inc., 2011). That is why harmonization did not take place at a high level in international intellectual property conventions and these conventions have only set minimum rights. *See* Trimble, Marketa, *Global Patents: Limits of Universal Enforcement*, 19-31 (New York: Oxford University Press, 2012).

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American courts have not remained committed to the territoriality principle and have applied the US national trademark laws to infringing activities in other countries in different cases.[39] The reason for using such an approach is to overcome the problems caused by the conflict between territorial legislations and globalized

39 In one case the trademark holder had rights on the word '*Bulova*' as a trademark in the United States. *Bulova* was a very famous watch company which was blocked from expanding business in Mexico. Sidney Steele was marketing watches under the same trademark in Mexico and had also filed the trademark in that country. The Supreme Court decided that the district court would have the jurisdiction to adjudicate the whole case and apply law to the whole dispute, even though the alleged infringing activities had largely taken place in Mexico. *Steele v. Bulova Watch Co.*, 344 280, 283, 73 S. Ct. 252, 254, 97 L. Ed. 319 (1952). In another case the second circuit has been cautious and has used an approach that limited the scope of extraterritorial application of trademark law for comity concerns. *Vanity Fair Mills v. T. Eaton Co.*, 233 F.2d 633, 642 (1956). Later in another land mark case, the court has adopted a less strict approach, *McBee v. Delica Co.*, 417 F.3d 107 (1st Cir. 2005). In this case, the plaintiff was an American musician and the defendant was a Japanese firm who was marketing a clothing line in Japan under an identical name. The defendant was also maintaining an international accessible website for advertising the clothing products and most of the text on the website was in Japanese and not in English. The key point was that courts in Japan had also upheld the validity of the trademark rights on the product on the basis that the plaintiff was not that famous in Japan. The first circuit decided that "even if the defendant is not an American citizen if the foreign acts has had substantial effects on the economic system in the US the subjective jurisdiction existed and if not there was no basis for application of the Lanham act and international comity concerns such as existence of foreign intellectual property rights raise prudential concerns". *McBee v. Delica Co.*, 417 F.3d 107 (1st Cir. 2005). This is the point that many commentators have mentioned as a mistake since ignoring comity concerns could lead to many negative results. *See* Austin, *Supra* note 35, at 15-16 (2013). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=896620; Jennifer Allen Seymour, 'Intellectual Property Trademarks – The First Circuit Creates a New Test to Determine Whether Extraterritorial Application OF Lanham Act Is Appropriate', 59 *SMU L. Rev.* 423, at 426-429 (2016). In a more recent case brought to the court in the United States, although by means of applying different standards the same willingness toward extraterritorial application of the Lanham Act in the decision of the federal court can be seen. *Trader Joe's Co. v. Hallatt*, 835 F.3d 960, 966 (9th Cir. 2016). In this case Hallat (the defendant) who was a Canadian national and lawful permanent resident in the United States was buying goods in large amounts from Trader Joe's in United States and distributing those goods in Canada at inflated prices in a store named 'Pirate Joe's'. Trader Joe's sued Hallat and the ninth circuit held that "although the conduct which happened in Canada is of a different nature than almost all foreign conduct regulated by Lanham Act it has had an effect on the American commerce and has cause Trader Joe's cognizable injury". *Trader Joe's Co. v. Hallatt*, 835 F.3d 960, 966 (9th Cir. 2016)

commerce, which have caused overlaps[40] and gaps,[41] and have called into question this old close relationship between territoriality and law in different fields.[42]

However, when the national law of the United States is applied to infringing activities in other countries this approach can disrupt the intended balance of costs and benefits in the legal trademark law system in that country. As explained earlier, trademark rights grant monopoly over the price in market and inevitably cause an increase over the price of goods and services in the market. When courts in the United States decide to apply national law to conducts which occurred in another country, they are making some limitations regarding economic activities in that country. As a result, the negative impacts and costs of protecting trademark law is likely to be forced on the economic system in the mentioned country. The decision of the court will be a signal for the competitors in the market of that country that they must avoid using the same trademark or any trademark similar to it. This can lead to an increase in the price of the goods or services in that market, which could not be justified based on the economic policy of that nation-state.

