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Trader Joe's Co. v. Hallatt

835 F.3d 960 (9th Cir. 2016)

RYAN J. BLACKNEY*

BACKGROUND

Plaintiff-Appellant Trader Joe's Company ("Trader Joe's"), a grocery retailer headquartered in Monrovia, California, operates hundreds of stores nationwide. The company is known for its unique, privately-branded food products and its South Pacific-themed stores.

Defendant-Appellee Michael Hallatt ("Hallatt") operates a retail grocery store in Vancouver, British Columbia called Pirate Joe's. Although Hallatt holds lawful permanent resident (LPR) status in the United States, he allegedly remains domiciled in Canada. Not only does Pirate Joe's sell Trader Joe's products, it also mimics Trader Joe's distinctive décor and nautical theme. As the demand for Trader Joe's products increased, Hallatt often paid others to make bulk purchases at Trader Joe's in the U.S. for re-sale at Pirate Joe's in Canada.

Although Trader Joe's does not operate locations outside the U.S., many Canadians cross the border to shop at Trader Joe's locations near them. In October 2011, employees at the Trader Joe's store in Bellingham, Washington noticed that several times a week, Hallatt would purchase large amounts of Trader Joe's products. Trader Joe's then learned from a Canadian customer that Hallatt was reselling these items across the border at a substantial mark-up.

Trader Joe's demanded Hallatt cease operations, and Hallatt refused. When Trader Joe's refused to sell to Hallatt, his conduct became more brazen. Hallatt began to make bulk purchases dressed in disguises, and was even known to drive to Seattle, Portland, and as far as California to further his endeavor. Hallatt allegedly spent three hundred fifty thousand dollars (\$350,000) on products intended for resale.

PROCEDURAL HISTORY

On May 1, 2013, Trader Joe's commenced a federal lawsuit in the Western District of Washington that named Hallatt, Pirate Joe's, and its former iteration, Transilvania Trading, as Defendants. The suit alleged violations of the Lanham Act, including claims for trademark infringement, trademark dilution, false endorsement, and false designation of origin.¹ Trader Joe's also asserted further violations

*Ryan J. Blackney is a 2017 J.D. candidate at the University of San Francisco School of Law.

based on the Washington Consumer Protection Act and Washington's anti-dilution laws.² Trader Joe's requested permanent injunctive relief and damages stemming from Hallatt's activities.

In response to the lawsuit, Hallatt demurred Trader Joe's complaint for lack of subject-matter jurisdiction. The district court held that the Lanham Act did not apply extraterritorially to Hallatt's business activities in Canada, and therefore it did not have subject-matter jurisdiction.³ However, Trader Joe's pled new facts that invoked the court's diversity jurisdiction over state law claims. Again, Hallatt moved to dismiss these state law claims, and the district court granted Hallatt's motion to dismiss the amended complaint on December 18, 2013. Trader Joe's filed a timely appeal to the U.S. Court of Appeals for the Ninth Circuit.⁴

ISSUE

The issue presented in this case is threefold: (1) whether extraterritorial application of the Lanham Act is a subject-matter jurisdictional query; (2) whether Trader Joe's allegations satisfy the Ninth Circuit's test for extraterritorial application of the Lanham Act; and (3) whether the dismissal of the state law claims was proper given Hallatt's conduct in Washington.

DECISION

The court reversed the federal trademark claims, holding that extraterritorial application of the Lanham Act was to be determined based on the merits. As such, Trader Joe's sufficiently pled a cognizable connection between Hallatt's activities in Canada and American commerce. As to the state law claims, the district court's judgment was affirmed because Trader Joe's did not allege any unlawful commercial conduct occurring in Washington. For these reasons, the court remanded the case for further proceedings consistent with its opinion.

REASONING

I. SUBJECT-MATTER JURISDICTION

Six decades after the Supreme Court first decided that the Lanham Act applied extraterritorially, the appellate panel had to consider whether extraterritorial application of the Act was a subject-

1. See 15 U.S.C. §§ 1114(1)-1125(c) (2012).
2. See Wash. Rev. Code §§ 19.77.160-19.86.020 (2016).
3. See *Trader Joe's Co. v. Hallatt*, 981 F.Supp.2d 972 (W.D. Wash. 2013).
4. *Trader Joe's Co. v. Hallatt*, 835 F.3d 960 (9th Cir. 2016).

matter jurisdiction consideration.⁵ The court applied the rule set forth in *La Quinta Worldwide LLC v. Q.R.T.M., S.A. de C.V.*⁶ In *La Quinta*, the Mexican hotel chain, La Quinta, asserted that mere intent to operate a hotel in the United States does not constitute “use in commerce” to invoke the Lanham Act extraterritoriality.⁷ The court held that “use in commerce” found under § 32 and § 43(a) was a prima facie element of an infringement claim. Further, the court pointed to a separate provision of the Lanham Act that indicated Congress’ express grant of original subject-matter jurisdiction to the federal district courts.⁸

The application of *La Quinta* is consistent with other Supreme Court decisions that differentiated between the elements of a claim and the jurisdictional requirements. The analysis was similarly applicable here as Hallatt’s “use in commerce” argument was held to be a merits consideration, and the district court’s dismissal of the federal trademark claims for lack of subject-matter jurisdiction was an error of law.

