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# A STRATEGY FOR RENEWING FRANCHISE NEGOTIATIONS IN KOSOVO

MATTHEW V. TOPIC\*

## INTRODUCTION

Kosovo currently exists as a “political trusteeship” in which civil administration is carried out through the United Nations Interim Administration Mission in Kosovo (“UNMIK”).<sup>1</sup> Prior to UNMIK’s assumption of authority, Kosovo existed as an autonomous province of Serbia, one of the six Republics that made up the Socialist Federal Republic of Yugoslavia (“SFRY”).<sup>2</sup> UNMIK authority began in 1999 to address widespread human rights abuses in Kosovo, both by the government of Serbia against ethnic Albanians and by ethnic Albanian terror groups against Serbs in Kosovo.<sup>3</sup> Economic development has been slow to emerge in Kosovo, and although some progress has been made, Kosovo is far from becoming even a small player in the world trade arena.<sup>4</sup>

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1. S.C. Res. 1244, U.N. SCOR, 54th Sess., 4011th mtg., U.N. Doc. S/RES/1244 (1999).

2. On July 4, 1992, the European Commission (now the EU) Arbitration Commission found that the SFRY should be considered to have dissolved. Paul Williams & Jennifer Harris, *State Succession to Debts and Assets: The Modern Law and Policy*, 42 HARV. INT’L L.J. 355, 388 (2001). The Federal Republic of Yugoslavia (“FRY”) existed after the dissolution of the SFRY and before the creation of the Union of Serbia and Montenegro (“USM”) in 2002. Serbia and Montenegro agreed to form a loose confederation for a period of three years, after which Montenegrins will vote on their desire to remain federalized with Serbia. See Agreement on Principles of Relations Between Serbia and Montenegro Within the Framework of a Union of States (2002). For the full text, see <http://www-reliefweb.int/w/rwb.nsf/0/c604a3782756fa27c1256b8100663089?OpenDocument&Click=> (last visited Jan. 6, 2005). Technically, Kosovo is a part of the USM, as the international community has reaffirmed the sovereignty and territorial integrity of the Federal Republic of Yugoslavia. See S.C. Res. 1244, *supra* note 1. In the event that Montenegrins vote for independence, sovereignty rights over Kosovo will revert to Serbia. See *id.* For the purposes of discussing trademark protection under Kosovar law, however, this Note conceptualizes Kosovo as a separate entity.

3. S.C. Res. 1244, *supra* note 1.

4. See Report of the Secretary-General on the United Nations Interim Administration Mission in Kosovo, U.N. SCOR, at 15, U.N. Doc. S/2004/907 (2004).

The presence of a McDonald's franchise provides economic hope to the people of a developing region.<sup>5</sup> A group of Kosovar entrepreneurs recently attempted to acquire a McDonald's franchise.<sup>6</sup> Their efforts, through an attorney in the U.S., were fruitless.<sup>7</sup> McDonald's promptly informed them that it would not convey any franchises for use in Kosovo for at least five years.<sup>8</sup> Further efforts to negotiate with McDonald's have been unsuccessful.<sup>9</sup> There will be no Big Macs in Kosovo for some time. Or will there?

A technique sometimes used in negotiation is to take action that prompts litigation and to use the impending litigation to persuade the opposing side to return to the bargaining table.<sup>10</sup> In order to be successful, the litigation prompted by the action must be such that the opponent is unsure whether it will be victorious in court. Renewed negotiations are unlikely if the opponent is not threatened by the litigation because it is sure it will succeed quickly.<sup>11</sup> This Note considers whether unauthorized use of the McDonald's mark by these Kosovar entrepreneurs is a viable way to persuade McDonald's to return to franchise negotiations.

This Note uses the term "unauthorized" to mean "without permission," as distinguished from "illegal" or "infringing." If a mark clearly enjoys protection under trademark law, unauthorized use of that mark would not only violate trademark law, but litigation against the infringer would be too certainly successful to provide leverage towards renewed negotiations. The purpose of this Note is to discuss whether, and to what degree of certainty, McDonald's enjoys protection under trademark law against unauthorized use in Kosovo. The author does not condone deliberate and knowing violations of the law, but rather offers advice common in the legal profession—whether conduct is in fact illegal. Further, there is debate in the world community as to whether enforcement of trademarks in developing nations is good policy.<sup>12</sup>

5. MCDONALD'S CORP., 1996 ANNUAL REPORT 27 (1996).

6. Interview with Henry H. Perritt, Jr., Professor, Chicago-Kent College of Law, in Chicago, Ill. (June 2004) [hereinafter Perritt Interview].

7. *Id.*

8. *Id.*

9. *Id.*

10. See Henry H. Perritt, Jr., *Negotiated Rulemaking Before Federal Agencies: Evaluation of Recommendations by the Administrative Conference of the United States*, 74 GEO. L.J. 1625, 1636–37 (1986) (describing the "Best Alternative to Negotiated Agreement" ("BATNA") concept in the context of the regulatory rulemaking process).

11. *See id.*

12. See Marshall A. Leaffer, *Protecting United States Intellectual Property Abroad: Toward a New Multilateralism*, 76 IOWA L. REV. 273, 275 (1991). Kosovar reluctance to enforce McDonald's alleged trademark rights could be justified for reasons of economic policy. Enforcement of rights

Section I of this Note provides a discussion of the relevant principles of trademark law. Section II explores the sources of Kosovar and U.S. federal and state laws that might provide protection against trademark infringement in Kosovo, discusses the likely difficulties in interpreting those laws in the unique Kosovar context, and examines the various approaches that U.S. circuit courts of appeals have taken in applying U.S. trademark law abroad. Section III addresses Kosovar, Yugoslav, and U.S. forums in which McDonald's, or other similarly situated plaintiffs, might file suit. Section IV discusses conflict of laws issues that McDonald's would face in attempting to secure and enforce a judgment against the Kosovar entrepreneurs. This Note concludes that McDonald's does not enjoy certain protection of its mark under Kosovar law, and that application of U.S. trademark law to activities in Kosovo is equally uncertain, making unauthorized use of the McDonald's mark in Kosovo a potentially successful technique for provoking new franchising negotiations.

