Fourth Circuit Court of Appeals: Foreign Owner Without Use or Registration in United State May Bring Unfair Competition, False Advertising and Cancellation Actions

***Belmora LLC v. Bayer Consumer Care AG*, [No. 15-1335], 2016 WL 1135518; __ F.3d __ (4th Cir., March 23, 2016)**

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In *Belmora LLC v. Bayer Consumer Care AG*, [No. 15-1335] (4th Cir., March 23, 2016), the Court of Appeals for the Fourth Circuit reversed and remanded the District Court's decision in *Belmora L.L.C. v. Bayer Consumer Care AG*, 84 F. Supp. 3d. 490 (E.D. Va. 2015), allowing Bayer's claims for false association, false advertising, and trademark cancellation to go forward.

Background Facts

Bayer owns the trademark FLANAX in Mexico and had sold naproxen sodium pain reliever under the FLANAX mark in Mexico since the 1970s. Bayer had never used the FLANAX mark in the U.S.; it sells its naproxen sodium pain reliever under the mark ALEVE in the U.S.

Belmora registered the FLANAX mark in the U.S. Patent and Trademark Office and has used the FLANAX mark in the U.S. since 2004 for its naproxen sodium pain reliever. Originally, Belmora's product (shown on the left) was packaged using a trade dress highly similar to Bayer's Mexican FLANAX product (shown on the right), but later made some minor changes to the packaging to make it a bit less similar.

Belmora marketed its FLANAX pain reliever to the Hispanic market in the U.S., implying that it was the same product sold by Bayer in Mexico. Its sell sheets to distributors stated that Belmora's FLANAX was the brand sold to Latinos "for generations" and that FLANAX was a brand that Latinos "know, trust and prefer." There were instances of actual confusion made of record.

Procedural History

In 2007, Bayer filed a cancellation action in the Trademark Trial and Appeal Board ("TTAB") based on claims that Belmora's use and registration of the FLANAX mark were deceptive under Section 14(3) of the Lanham Act. Bayer also made a claim under Section 6*bis* of the Paris Convention, as made applicable to the Lanham Act under Section 44 of the Act. The TTAB, consistent with all of its prior holdings, dismissed the Paris Convention claim on the basis that 6*bis* is not self-executing, and that Section 44 of the Lanham Act does not provide for an independent cause of action. However, the Section 14(3) claim for cancellation on the ground of deceptiveness went forward, and after a full proceeding, the TTAB issued a decision in 2014 that Belmora had knowingly traded on Bayer's reputation in the FLANAX mark, copied the packaging, and misrepresented the source of its product to consumers in the U.S. The TTAB ordered cancellation of the FLANAX registration. *Bayer Consumer Care AG v. Belmora LLC*, 110 U.S.P.Q.2d 1623 (TTAB 2014).

Belmora appealed the decision to the district court for the Eastern District of Virginia. Meanwhile, Bayer filed an action in the district court for the Southern District of California, alleging false association and false advertising under Section 43(a) of the Lanham Act. The cases were consolidated in the Virginia action, and the District Court reversed the TTAB's decision, dismissing Bayer's actions on the pleadings. *Belmora LLC v. Bayer Consumer Care AG*, 84 F. Supp.3d 490, 115 U.S.P.Q.2d 1032 (E.D. Va. 2015). The district court held that Bayer lacked standing to bring the action on the basis that the Lanham Act does not permit the owner of a foreign mark that is not registered in the U.S. and has never been used in U.S. commerce to assert priority rights over a mark that is used and registered by another party. The district court relied on the Supreme Court decision in *Lexmark International, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377 (2014). Our detailed discussion of the district court opinion can be viewed at June 2015 Newsletter.

Bayer appealed the dismissal of the action on the pleadings, and the Court of Appeals for the Fourth Circuit reversed and remanded the case to allow for a full trial in the district court.

Analysis

The Fourth Circuit determined that the district court misread the Lexmark decision, and conflated the requirements for trademark infringement under Section 32(1) of the Act—which requires use or registration—with the plain language of Section 43(a) of the Act, which does not. After citing the language of Section 43(a), the circuit court concluded that it is the *defendant's use in commerce* that creates the injury under the statute. There is no requirement that the plaintiff use the mark and there is no basis to read this requirement into the statute. Thus, the district court's dismissal of Bayer's Section 43(a) claims on this basis was reversible error. *See Belmora LLC v. Bayer Consumer Care AG*, [No. 15-1335], 2016 WL 1135518, at *6-7 (4th Cir., March 23, 2016).

