

HEARING

ON

COUNTERFEITS AND CLUTTERING:

EMERGING THREATS TO THE INTEGRITY

OF THE TRADEMARK SYSTEM

AND THE

IMPACT ON AMERICAN CONSUMERS AND BUSINESSES

BEFORE THE

COMMITTEE ON THE JUDICIARY

SUBCOMMITTEE ON

COURTS, INTELLECTUAL PROPERTY AND THE INTERNET

JULY 18, 2019

TESTIMONY OF

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Executive Summary:

When consumers are confused by trademark infringement or false advertising, they may be deceived into buying products that are not what they believe them to be. Not only does that hurt the consumer, it also hurts the reputation of the business that is the target of the infringement or advertisement. The federal Lanham Act provides a cause of action for such deceptive conduct and allows for both monetary and injunctive relief. The latter is particularly important because reputational harm is hard to remedy effectively through a mere damages award. Consequently, the federal circuits had long held that a showing of likelihood of consumer confusion in Lanham Act cases led to a rebuttable presumption of irreparable harm to the business whose reputation was at risk. Assuming all other elements of the test for injunctive relief were met, that business could generally obtain an injunction preventing further such harm. But recently we have witnessed a split in the circuits – some have erroneously discarded this rebuttable presumption, even where a plaintiff has shown a likelihood of success in the litigation, making it overly difficult to obtain injunctive relief in such cases. My testimony urges a return to the vital and common-sense principle of a rebuttable presumption of irreparable harm in Lanham Act injunctive relief proceedings.

Testimony:

Chairman Johnson, Ranking Member Roby and Members of the Subcommittee, thank you for this opportunity to testify before you today. I am Peter M. Brody, partner in the law firm of Ropes & Gray, LLP in Washington, D.C. and a litigator in

the area of intellectual property, with substantial emphasis on trademark law. I also serve as Chair of the Legislation and Regulation Committee, U.S. Subcommittee of the International Trademark Association (INTA), and as a member of the American Intellectual Property Law Association, the American Bar Association, and the Trademark Committee of the Intellectual Property Owners Association.

I am pleased to be here this morning to discuss legislation to amend the Lanham Act to reestablish an endangered but vital principle. This legislation will ensure that injunctive relief is available in appropriate cases involving trademark counterfeiting, infringement, dilution, false advertising, and cybersquatting. It will clarify and standardize enforcement of the Lanham Act across the country to safeguard the interests of American consumers and businesses.

Trademarks are invaluable to the owners of businesses large and small. They identify a particular source in a crowded marketplace, enabling businesses to develop a reputation and goodwill, symbolized by their brand. When consumers come to depend on the quality and consistency of goods and services, trademarks enhance a business's competitive position.

Trademarks are also invaluable to consumers. We all use trademarks every day to make purchasing decisions and rely on them to lead us to the products that we have come to know and prefer. But our ability to rely on these symbols assumes

that we can trust them to identify the same trademark owner every time we reach for a box on a store shelf, stop at a chain restaurant for a quick meal or click on a link to an online marketplace. If a company sells goods or services under an infringing and confusing trademark, consumer trust in quality and consistency is weakened. The same is true for a company falsely advertising its goods or services, or making false or misleading advertising claims about a competitor's offerings.

The Lanham Act therefore serves dual purposes. First, the statute protects businesses from the damage to their goodwill and reputation caused by trademark counterfeiting, infringement, dilution, false advertising and cybersquatting. Second, the statute protects consumers from the confusion and deception caused by these same acts. As the Lanham Act declares, the intent of the law is in part "to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce" and "to protect persons engaged in such commerce against unfair competition."¹

In Lanham Act litigation, trademark owners must overcome the difficult hurdle of showing harm. Injury to reputation and goodwill due to consumer confusion – the typical injury in a Lanham Act case – is extremely difficult to quantify. Harm to a business's reputation cannot be eliminated or truly remedied with an award of monetary damages. It can only be mitigated by stopping the consumer confusion

¹ 15 U.S.C. § 1127.

at its source, through an injunction. Injunctive relief, then, is most often the only effective remedy to protect the trademark owner's reputation and prevent harm to consumers.

Recent developments in the law of Lanham Act remedies, however, have resulted in federal court rulings that hinder trademark owners' ability to obtain relief. These changes threaten to undermine Congressional objectives in protecting both consumers and businesses from harm.

Obtaining injunctive relief in federal court – in all types of cases – requires the claimant to meet a four-part test. In a preliminary injunction proceeding, a plaintiff must show that (1) it is likely to succeed on the merits, (2) it is likely to suffer irreparable harm without preliminary relief, (3) the defendant will not suffer greater harm from issuance of the injunction and (4) the injunction is in the public interest. The same test applies to permanent injunctions sought at the conclusion of a trial, except that, in the first prong, a finding of liability is required rather than a likelihood of success.