II. EXTRATERRITORIAL APPLICATION

The court next considered whether the factual allegations in Trader Joe’s complaint satisfied the Ninth Circuit’s test from *Timberlane* warranting extraterritorial application of the Lanham Act. In order for the Lanham Act to apply to foreign-based conduct, a plaintiff must satisfy all three prongs of the *Timberlane* test: (1) the defendant’s conduct creates some effect on American commerce; (2) the effect(s) creates harm significant enough to create a cognizable injury under the Lanham Act; and (3) the interests of and links to American foreign commerce are sufficiently strong in relation to other nations to warrant extraterritorial application of the Act.⁹ As to the first and second prongs, Trader Joe’s alleged that Hallatt’s transportation and resale methods resulted in reputational harm and effectively tarnished the company’s trademarks.

Trader Joe’s alleged that the quality control infringement theory attributable to Hallatt’s display and resale of its products was a type of harm that circumvented the first-sale doctrine defense. Ninth Circuit precedent had already recognized this theory because it tarnished not only the individual products, but also damaged the plaintiff’s overall goodwill.

Prong three involved balancing seven factors to determine

5. *Steele v. Bulova Watch Co.*, 344 U.S. 280, 286 (1952).

6. 762 F.3d 867 (9th Cir. 2014).

7. *Id.* at 872.

8. *Id.* at 873-74; *see* 15 U.S.C. § 1121(a) (2012).

9. *Trader Joe’s Co.*, *supra* note 3, at 969; *see also* *Love v. Associated Newspapers, Ltd.*, 611 F.3d 601, 613 (9th Cir. 2010) (explaining the three-part test originally set forth in *Timberlane Lumber Co. v. Bank of Am. Nat’l Tr. and Sav. Ass’n*, 549 F.2d 597 (9th Cir. 1976)).

whether extraterritorial application of the Lanham Act was warranted. First, as to any conflict with foreign law or policy, although Trader Joe's applied for Canadian trademark registration, there was no legal proceeding between the parties in Canada. As such, the first factor weighed in favor of Trader Joe's. Second, the nationality of the parties and their principal places of business weighed in favor of Trader Joe's because even though Hallatt was allegedly domiciled in Vancouver, he held LPR status, and thus the conflict involved opposing parties, both taking advantage of U.S. laws. Third, the court considered the likelihood that the district court would be able to enforce remedial measures. Here, the court looked again to Hallatt's LPR status, his bulk purchases of products within the U.S., as well as the allegations that Hallatt had U.S. monetary assets. The court found that the trial judge could properly craft and enforce an effective remedy within the United States.

Fourth, the court held that the extraterritorial application served the Lanham Act's dual goals to protect Trader Joe's trademark interests in the U.S., while also preventing confusion among Canadian-based consumers. Approximately, forty percent of transactions at the Bellingham, Washington store came from Canadian customers. Fifth and sixth, as to the purpose and foreseeability of harm to American commerce, it was apparent from the facts alleged in the complaint that Hallatt intended to "free ride" off of the goodwill and exceptional branding cultivated by Trader Joe's. The court held that Hallatt's conduct was probative of his nefarious intent. Seventh, as to the relative importance of conduct occurring with the United States as compared to the conduct abroad, the court concluded that while Hallatt domestically sourced his goods, the alleged infringement occurred in Canada. The final factor cut in favor of Hallatt. After balancing these factors, the court concluded that the three-prong test warranted extraterritorial application of the Lanham Act. Therefore, the court reversed and remanded the federal trademark claims for further proceedings.

III. STATE CLAIMS

Pursuant to Washington's trademark anti-dilution statute, injunctive relief would only be available if Hallatt had used Trader Joe's marks in Washington commerce. The plain language of the statute requires "*commercial use in this state.*"¹⁰ Therefore, because the alleged trademark dilution occurred upon resale in Canada, Trader Joe's state anti-dilution claim was properly dismissed.

The claim under the Consumer Protection Act turned on whether unfair trade or business practices established a causal link between Hallatt's purchases and injury to a Washington resident or business. To

10. *Trader Joe's Co.*, *supra* note 3, at 975 (emphasis added) (citation omitted).

the extent that Hallatt's conduct impacted Trader Joe's stores, such conduct did not occur in Washington. Ninth Circuit precedent holds that Washington law does not apply extraterritorially when neither party resides in Washington nor does it apply when the alleged harm occurs abroad.¹¹ The foreign-based conduct attributed to Hallatt is not incidental or related to any harm sustained by a Washington resident or business. The conduct only allegedly applies to consumers in Canada. Thus, the district court also properly dismissed Trader Joe's consumer protection claim. In sum, the court affirmed the district court's dismissal of both state law claims.¹²

11. See *Red Lion Hotels Franchising, Inc. v. MAK, LLC*, 663 F.3d 1080, 1090 (9th Cir. 2011).

12. *Trader Joe's Co.*, *supra* note 3, at 978.