## I. GENERAL PRINCIPLES OF TRADEMARK LAW

Trademarks, also called "marks," are words, names, symbols, devices, or a combination of these elements that are used in commerce to identify or distinguish products or services.<sup>13</sup> Trademark laws serve two primary purposes. They protect consumers from the deception of counterfeit products in the market and protect producers from others attempting to take advantage of their labor.<sup>14</sup> Virtually all nations have trademark laws.<sup>15</sup>

Trademark rights<sup>16</sup> are acquired in the U.S. through actual use of the particular mark in commerce, although registration of the mark with the U.S. Patent and Trademark Office can, under certain circumstances, create priority rights.<sup>17</sup> In most civil law nations, trademark rights result from the registration process alone,<sup>18</sup> although unused registered marks may be subject to revocation, which terminates trademark rights, through administrative proceedings.<sup>19</sup> In the U.S., loss of acquired trademark rights requires a

allegedly enjoyed by foreign parties would both drain the limited resources of the Kosovar government and deprive Kosovo of the economic benefits of the use of foreign marks. *See id.* at 281-82.

13. J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 4:12 (4th ed. 2004) [hereinafter MCCARTHY].

14. *Id.* § 2:1.

15. *Id.* § 2:6.

16. This Note refers to "trademark rights" also as "mark protection" or "protection of the mark."

17. MCCARTHY, *supra* note 13, §§ 16:1-16:2.

18. *Id.* § 16:1.

19. *See infra* Sections II.A.1 and II.A.2 (discussing revocation under Yugoslav law). If a mark is "registered," the mark holder enjoys "trademark rights" in civil law countries, but does not enjoy rights in the U.S. until the mark is actually used, at which point the mark is "protected."

showing that the mark holder has ceased use of the mark in the U.S. and does not intend to resume use,<sup>20</sup> but intent not to resume use is rebuttably presumed after three years of non-use.<sup>21</sup>

One who enjoys acquired trademark rights may bring a suit for infringement against anyone who uses the protected mark without authorization. The standard test for infringement is whether the use of the mark by the party not enjoying the trademark rights has created a "likelihood of confusion" in the market that tends to mislead consumers.<sup>22</sup>

Also relevant to trademark law are the concepts of unfair competition and famous mark doctrine (also known as well-known mark doctrine). Unfair competition is an abstract concept that lacks a formal definition and is best illustrated through examples.<sup>23</sup> Examples of unfair competition under U.S. law include false representation or advertising, and use of confusingly similar branding.<sup>24</sup> Famous marks—those with greater public recognition—are generally entitled to greater protection.<sup>25</sup>

If the Kosovar entrepreneurs were to open an unauthorized "McDonald's" in Kosovo, their conduct would certainly create a likelihood of confusion. Their conduct would not be *infringement*, however, unless McDonald's already enjoyed acquired trademark rights. McDonald's would therefore need to show either that it enjoyed trademark rights under Kosovar law, or that McDonald's rights under U.S. law were infringed by conduct occurring entirely outside U.S. borders. This Note, therefore, addresses the certainty and likelihood of McDonald's success in establishing either of those two methods of protection.

## II. SOURCES OF LAW

If McDonald's brought suit against the Kosovar entrepreneurs, McDonald's would need to point to a source of law that would grant it protection from the Kosovars' unauthorized use of the McDonald's mark. Both Kosovar and United States law might provide McDonald's such protection, but relief under either law is quite uncertain.

20. MCCARTHY, *supra* note 13, § 17:9.

21. *Id.* § 17:18.

22. *Id.* § 23:1.

23. *Id.* § 1:8.

24. *Id.* § 1:10.

25. *Id.* § 11:73.

### A. Kosovar Law

Under UNMIK regulation 1999/24,<sup>26</sup> the applicable law in Kosovo comes from several sources. Regulations promulgated by the Special Representative of the Secretary-General of the United Nations (“UNMIK regulations”) provide the primary law.<sup>27</sup> When no law has been promulgated for a given subject area, the laws in effect in Kosovo as of March 22, 1989, apply.<sup>28</sup> When subject matter is not covered by these first two sources of law, a court or government body must apply any applicable Yugoslav law enacted after March 22, 1989, so long as that law is not ethnically discriminatory and complies with various international human rights instruments that were adopted by regulation 1999/24.<sup>29</sup>

The absence or existence of the legal agencies that play a part in enforcing various laws (“legal infrastructure”) would seem relevant in determining whether laws enacted before or after 1989 continue to “exist” and can be applied. UNMIK regulations, however, do not address the issue of legal infrastructure. This Note, therefore, speculates on the role of legal infrastructure on the analysis of applicable Kosovar trademark law.

The Special Representative has not promulgated any substantive trademark laws,<sup>30</sup> but UNMIK regulations do require Kosovo to enforce any intellectual property rights enjoyed by foreign entities.<sup>31</sup> Thus, if there

26. On the Law Applicable in Kosovo, U.N. Interim Administration Mission in Kosovo, U.N. Doc. UNMIK/REG/1999/24 (Dec. 12, 1999).

27. *Id.* § 1.1(a).