E The Effect of the Key Role of Economic Consideration and Public Interest Dimension of Trademark Law on Conflict of Law Rules

Classic conflict of law rules consisted of a small number of formal mechanical rules to associate legal relationships to different legal systems.[43] These rules were neutral and they were not affected by substantive objectives.[44] As a matter of fact, the main purpose of the classic system was to choose the proper state to supply the appropriate law on the basis of geographic connections rather than on the basis of the outcome of choosing that law.[45] In this system, the standards to determine which law to apply was not defined by the quality of the solutions offered by the

40 Shontavia Johnson, 'Trademark Territoriality in Cyberspace', 29 *Berkeley Technol. L. J.*, at 1258-1276 (2015) (pointing that 'in the modern globalized economy that many consumer goods are results of long supply chains, fundamental traditional principles like territoriality is not relevant' and 'although formalistically trademark rights begin and ends at a nation's border, consumer response to brands are not so confined'). Austin, *Supra* note 35, at 15-16 (mentioning that in the past before development of technology and the internet, goodwill of a trademark could only travel as long as the goods could travel; as a result, the geographical scope of goodwill of the trademarks was relatively limited but creation of cyber markets transcending the geographic borders has caused a conflict).

41 Kurt Chang, 'Special 301 and Taiwan: A Case Study of Protecting United States Intellectual Property in Foreign Countries', 15(1) *Northwest. J. Int. L. Bus.* 211, at 211-213 (1994) (pointing that with the help of territoriality those who aim to benefit from the goodwill of famous reputable trademarks can easily move to countries in which the trademark is not protected and with the help of the reputation of the trademark sell their own products which may not be of the same quality of the products produced by the original trademark holder. These activities that taken place in developing countries have caused a lot of damages to the economic system in developed countries including the United States).

42 Hannah L. Buxbaum, 'Territory, Territoriality, and the Resolution of Jurisdictional Conflict', 57(2) *Am. J. Comp. L.*, 633-634 (2009).

43 Symeon Symennoyide, 'Material Justice and Conflicts Justice in Choice of Law', *Int. Confl. L. Third Millenn.*, at 2-3 (2001).

44 Bagheri, *Supra* note 27, at 114-120.

45 Symennoyide, *Supra* note 43, at 2-3.

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law of different states. Rather, it was defined on the basis of spatiality and geographical terms.[46]

With the growth of regulatory laws and emergence of public interests in the private law theme, the guidance of classic rules of private international law did not seem enough and this fact affected the nature of conflict of law rules and led to a change in this field.[47] Due to this change, the classic rules of private international law which used to be indifferent to the public policies of nation states and used to determine the governing law by considering the links between each dispute and a geographical territory was replaced by theories which are contrary to those that are based on classic rules policy.[48] In other words, modern rules focus on interests of nation states rather than choosing the governing law on the basis of geographical connections.[49]

New developments have also happened in the scope of intellectual property. New theories have been applied about different types of intellectual properties in recent years. Although, at first glance, the newly mentioned theories about different types of intellectual properties seem different from each other, their mission and nature is similar. In the copyright context the theory of 'root copy' or 'predicate act' performs this task. Under the US root-copy approach, the US law would allow granting damages in respect of copies reproduced abroad if the initial illegal copy was made in the United States.[50] Many commentators have recognized this as an exception to the territoriality principle.[51]

A similar theory in trademark law and patent law seems to be 'effect-based theory'. Under this approach, in patent law there will be liability for infringement of the US patent if there is some sort of 'effect' on the market for the patented goods within the United States.[52] Also in trademark law, American law applies to foreign conduct which produced 'some substantial effect' in the United States.[53]

Before the emergence of effect-based theories in the context of trademarks, territoriality provided that the law of the 'place of conduct' is applicable by courts to a multinational dispute.[54] Commentators believe that this matter was rational in the past when impacts of one's conduct could not be separated from its origin and

46 *Ibid.*

47 Bagheri, *Supra* note 27, at 114-120.

48 Ralf Michaels, *Globalizing Savigny? The State in Savignys Private International Law and the Challenge of Europeanization and Globalization*, 16-18 (US: Michael Stolleis & Wolfgang Streeck Publication, 2005).