The court then referred to a two-part test from the *Lexmark* decision. First, Bayer must show that the acts of unfair competition are within the Lanham Act's "protected zone of interests." False advertising and false association, the claims raised by Bayer, clearly fall within that scope. Second, Bayer must prove that it was likely to be damaged by Belmora's use of the FLANAX mark and that such use was the proximate cause of injury to Bayer. The *Lexmark* case requires that the plaintiff show "economic or reputational injury flowing directly from the deception wrought by the defendant's advertising; and that occurs when deception of consumers causes them to withhold trade from the plaintiff." Bayer alleged that it lost sales from Mexican consumers living near the border who would instead purchase the products in the U.S. *Id*. at *8.

The court noted in a footnote that a plaintiff "who relies only on foreign commercial activity may face difficulty proving a cognizable false association injury under § 43(a)," noting that a few isolated instances of confusion with little reputation among a large number of consumers would not allow the plaintiff to prevail. *Id*. at *12, n. 8. In contrast, Belmora was alleged to have engaged in extensive passing off to consumers and distributors, linking its product to the one sold in Mexico. Also, Bayer spent millions of dollars promoting its FLANAX product to Mexican consumers along the U.S. border and had hundreds of millions of dollars of sales to Mexican consumers, including those living in border towns with the U.S., putting it in a good position to prove the requisite harm. *Id*. at *12, n. 9.

The Court's Holdings

These facts were sufficient to permit the case to go forward on claims of false association and false advertising under Section 43(a). However, the burden of proof is on Bayer to prove that Belmora's conduct was the proximate cause of its lost sales. Moreover, if Bayer prevails on its false advertising and false association claims, the district court has discretion to fashion an appropriate remedy. The remedy might include instructions to Belmora to use the mark in a manner that does not create confusion (for example, making changes to the trade dress), to use a disclaimer, or to use Belmora's house mark. The Fourth Circuit, while remanding the case, held that "any remedy should take into account traditional trademark principles relating to Belmora's ownership of the mark." *Id*. at *10.

Turning to Bayer's cancellation action, Section 14(3) of the Trademark Act allows the plaintiff to petition to cancel a registration if a mark is used to misrepresent the source of the goods. The Fourth Circuit held that as with Section 43(a), there is no requirement in Section 14(3) that the plaintiff use its mark in commerce as a prerequisite to obtaining relief in the form of cancellation of the registration. Therefore, Bayer could proceed with its cancellation action as well. The court noted, however, that even if Bayer were to succeed in cancelling Belmora's registration, that would not affect Belmora's underlying common law rights in the FLANAX mark. Id. at *11 (citing *B & B Hardware Inc. v. Hargis Industries, Inc.*, 135 S. Ct. 1293, 1300 (2015)).

Additional Thoughts

The court's conclusion that claims for false advertising, false association, passing off, and related unfair competition claims under Section 43(a) do not require use in commerce as a prerequisite to bringing an action is helpful in limited circumstances, when a well-known mark is involved and a substantial number of people in the U.S. are familiar with the foreign mark. Even still, the court suggests that limited remedies are available—although with a strong fact pattern, it is possible that a successful plaintiff could secure an injunction. Also, a successful cancellation action might provide only limited relief since the lack of a U.S. registration by the plaintiff does not invalidate the defendant's acquired common law rights.

Considering the lengthy and expensive proceedings involved here, with the case pending since 2007 and only now going back to the beginning of the discovery and trial phase in the district court (assuming no further appeals), the better course is for foreign trademark owners to register their successful and important marks used overseas if there is any intention of bringing the brand to the U.S. But this strategy would not have helped Bayer, who could not file an application in the U.S. since it had no intention to use the FLANAX mark here (the applicant must have a bona fide intent to use the mark in the U.S. even if it files based on a home-country registration). Here, the only option is to bring a lawsuit under Section 43(a) and a cancellation action in court. While the TTAB is receptive to cancellation actions, the sole remedy available from the TTAB is cancellation of the registration; the TTAB has no authority to issue an injunction or award money damages.

Primary Contacts

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