28. *Id.* § 1.1(b). March 22, 1989 is significant because it was the last day before the Assembly of Kosovo, with the majority of Kosovar Albanian delegates abstaining, voted to accept amendments to the Yugoslav constitution that stripped Kosovo of most of the autonomy granted in the 1974 Constitution of the Socialist Federal Republic of Yugoslavia. See *Prosecutor v. Milutinovic*, Third Amended Indictment, Case No. IT-99-37-PT, I.C.T.Y., ¶ 81 (2002). The vote was declared passed despite the absence of the necessary two-thirds majority. *Id.* For a partial reprint of the 1974 Constitution, see SOCIALIST FED. REPUBLIC OF YUGOSLAVIA CONST. (1974), reprinted in YUGOSLAVIA THROUGH DOCUMENTS: FROM ITS CREATION TO ITS DISSOLUTION 224 (Snežana Trifunovska ed., 1994).

29. UNMIK/REG/1999/24 § 1.2.

30. UNMIK has issued a regulation authorizing the Ministry of Trade and Industry to implement rules protecting against the import and export of counterfeit products, but the scope of the regulation is limited to external trade. See *On the Promulgation of a Law Adopted by the Assembly of Kosovo on External Trade Activity*, U.N. Interim Administration Mission in Kosovo, U.N. Doc. UNMIK/REG/2003/15 § 37 (May 12, 2003). UNMIK has also authorized the Department of Trade and Industry (which is presumably the same institution as the Ministry of Trade and Industry) to issue policy recommendations to UNMIK for the purpose, *inter alia*, of developing intellectual property protection consistent with international standards. See *On the Establishment of the Administrative Department of Trade and Industry*, U.N. Interim Administration Mission in Kosovo, U.N. Doc. UNMIK/REG/2000/63 § 2.1(a)(iv) (Dec. 7, 2000). It does not appear that the Department of Trade and Industry has issued any policy recommendations. In any event, no trademark laws have been promulgated by UNMIK.

31. *On Foreign Investment in Kosovo*, U.N. Interim Administration Mission in Kosovo, U.N. Doc. UNMIK/REG/2001/3 § 10 (Jan. 12, 2001) (requiring the authorities to enforce intellectual prop-

is applicable trademark law in Kosovo, McDonald's would be entitled to protection.

In 1989, the Law on the Protection of Inventions, Technical Improvements and Distinctive Signs was in effect in the FRY, having been enacted in 1981.<sup>32</sup> In 1995, the FRY passed its Trademark Law, which repealed the 1981 Law and continues in effect today in the Union of Serbia and Montenegro ("USM"), essentially the remainder entity of the FRY.<sup>33</sup> The provisions of the 1981 and 1995 Laws differ in several relevant aspects. This Note analyzes both laws because legal infrastructure issues, particularly the role of the administrative Patent Office under both laws, could affect a court's decision of whether to apply the 1981 Law, the 1995 Law, or neither.

Because under regulation 1999/24 the laws in effect in Yugoslavia in 1989 take precedence over post-1989 laws, the 1981 Law should theoretically apply.<sup>34</sup> If a court determined, however, that missing elements of the legal infrastructure under the 1981 Law, such as the Patent Office, make that law impossible to apply, it could determine that, in effect, no relevant pre-1989 law exists. In that case, the court should apply the 1995 Law.<sup>35</sup> If the 1995 Law were found to be ethnically discriminatory, there would be no trademark law in Kosovo at all.

McDonald's began operating in the SFRY in 1988 and presumably registered its mark there prior to commencing its Yugoslav operations.<sup>36</sup> Under both the 1981 Law and the 1995 Law, however, McDonald's would be obligated to use its registered mark or face possible revocation of its mark registration and the corresponding protection from unauthorized use.<sup>37</sup> For the purposes of determining whether McDonald's has a registered mark under Kosovar law, a court could consider either use or non-use

erty rights held by foreign parties). This regulation does not, however, define who are such authorities or what rights they are to protect, and may simply be forward looking to enforcement in the future, after new laws create such rights.

32. Law on the Protection of Inventions, Technical Improvements and Distinctive Signs (1981) (Yugo.), reprinted in 21 INDUS. PROP. Text 1-001 (Sept. 1982) [hereinafter Yugoslav Trademark Law of 1981].

33. Trademark Law, Official Gazette of the FRY, No. 15/95, 28/96 (1995) (Serb. & Mont.), available at [http://www.yupat.sv.gov.yu/propisi/Engl\\_propisi/YU%20Trademark%20Law.pdf](http://www.yupat.sv.gov.yu/propisi/Engl_propisi/YU%20Trademark%20Law.pdf) [hereinafter Trademark Law of the FRY, 1995].

34. See UNMIK/REG/1999/24 § 1.1.

35. *Id.* § 1.2.

36. Mark M. Nelson, *Money Balks: Overseas Investors Find Serbian Leaders Corraling Economy*, WALL ST. J., Feb. 6, 1996, at A1. Because FRY trademark records are not readily available in the U.S. or in English, this Note assumes that McDonald's registered its mark before it began to use the mark in the FRY.

37. Yugoslav Trademark Law of 1981, *supra* note 32, § 112 (revocation provision); Trademark Law of the FRY, 1995, *supra* note 33, at art. 47 (revocation provision).

in the SFRY, the FRY, and the USM, in which case McDonald's would be protected from revocation, or use or non-use only in Kosovo, in which case McDonald's mark could be subject to revocation.<sup>38</sup>

As the above discussion implies, McDonald's would face a myriad of possibilities of what Kosovar law would apply in litigation against the Kosovar entrepreneurs and how the law's provisions would be interpreted in the unique Kosovo context of semi-independence. These possibilities are discussed in the following sections.

### 1. Application of the 1981 Law

Under the 1981 Law, a registered trademark protects a sign that is intended to distinguish goods or services in economic transactions.<sup>39</sup> The McDonald's name, the "golden arches," and the labels attached to various McDonald's products (such as the "Big Mac") are examples of such signs. A mark holder enjoys the exclusive right to use the mark in economic transactions.<sup>40</sup> The retail sale of fast food is an example of such an economic transaction.