Under the second prong of this four-part test for injunctive relief, harm is considered “irreparable” under the law when a court would be unable to make a plaintiff whole through damages even if it succeeds at trial. Irreparable harm may include harm to reputation that cannot easily be quantified or adequately

compensated with damages, particularly where the injury continues unabated through pretrial and trial proceedings.

Historically, U.S. federal courts, when considering a claim under the Lanham Act, almost uniformly applied a rebuttable presumption of irreparable harm upon a finding of liability or, in the context of a preliminary injunction, a finding that the plaintiff was likely to be able to prove liability. Specifically, such findings led to a presumption – rebuttable by the defendant – that the second prong, irreparable harm, had been met. One court called this an “inescapable conclusion”² and another declared it “well-established.”³

Yet, in the past decade, several federal courts have reversed course and discarded this long-standing principle even when they have found the first prong – liability or a likelihood of it – to be met and consumers to be confused. These courts based their decisions on a Supreme Court opinion⁴ involving unrelated issues of patent infringement and the U.S. Patent Act. The analogy, however, is deeply flawed. Unlike the Lanham Act, the Patent Act provides for a guaranteed monetary remedy, and patent infringement does not cause the kind of unquantifiable harm to goodwill or reputation that the Lanham Act is intended to address.

² *Pappan Enterprises, Inc. v. Hardee’s Food Systems, Inc.*, 143 F.3d 800, 805 (3d Cir. 1998).

³ *Abbott Labs. v. Mead Johnson & Co.*, 971 F.2d 6, 16 (7th Cir. 1992).

⁴ *eBay, Inc. v. MercExchange LLC*, 547 U.S. 388 (2006).

Not all federal district and circuit courts have agreed that the presumption of irreparable harm under the Lanham Act should be jettisoned based on an inapposite patent decision. But the differing views of the courts on this issue have exacerbated the problems, creating uncertainty for Lanham Act claimants and an incentive for forum shopping. The Supreme Court has declined to grant certiorari to resolve the conflict in the lower courts and clarify the law in this regard.

In circuits where the presumption is no longer recognized in Lanham Act cases, businesses seeking to protect their trademarks from infringement or to halt false advertising by a competitor face a much greater risk of being unable to obtain effective relief from the courts despite having a compelling case on the merits. The courts rejecting the presumption have gone too far in the other direction, making it extremely difficult for many trademark owners to demonstrate irreparable injury even after proving liability or likely success on the merits.

Legislation reestablishing a presumption of irreparable harm under the Lanham Act will provide clarity for courts and litigants alike. It will eliminate obstacles to injunctive relief for trademark owners who prevail on the merits of their claim or who, in preliminary injunction proceedings, demonstrate that they are likely to prevail on the merits, and will enable them to appropriately protect their brands and reputations. This legislation will also protect consumers from harm arising from confusion about the source of products or services. A rebuttable presumption of irreparable harm is an important and logical avenue to adequate relief.

Significantly, this proposal entails three key safeguards:

- (1) the presumption would only arise if, and only if, the Lanham Act plaintiff has either succeeded on the merits of its claim or the court determines that there is a likelihood the plaintiff will prevail on the merits;
- (2) even if the presumption arises, it is rebuttable; thus the defendant can overcome it by showing, for example, that the plaintiff has delayed too long in seeking relief or the plaintiff's evidence of harm is too inconsequential or speculative to warrant injunctive relief; and
- (3) the court must still address the other remaining prongs of the four-part injunctive test, namely that the balance of equities, as well as the public interest, favor the injunction.

To summarize, a presumption of irreparable harm is critically important in Lanham Act cases for these reasons:

- Lanham Act cases are unique in the harms that they seek to prevent and remedy: consumer deception and injury to business reputation and goodwill.
- The injury in cases of trademark infringement, dilution, cybersquatting and false advertising is often not readily or immediately quantifiable. In order to protect Lanham Act claimants' rights as well as prevent continued harm to the public, presuming harm can be an important avenue to adequate relief.

- While the Supreme Court’s decision on presumptions of irreparable harm in patent infringement cases may have been an appropriate outcome in the context of the patent statute, which effectively guarantees a minimum monetary recovery of a “reasonable royalty” for prevailing claimants, the Lanham Act provides no such guarantee. Indeed, monetary relief has traditionally been difficult to obtain in Lanham Act cases.
- Absent injunctive relief, a successful litigant under the Lanham Act faces the very real prospect of an unchanged status quo and no monetary recovery despite proving the merits of its claim.
- In that event, not only is the trademark owner harmed without recourse, but consumers also continue to be confused or deceived by the absence of injunctive relief where there is probable or even proven violation of the Lanham Act.

Mr. Chairman and members of the Committee, thank you for this opportunity to express my views on proposed legislation that would restore a rebuttable presumption of irreparable harm for trademark owners seeking injunctive relief in appropriate trademark cases. I welcome your questions.