49 *Ibid.*

50 Rita Matulionyte, *Law Applicable to copyright: A Comparison of ALI and CLIP Proposals*, 71 (Northampton, MA: Edward Elgar Publishing Inc., 2011).

51 *Ibid.*

52 Timothy Holbrook, 'Extraterritoriality in U.S. Patent Law', Chicago-Kent College of Law Intellectual Property & Technology Research Paper Series, No.08-002, 2130-2139 (2008).

53 Hank M. Goldberg, 'A General Theory of Jurisdiction in Trademark Cases', 8 *Loy. L.A. Int. Comp. L. Rev.*, at 627 (1986) (Discussing *Vanity Fair* factors.) *Vanity Fair Mills v. T. Eaton Co.*, 233 F.2d 633, 642 (1956).

54 Graeme Dinwoodie, Rochelle C. Drefuss & Annette Kur, 'The Law Applicable to Secondary Liability in Intellectual Property Cases', 42 *Int. L. Polit.* 210, at 210-211 (2010).

travelled to places further from the place of conduct.[55] On the other hand, in the modern era, with the advent of the internet, the impact of one's conduct can move much further from the place of conduct.[56] Similarly, affixation of a trademark to a product by the infringer in the past could cause confusion only in the place where affixation took place, while in the modern era, with help of the internet, it can cause confusion in places far away from the place of affixation of the trademark to the product.[57] This was the basis for a shift in conflict of law rules about trademarks, from the law of the 'place of conduct' as the applicable law to 'the effect-based theories'.[58] The effect-based theories provide that the law of the country which has somehow been affected by the infringing conduct is applicable to the whole controversy.[59]

The effect-based theories are different from the classic theories of conflict of laws. The first difference between the traditional conflict of law rules and the effect-based theories is that while the classic theories of conflict of laws had a neutral approach towards the public political and economic policies of the nation states, the effect-based theory is not neutral but is policy based. For determining the applicable law in a multinational dispute in the context of trademark law, this theory focuses on the effects of conducts on the market in each country rather than considering the geographic connection of each conduct with a specific country. This approach does not choose law of a unique nation-state as the applicable law. Clearly, this approach is not very helpful in avoiding the overlaps, as in a multinational dispute, several nation states may feel affected by a unique conduct especially when it has taken place online.[60] Some commentators have called this problem 'over authorization'.[61]

The second difference of the effect-based theories of conflict of laws with the classic theories is the contexts that these rules and theories are being applied in. The classic rules of conflict of laws were traditionally applied only in the context of private law like (torts, contracts, etc.), which is mainly concerned with corrective justice goals and in the relationship of two private parties. Traditionally, nation states have been fearless about applying private laws of other countries but unwilling to apply public laws of other countries to avoid the risk of conflicts and interference in other countries' public policies and sovereignty. On this basis, classic conflict of law rules is not applicable to trademark law and intellectual property law in general. Intellectual property law is fusion of different considerations, many of which are policy based and cannot be merely seen as an instrument to protect private rights. As a result, trademark rights need to be earned on the basis of legal formalities in each specific country separately, and on

55 Graeme Dinwoodie, 'Developing Private International Intellectual Property Law: The Demise of Territoriality', 51(2) *William Mary L. Rev*. 775, 775-777 (2009).

56 Jennifer Allen Seymour, *Supra* note 40, at 426-429.

57 *Ibid*.

58 Austin, *Supra* note 35, at 15-16.

59 *Ibid*.

60 Dinwoodie, *Supra* note 55, at 775-777.

61 *Ibid*.

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the basis of strict territoriality, national law of one country cannot be invoked over allegedly infringing conducts elsewhere.