Registered marks are valid indefinitely under the 1981 Law, but the mark holder has an obligation to use the mark.<sup>41</sup> If, without justification, a mark holder does not use a mark for a period of three years, any interested party may seek revocation of the mark.<sup>42</sup> Potential application of the revocation provision to the McDonald's scenario is discussed below. First, however, an analysis of the role of the Patent Office in the revocation process under the 1981 Law is necessary, because a court could determine that legal infrastructure issues involving the Patent Office render the 1981 Law either inoperable or in need of judicial modification.

Under the 1981 Law, the Patent Office conducts administrative procedures related to intellectual property.<sup>43</sup> This includes both registration proceedings, which grant rights,<sup>44</sup> and revocation proceedings, which terminate rights for non-use of the mark by the mark holder.<sup>45</sup> Infringement proceedings, however, are heard by "the competent court."<sup>46</sup> Based on the

38. See *infra* Sections II.A.1 and II.A.2 (discussing in greater depth the revocation for non-use issue).

39. Yugoslav Trademark Law of 1981, *supra* note 32, § 28.

40. *Id.* § 48.

41. *Id.* §§ 53, 112.

42. *Id.* § 112.

43. *Id.* § 17.

44. *Id.* §§ 81, 87, 92.

45. *Id.* § 113.

46. *Id.* § 117.



separate provisions and mechanisms for revocation and infringement in the 1981 Law, it appears that a defendant sued for trademark infringement cannot argue non-use by the registered mark holder as an affirmative defense to an infringement proceeding. Rather, a party that wishes to use an unused mark registered by another must seek revocation at the Patent Office before using the unused mark for itself.

Because the Patent Office does not exist within the current Kosovar government, and because the FRY repealed the 1981 Law and replaced it with a new trademark law that created a new administrative agency to grant and revoke trademark rights,<sup>47</sup> there does not appear to be any formal mechanism under the 1981 Law by which rights can be granted or revoked. Without the legal infrastructure necessary to give full effect to the 1981 Law, a court might be reluctant to apply the 1981 Law, and might instead turn to the 1995 Law.<sup>48</sup> A court could, however, adapt the 1981 Law to account for the absence of the Patent Office by allowing non-use of the mark by the registered mark holder as an affirmative defense to an infringement suit against an unauthorized use of the mark. This would allow the court to avoid having to choose between the potentially discriminatory 1995 Law or no law at all.<sup>49</sup>

The policy provisions of the 1981 Law would support a court's decision to hear non-use as an affirmative defense to infringement. The 1981 Law indicates a strong economic policy preference against non-use of registered marks by the mark holder. It states that rights granted under the 1981 Law "may not be used contrary to the interests of the society in having the protected inventions and distinctive signs used."<sup>50</sup> In fact, registration and indefinite non-use practices by foreign entities were primary concerns that the 1981 Law addressed.<sup>51</sup> A court could conceivably consider this policy preference as sufficiently strong to support modification of the precise procedural aspects of the 1981 Law and treat non-use as an affirmative defense to infringement.<sup>52</sup>

47. Trademark Law of the FRY, 1995, *supra* note 33, at art. 62.

48. *See supra* Section II.A (discussing the hierarchy of sources of Kosovar law).

49. *See supra* Section II.A.2.

50. Yugoslav Trademark Law of 1981, *supra* note 32, § 3.

51. V. Besarović, *The Recent Development of Yugoslav Legislation on Distinctive Signs*, 21 *INDUS. PROP.* 251, 256 (Sept. 1982).

52. A court could also look to UNMIK regulation 2000/63, which authorizes the Department of Trade and Industry to develop policy recommendations for intellectual property standards consistent with international standards. *See supra* note 30. There is not, however, a clear international consensus on the appropriate scope of trademark protection in the developing world, which renders UNMIK regulation 2000/63 of little policy guidance. *See supra* note 4. Nor has the author discovered any policy recommendations issued by the Department of Trade and Industry.

If a court did choose this option, it would then face multiple possibilities in applying the revocation for non-use provision to the unique context of semi-independent Kosovo. The court would need to decide whether it should consider the registered mark holder's use or non-use in the FRY and the USM, or only use or non-use in Kosovo itself.

A mark holder whose mark was registered under the 1981 Law and who did not leave the mark unused for a three-year period in Kosovo would certainly seem to enjoy continuing protection from unauthorized use if a court applied the 1981 Law. Protection for McDonald's is less certain, however, because McDonald's has not operated any restaurants in Kosovo. If a court looked to use or non-use in the FRY and the USM, McDonald's would be safe from an affirmative defense of non-use in its infringement proceedings against the Kosovar entrepreneurs. If a court looked to use or non-use only in Kosovo, the affirmative defense of non-use would likely be meritorious.

A court might also need to consider whether advertising does or does not qualify as "use" of the mark under the 1981 Law. If McDonald's advertising reached into Kosovo from the FRY or reaches into Kosovo from the USM, McDonald's could argue that such advertising constitutes use in Kosovo and protects it against an affirmative defense of non-use, even if no economic transactions actually occurred in Kosovo. It is not at all clear whether a court would recognize such indirect use as sufficient under the 1981 Law.

Finally, the 1981 Law allows for revocation if the mark is unused without justified reason. If non-use were allowed as an affirmative defense to an infringement action in court, McDonald's could argue that the unsettled legal status of Kosovo and years of armed conflict in the region justify the lack of use of its mark. If this argument were accepted, the Kosovar entrepreneurs' affirmative defense of non-use would fail. Like other aspects of the non-use provision discussed above, it is not at all clear how a court would interpret "without justified reason."

As this discussion indicates, many variables could affect the outcome of an infringement action brought by McDonald's under the 1981 Law, assuming that a court determined that the 1981 Law should apply. A court would have multiple options available for resolving each of the variables. McDonald's would face a great degree of uncertainty if it pursued litigation against the Kosovar entrepreneurs under the 1981 Law. This uncertainty increases the likelihood that McDonald's would return to the franchise bargaining table instead of pursuing litigation.

## 2. Application of 1995 Law

If a court determined that Kosovo lacked the legal infrastructure to apply the 1981 Law, UNMIK regulations would require the court to fill the legal gap with any applicable law enacted in Yugoslavia after 1989, so long as that law was not ethnically discriminatory.<sup>53</sup> In 1995, the FRY's (and now the USM's) current Trademark Law was enacted.<sup>54</sup> The 1995 Law repealed the 1981 Law<sup>55</sup> but allowed registered marks to remain in effect under the provisions of the 1995 Law.<sup>56</sup> Thus, even if McDonald's did not re-register its mark under the 1995 Law, its mark would be protected by virtue of its registration under the 1981 Law.<sup>57</sup> Marks under the 1995 Law are only valid for ten years, after which the mark holder must renew them.<sup>58</sup> Because FRY and USM trademark records were and are not available outside of those entities, this Note assumes that McDonald's exercised proper diligence and re-registered its mark in Yugoslavia at the appropriate ten-year intervals.

Under the 1995 Law, the Patent Office<sup>59</sup> renders decisions as to registration of trademark rights<sup>60</sup> and revocation of those rights for non-use.<sup>61</sup> Infringement actions are brought within the court system.<sup>62</sup> Like the 1981 Law, the 1995 Law provides for revocation when a mark is unused without valid justification, but extends the period of time of non-use to five years.<sup>63</sup>

The same issues and uncertainties regarding non-use as an affirmative defense, the geographic area of use or non-use, and the meaning of "with-

53. UNMIK/REG/1999/24 § 1.2.

54. See Trademark Law of the FRY, 1995, *supra* note 33.

55. *Id.* at art. 62.

56. *Id.* at art. 60.

57. See *supra* note 36 (explaining assumption that McDonald's registered its mark prior to the first use of the mark in 1988).

58. Trademark Law of the FRY, 1995, *supra* note 33, at art. 36.

59. The 1995 Trademark Law places competency for registration and revocation in the "competent federal body." *Id.* at arts. 7, 47. The precise name of this body is unclear from the text of the 1995 Law, but the 1995 Law requires that implementing regulations be issued. *Id.* at art. 61. English translations of those regulations are not available, but the competent federal body is presumably there named. One article has analyzed revocation proceedings as involving both the Federal Bureau of Intellectual Property and the Patent Office. *The Eighth Annual International Review of Trademark Jurisprudence*, 91 TRADEMARK REP. 245, 558-60 (2001). The official USM website provides copies of its intellectual property laws on a webpage attributed to the Intellectual Property Office. Serbia and Montenegro Intellectual Property Office, [http://www.yupat.sv.gov.yu/eng\\_index.htm](http://www.yupat.sv.gov.yu/eng_index.htm) (last visited Jan. 6, 2005). Because the federal body with revocation and registration responsibilities under the 1981 Law was known as the Patent Office, this Note refers to the competent federal body described in the 1995 Law as the Patent Office for the purpose of discussing registration and revocation proceedings.

60. Trademark Law of the FRY, 1995, *supra* note 33, at art. 47.

61. *Id.*

62. *Id.* at art. 53.

63. *Id.* at art. 47.

out valid reason” as analyzed for the 1981 Law would affect application of the 1995 Law.<sup>64</sup> Because the Patent Office created under the 1995 Law is currently functioning in the USM, however, a court could elect to honor the decisions of the USM Patent Office as to the registration and revocation of rights and use the Patent Office decisions when hearing infringement actions. It is unclear whether the Patent Office in the USM would consider trademark rights in Kosovo as a separate issue from rights in the USM, especially given the hostilities between Kosovo and Serbia.

A court may only apply the 1995 Law, however, if the 1995 Law is nondiscriminatory.<sup>65</sup> A court could determine that because the Patent Office is located in the USM, Kosovar citizens lack the practical ability to access the Patent Office or would face discriminatory treatment if they attempted to bring revocation proceedings. In that case, a court might decline to apply the 1995 Law, leaving McDonald’s no source of trademark protection under Kosovar law. Alternatively, it might apply the 1995 Law but modify it to allow non-use by the registered mark holder as an affirmative defense to an infringement action against an unauthorized user of the mark, thus removing the need for reliance on the Patent Office.

If a court did elect to treat non-use by the registered mark holder as an affirmative defense to infringement, and looked only to use or non-use in Kosovo, the five year time frame for non-use would not affect the analysis. Because Kosovo’s semi-independent status began in 1999 when the U.N. assumed authority in Kosovo, the five-year deadline for use of McDonald’s mark in Kosovo has passed. If a court treated non-use as an affirmative defense to infringement, McDonald’s would be unable to demonstrate the required use, and the Kosovar entrepreneurs would have a valid defense.

The 1995 Law does, however, specifically provide for advertising as a use of the mark.<sup>66</sup> If McDonald’s advertising in the FRY or the USM reached into Kosovo, McDonald’s would be able to make a plausible argument that it did in fact use its mark in Kosovo. It is not clear, though, whether the advertising would need to be directed at Kosovo or whether indirect effects in Kosovo would suffice.

Even if a court revoked McDonald’s mark under the 1995 Law for non-use in Kosovo, McDonald’s may still enjoy protection because the 1995 Law provides protection for famous marks. The 1995 Law does not allow anyone to register a mark that is already famous in the USM, even if

64. *See supra* Section II.A.1.