Considering what was mentioned, one may simply conclude that the effect-based theories are different in nature from the classic rules of conflict of laws. Contrary to the classic rules, the effect-based theories are indifferent to the danger of conflict, controversy and overlap at the international level. It seems also logical to conclude that these new theories are merely 'labelled' as conflict of law rules, since they pursue goals different from the classic conflict of law purposes, which in most parts is exercise of power beyond a state's national borders. This approach is a drastic departure from the classic conflict of laws approach, and whether this exercise of power is legitimate under public international law is not a settled matter.

As was mentioned earlier, under the traditional rules of conflict of laws, intellectual property right holders do not enjoy trademark legal protection 'if their trademark is not earned under the formalities in one country' on the basis of having their rights protected in a second country. However, the so-called right holders are protected by means other than intellectual property law including tort law, even without help of effect-based theories.

To explain further, when a right holder does not have a trademark right protected on the basis of legal formalities in one country, the traditional conflict of law rules and also the principle of territoriality provide that the right holder who has been granted trademark rights in country A cannot bring a lawsuit in country B on the basis of the legally protected rights in country A. In this case, the right holder can still establish a case in the court of country B on the basis of tort law.

Intellectual property rights including trademarks were initially protected by general traditional rules of tort law. In fact, before the emergence of intellectual property rights, the general rules of tort law were accessible to the whole society and also current intellectual property right holders. The general basis of tort law is that every human while engaged in ordinary daily routine of life exposes society to some degree of risk and danger. While the daily routine of citizens cannot be forbidden, somebody needs to be responsible for the damages which are natural results of the ordinary daily activities. On this basis, tort laws with a set of rules determine who is liable for damages. However, proving the elements of a tort can be in many cases difficult and even impossible as usually the plaintiff needs to prove damages and causation of those damages by the defendant in a tort case.

Similarly, before the emergence of trademark rights, a trademark holder could establish a tort claim provided that she could prove the elements of a tort claim including damages and causation, but as it was explained earlier, this could be a very difficult task and in many cases even impossible. That is what convinced the legislators to provide a stronger protection for intellectual property rights including trademarks to encourage creativity and production of high-quality products. On the basis of the modern rules of trademark law, a trademark holder, as long as having the trademark rights earned under national formalities in a country, does not need to prove the elements of a traditional tort to bring a case to the court, and mere infringing activities like affixation of the trademark to a product can be sufficient to prove the infringer's liability.

Thus, in those cases that the trademark law is not protected in one country and territoriality does not let the laws to be applied to conducts which occurred in another country, the right holder can still establish a case on the basis of the minimal legal protection, which is torts. Although as was explained earlier, tort law provides a protection much weaker than protection provided by intellectual property law, but the traditional conflict of law rules which cannot be applied in the context of intellectual property can be applied in the context of private laws including tort claims. As a result, even without departure from territoriality, minimal protection of torts is still available to a right holder in countries other than the country where the trademark is filed.

F The Main Purpose of Extraterritorial Application of Trademark Law and Its Undesirable Effects

According to some commentators, extraterritoriality embodied in the 'effect-based' theories is pioneered by American courts in different legal contexts, not only intellectual property law, "to police foreign actors who harmed American interests" and this has a correlation with the country's dominant power economically and also regarding its exclusive military power.[62] In the intellectual property law context, concerns of this country over intellectual property subject matters adds to this willingness.[63] It means that although the extraterritorial application of national laws could be in conflict with interests of other sovereign states and also public international law rules, the American judicial system turns a blind eye to the mentioned risks in many cases.[64]

This seems to be also true in the context of trademarks since, as was explained earlier, the modern theories of conflict of laws in the trademark context applied by American courts have a tendency towards departure from territoriality and at the same time lacks a strict mechanism to secure avoiding conflicts with other nation-state's interests and forcing economic burdens to other nation states.[65]

It seems that the main goal of this approach in the trademark context could be making sure that competitors of American firms were facing the same regulations and limitations as them in the global market.[66] Likewise, this approach has considerable economic benefits for the country which applies its national laws extraterritorially. When American courts apply trademark laws of this country to activities that have taken place in other countries and provide the intellectual property right holders with a stronger protection, this would make the United States a more attractive country to the right holders. The right holders will know that if they have their rights protected in the United States, they will not have to

62 Kal Raustiala, 'Does the Constitution Follow the Flag, Public Law and Legal Theory Research', 29 (2009). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1291343.