65. UNMIK/REG/1999/24 § 1.2.

66. Trademark Law of the FRY, 1995, *supra* note 33, at art. 47.

the owner of the famous mark has not registered the mark.<sup>67</sup> It also provides that a famous mark may not be used to distinguish any goods, even those not similar to the goods sold by the mark holder.<sup>68</sup> Thus, even if McDonald's mark was left unregistered after revocation, McDonald's would seemingly be protected through the famous mark provision of the 1995 Law. The Kosovar entrepreneurs could argue, however, that McDonald's is not sufficiently famous in Kosovo to warrant famous-mark protection. The extent of McDonald's fame in Kosovo and the extent of fame necessary under the 1995 Law are not clear.

Finally, in cases of intentional infringement, the 1995 Law authorizes treble damages.<sup>69</sup> While the treble damages provision would not affect the merits of an infringement case against the Kosovar entrepreneurs, it creates an increased financial risk that the Kosovar entrepreneurs would be undertaking if they adopted this negotiation-provoking strategy. It is not clear, however, that intentional "unauthorized" use would be treated the same as intentional "infringement." Intentional "infringement" implies that the defendant was aware that the plaintiff's mark was in fact protected. It is not at all clear that McDonald's does enjoy protection. The Kosovar entrepreneurs may be able to argue that they believed in good faith that the mark was not protected and that they did not believe that their intentional "unauthorized" use would be "infringement."

Like the 1981 Law, the 1995 Law is wrought with unanswered questions when applied in the distinct Kosovar context. Regardless of which law applied, McDonald's would face an uncertain outcome in litigation against the Kosovar entrepreneurs based on either law. Indeed, it is quite possible that a court would find that no Kosovar trademark law applies at all. Thus, unauthorized use of the McDonald's mark by the Kosovar entrepreneurs could provide valuable leverage in convincing McDonald's to reconsider its decision not to convey any franchises for use in the Kosovar market.

### 3. The Paris Convention

Before concluding the analysis of possible sources of Kosovar trademark law, a brief discussion of the Paris Convention is warranted. The Paris Convention is an international treaty by which signatories agree, *inter alia*, to provide nationals of other signatory nations the same intellectual property protections as domestic parties, and to provide certain minimum

67. *Id.* at art. 6. The owner of the famous mark may, of course, register the mark.

68. *Id.* at art. 34.

69. *Id.* at art. 49.

levels of protection.<sup>70</sup> The FRY is a signatory to the Paris Convention and is recorded as Serbia and Montenegro today.<sup>71</sup>

The provisions of the Paris Convention would appear to offer McDonald's its strongest protection against unauthorized use of its mark by the Kosovar entrepreneurs through the Convention's doctrines of well-known marks<sup>72</sup> and unfair competition.<sup>73</sup> It is doubtful, however, that Kosovo is in fact bound by the obligations assumed by the FRY under the Paris Convention.

Because Kosovo is not in fact a state, it appears to lack the capacity to be bound by international treaties.<sup>74</sup> The USM lacks any authority in Kosovo, and therefore USM obligations under the Convention would no longer seem to extend into Kosovo.<sup>75</sup> UNMIK has not taken action to bind Kosovo under the Convention; nor has it issued regulations requiring Kosovo to honor the terms of the Convention.<sup>76</sup> The Paris Convention, therefore, represents only guidelines that a Kosovar court may or may not elect to follow and does not make the outcome of McDonald's potential action against the Kosovar entrepreneurs any more certain.

### B. *Extraterritorial Application of the U.S. Lanham Act*

Because the Kosovar entrepreneurs would be deliberately creating a likelihood of confusion among Kosovar consumers as to the authenticity of the entrepreneurs' "McDonald's," their actions would almost certainly be considered infringement under the Lanham Act.<sup>77</sup> The important issue, however, is whether the Lanham Act would even apply to their actions when those actions occur entirely outside the borders of the U.S. If the Lanham Act does not apply, the entrepreneurs could not have violated it,

70. MCCARTHY, *supra* note 13, § 29:25.

71. World Intellectual Property Organization, *Paris Convention for the Protection of Industrial Property, Status on September 24, 2004*, at <http://www.wipo.int/treaties/en/documents/pdf/d-paris.pdf> (last visited Jan. 6, 2005) (Yugoslavia listed as Serbia and Montenegro).

72. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, as revised at the Stockholm Revision Conference, July 14, 1967, art. 6<sup>bis</sup>, 21 U.S.T. 1583, 828 U.N.T.S. 305 [hereinafter Paris Convention].

73. *Id.* at art. 10<sup>bis</sup>.

74. *Cf.* On the Authority of the Interim Administration in Kosovo, U.N. Interim Administration Mission in Kosovo, U.N. Doc. UNMIK/REG/1999/1 § 1.1 (July 25, 1999) ("All legislative and executive authority with respect to Kosovo . . . is vested in UNMIK.").

75. *Id.* UNMIK's authority in Kosovo is exclusive, leaving no room for Yugoslav authority.

76. See World Intellectual Property Organization, *supra* note 71 (listing all signatories). Kosovo does not appear on the list of signatories to the Paris Convention. Nor is it clear whether UNMIK has the authority to obligate Kosovo to international treaties.

77. See *supra* Section I.

and McDonald's would not enjoy any protection under the Act against the Kosovar's unauthorized use of the McDonald's mark in Kosovo.