63 Marco Bagely, 'Patently Unconstitutional', 87 *Minn. L. Rev.* 680, at 680-685. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=374420 (last accessed 6 July 2016).

64 *See* Austin, *Supra* note 35, at 15-16.

65 *Ibid.*

66 As it was mentioned about other legal fields, Raustiala, *Supra* note 62, at 29.

spend money and time to have their rights protected in other countries, because in case of infringement of their rights in any countries, courts in the United States will make decisions about infringing activities in any other country and will apply the American national laws to activities that have taken place in other countries. This unique protection provided by the United States can attract creators, inventors and, in the field of trademark law, investors from the whole world to this country.

On the other hand, the approach can force static and dynamic costs to the economic system in the country which is the place of the conducts. The economic system in each country differs and so does the public policies and rules of the government in each different state. When American courts apply trademark laws extraterritorially they disregard those policies and definition of distributive justice in each different country and they make limitations regarding economic activities in that country on the basis of their own public policies.[67] As a result, the negative impacts and costs of protecting trademark law is likely to be forced on the economic system in that country. The decision of the court will be a signal for the competitors in the market of that country that they must avoid using the same trademark or any trademark similar to it. This can lead to an increase in the price of the goods or services in that country.

Furthermore, applying trademark law of one country to conducts in another country may lead to conflict and uncertainty in multinational business activities. Exercise of power beyond a state's borders make it confusing for the business actors to determine what law would apply to conducts that have taken place in different places in the world and which court has jurisdiction. Still, the American judicial system prefers this approach for the economic benefits it may cause for the country. As was explained earlier, this approach may make the United States a more attractive country to the right holders, because right holders will know that if they have their rights protected in the United States they will not have to file their trademark in several countries. Also this will cost less for the judicial system in the United States since courts in the United States will not have to learn about legal protection and legal system in other countries.

G Conclusion

It is frequently said that the extraterritorial application of trademark law which is embodied in effect-based theories is an answer to the alteration of the world outside and the fact that territoriality is in conflict with the modern world circumstances with the advent of digital media. In the past, goodwill of a trademark could not separate and move away long distances, and as a result territoriality of the trademark law protection seemed reasonable, but in the present era, the goodwill of a trademark can move thousands of miles away from the origin of a trademark and that is why territoriality is causing inefficiency in the current system of trademark law.

67 It was explained earlier that intellectual property law and also trademark law reflect public policies of each country.

This has led to emergence of new conflict of law theories with a different nature from the classic rules. On the basis of these theories, countries apply their national trademark laws to conducts which take place in foreign countries. Although this approach can have some benefits for the country which is applying them, including the fact that this approach can make the country applying it a more attractive place for right holders, it could possibly

1 Force costs to the third countries
2 Cause conflicts in the international relationships
3 Cause uncertainty for private parties of international transactions about legislative jurisdiction

This article suggests two solutions for avoiding the mentioned undesirable outcomes:

1 First, solving the problem of inefficiency caused by territoriality in the current era needs more co-operation of the countries to develop an international agreement by the countries in the field of trademark law, which has been proved to be difficult but it might not be impossible to reach a unique system of granting and resolving disputes. This might need more leniency by the countries to approximate their intellectual property policies. Bilateral and multilateral agreements between countries can also minimize the inefficiency caused by territoriality. All these solutions may need spending more energy than unilateral extraterritorial application of intellectual property laws, and unilateral extraterritoriality may always be a tempting option instead (as a shortcut to the same results) but the negative results should always be kept in mind.
2 In the case of unilateral extraterritorial application of national law, this approach must be restricted to the cases necessary and sufficient limitations must be embedded to make sure that risks associated with unilateral application is not being overlooked. This approach should be also consistent and clear. The incontinency of extraterritorial application can deteriorate the uncertainty in international business relations.

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