In 1952, the U.S. Supreme Court held in *Steele v. Bulova Watch Co.*<sup>78</sup> that the Lanham Act may be applied to activities occurring beyond the borders of the United States.<sup>79</sup> The Court reasoned that Congress intended that the Lanham Act be applied broadly to American commerce.<sup>80</sup> According to the Court, the Lanham Act was applicable when the defendant was a U.S. citizen,<sup>81</sup> the infringing acts committed abroad were essential steps in a scheme that affected U.S. commerce,<sup>82</sup> and the defendant did not enjoy rights abroad with which application of the Lanham Act would conflict.<sup>83</sup> The federal circuit courts have formulated different approaches in interpreting *Bulova* to determine under what circumstances it is appropriate to apply the Lanham Act extraterritorially.<sup>84</sup>

### 1. The Second, Fourth, Sixth, and Eleventh Circuits

The Second, Fourth, Sixth, and Eleventh Circuits follow a test for extraterritorial application of the Lanham Act that tracks the *Bulova* language closely. In *Vanity Fair Mills Inc. v. Eaton Co.*,<sup>85</sup> the Second Circuit formulated a three-part test that requires a court to consider the following factors: (1) whether the defendant is a U.S. citizen, (2) whether the allegedly infringing conduct has a significant effect on U.S. commerce, and (3) whether application of the Lanham Act would conflict with rights enjoyed under foreign law.<sup>86</sup> The absence of one factor might defeat extraterritorial application, and the absence of two factors certainly does.<sup>87</sup>

The defendant in *Vanity Fair* was a Canadian citizen who enjoyed trademark rights to the "Vanity Fair" name under Canadian law.<sup>88</sup> The plaintiff enjoyed identical rights under U.S. law and sought to enjoin the defendant from using the mark in Canada.<sup>89</sup> The *Vanity Fair* court held that it would be inappropriate to apply the Lanham Act to "foreign citizens

78. 344 U.S. 280 (1952).

79. *Id.* at 287.

80. *Id.* at 282-83.

81. *Id.* at 284-86.

82. *Id.* at 286.

83. *Id.* at 289.

84. To be sure, McDonald's would face difficulties enforcing a successful U.S. judgment. These difficulties are discussed *infra* in Section IV.C.

85. 234 F.2d 633 (2d Cir. 1956).

86. *Id.* at 642.

87. *Id.* at 643.

88. *Id.* at 637.

89. *Id.* at 637-38.

acting under presumably valid trade-marks in a foreign country.”<sup>90</sup> The Fourth Circuit,<sup>91</sup> the Eleventh Circuit,<sup>92</sup> and a district court in the Sixth Circuit<sup>93</sup> have all adopted the *Vanity Fair* test.

The Second Circuit later refined its test to stress the requirement that U.S. commerce be significantly affected. In *Atlantic Richfield Co. v. Arco Globus International Co., Inc.*,<sup>94</sup> the Second Circuit added to the *Vanity Fair* rule (the absence of two factors is fatal to extraterritorial application of the Lanham Act) by holding that the absence merely of the second factor, significant effect on U.S. commerce, also defeats extraterritorial application, even if the two other factors are met.<sup>95</sup> The plaintiff in *Atlantic Richfield* argued that use of the “ARCO” name by the defendant for the sale of petroleum products infringed on the plaintiff’s trademark rights under U.S. law.<sup>96</sup> The defendant was a U.S. company that sold petroleum products in Russia and did not enjoy any trademark rights under Russian law.<sup>97</sup> The *Atlantic Richfield* court held that even if the defendant is a U.S. citizen and there is no conflict with rights enjoyed under foreign law, there must still be a significant effect on U.S. commerce before the Lanham Act should apply to extraterritorial conduct.<sup>98</sup> The court further explained that the “effects” factor could be satisfied when U.S. consumers are misled or are caused to look less favorably upon a mark, when the defendant uses the U.S. stream of commerce to compete with the domestic mark holder abroad, or when the defendant’s activities in the U.S. materially support use of the mark abroad, and affirmed dismissal of the plaintiff’s Lanham Act claims.<sup>99</sup>

The Eleventh Circuit, in *International Café, S.A.L. v. Hard Rock Café International (U.S.A.), Inc.*,<sup>100</sup> elaborated on the third factor, conflict with rights enjoyed by the defendant under foreign law. The plaintiff, a Lebanese corporation, alleged that the defendant, a U.S. corporation, entered into a licensing agreement with the plaintiff that granted the plaintiff the exclusive right to use the “Hard Rock Café” mark in Lebanon, and that the

90. *Id.* at 643.

91. *Nintendo of Am., Inc. v. Aeropower Co., Ltd.*, 34 F.3d 246, 250 (4th Cir. 1994).

92. *Int’l Café, S.A.L. v. Hard Rock Café Int’l (U.S.A.), Inc.*, 252 F.3d 1274, 1278 (11th Cir. 2001).

93. *Libbey Glass, Inc. v. Oneida Ltd.*, 61 F. Supp. 2d 720, 722 (N.D. Ohio 1999).

94. 150 F.3d 189 (2d Cir. 1998).

95. *Id.* at 193.

96. *Id.* at 191.

97. *Id.* at 191–92.

98. *Id.* at 193.

99. *Id.* at 193–94.

100. 252 F.3d 1274 (11th Cir. 2001).



defendant nonetheless conveyed rights to use of the mark in Lebanon to another party.<sup>101</sup> The plaintiff filed suit for infringement of its trademark rights both under the Lanham Act in the U.S. and under Lebanese law in Lebanon.<sup>102</sup> The Eleventh Circuit held that the third factor, conflict with rights enjoyed abroad, weighed against extraterritorial application because the rights under Lebanese law were currently being litigated, such that a contrary U.S. ruling could conflict with the potential outcome of the foreign litigation.<sup>103</sup>

If McDonald's filed suit in the Second, Fourth, Sixth, or Eleventh Circuits, the *Vanity Fair* test likely would not be satisfied. The first factor would not be met because the Kosovar entrepreneurs are not U.S. citizens. The second factor would not seem to be met in the typical consumer transaction situation of consumers purchasing hamburgers at a McDonald's outlet. U.S. consumers would not be misled or caused to view the McDonald's mark less favorably as a result of unauthorized use in Kosovo. Indeed, they likely would not even be aware of such use, and even if they were, they likely would not worry whether their local McDonald's franchise was authentic. Nor could McDonald's satisfy the second factor by showing that the Kosovars supported the unauthorized use in Kosovo through U.S. activities. Indeed, the Kosovars could completely control their potential liability under this aspect of the second factor. So long as they did not purchase materials in the U.S. for use in Kosovo or otherwise conduct any activities in the U.S. to support their activities in Kosovo, the second factor would not be satisfied.

Retail consumer transactions, however, are not the only transactions that McDonald's could argue are relevant. McDonald's is also in the business of conveying McDonald's franchises. If McDonald's regularly conveyed, in the U.S. market, franchises to use the McDonald's mark abroad, the second factor might be met. U.S. consumers, defined as U.S. purchasers of McDonald's franchises for use in Kosovo, would be caused to view the McDonald's mark less favorably as a result of the unauthorized use of the mark in Kosovo by the Kosovar entrepreneurs.

Of course, McDonald's decision not to enter the Kosovar market for the next five years undercuts this argument. It shows that there is not any market currently in the U.S. for Kosovar McDonald's franchises. It would be counterintuitive to accept that there are consumers in a nonexistent market and that franchisors are being caused to view the McDonald's mark less

101. *Id.* at 1276.

102. *Id.* at 1279.

103. *Id.*

favorably as a result of unauthorized use of the McDonald's mark in Kosovo. Further, McDonald's would have to demonstrate that it regularly conveys franchises in the U.S. for use abroad. In fact, McDonald's usually does the opposite—it conveys franchises locally.<sup>104</sup>

The third factor, potential conflict with rights enjoyed under foreign law, likely would not be met because the very existence of any trademark rights under Kosovar law is in question.<sup>105</sup> In sum, McDonald's likely would not be able to demonstrate that the third factor would be met; further, it would certainly not be able to satisfy the first factor. Most importantly, McDonald's probably would not be able to demonstrate the second factor. As *Atlantic Richfield* court held, inability to demonstrate that the second factor has been met is fatal to extraterritorial application of the Lanham Act,<sup>106</sup> so McDonald's likely would not be successful if it filed suit against the Kosovars in the Second, Fourth, Sixth, or Eleventh circuits.

## 2. The Fifth Circuit

The Fifth Circuit adopted a similar, but not identical, test to the *Vanity Fair* test in *American Rice, Inc. v. Arkansas Rice Growers Co-operative Ass'n*.<sup>107</sup> Both the plaintiff and defendant in *American Rice* were U.S. corporations that sold rice in Saudi Arabia, as well as in the U.S. and other foreign countries.<sup>108</sup> The plaintiff argued that the Lanham Act should apply to the defendant's use of the plaintiff's mark in Saudi Arabia.<sup>109</sup>

The *American Rice* court found the second factor, effect on U.S. commerce, satisfied. The infringing sales occurred entirely abroad, but the defendant produced, packaged, and transported the infringing product within the U.S. The court found that the infringement diverted the U.S. plaintiff's foreign sales away from the plaintiff and toward the defendant, even though the plaintiff showed no U.S. confusion or adverse affect upon the mark.<sup>110</sup>

104. Although the author would need proper discovery to determine McDonald's practices in this regard, the attorney who represented the Kosovar entrepreneurs in the initial franchise negotiations was directed by McDonald's U.S. headquarters to McDonald's Europe. Perritt Interview, *supra* note 6. The decision not to convey a franchise to the Kosovar entrepreneurs was actually expressed to the Kosovars by McDonald's Europe. The decision was presumably made by McDonald's Europe as well. This indicates that the market for Kosovar McDonald's franchises is, at the very broadest, European.

105. *See supra* Section II.A.

106. *Atl. Richfield Co. v. Arco Globus Int'l Co., Inc.*, 150 F.3d 189, 193 (2d Cir. 1998).

107. 701 F.2d 408 (5th Cir. 1983).

108. *Id.* at 410.

109. *Id.* at 412.

110. *Id.* at 414–15.

The *American Rice* court also interpreted the third factor, conflict with defendant's foreign rights, in contradiction to the Eleventh Circuit in *International Café*. The *American Rice* court found that the third factor was satisfied, even though the defendant's rights under Saudi law were still being litigated and even though the defendant had failed to show that it possessed a superior right to that of the plaintiff.<sup>111</sup> Finally, unlike the *Atlantic Richfield* court, the *American Rice* court held that that absence of one factor is not dispositive and that the factors are nonexclusive.<sup>112</sup>

Because the Kosovars are not U.S. citizens, the first factor would weigh against application of the Lanham Act in the Fifth Circuit. The second factor also would weigh against extraterritorial application. The *American Rice* court looked to both the loss of foreign sales and the defendant's activities within the U.S. in determining that the second factor was satisfied. Because McDonald's does not operate in Kosovo, it would not be able to argue that it had lost any sales in Kosovo. As discussed above, McDonald's likely would not succeed in arguing that the relevant U.S. market is sales of franchises, and not hamburgers.<sup>113</sup> So long as the Kosovars avoid any activities in the U.S. in support of their Kosovar operations, the second factor should not apply.

The third factor would weigh in favor of application of the Lanham Act. The Kosovar defendants would at best be able to show that their rights under Kosovar law are unsettled and would be unable to demonstrate that they have Kosovar trademark rights superior to that of McDonald's.<sup>114</sup>

It would therefore appear that under the Fifth Circuit's test, the Lanham Act should not apply because McDonald's would not be able to satisfy two of the three factors. The nonexclusivity of the Fifth Circuit test, however, makes the issue unclear. A Fifth Circuit court might determine that the uncertainty of Kosovar trademark law protection would warrant application of the Lanham Act to protect U.S. mark holders. Because neither the Fifth Circuit nor any district courts within the Fifth Circuit have elaborated on the nonexclusive nature of the Fifth Circuit test, it is difficult to predict accurately how the Fifth Circuit would treat this situation.

McDonald's might have more success in the Fifth Circuit than in the Second, Fourth, Sixth, or Eleventh circuits, but the result is still questionable. Because relief through litigation need only be sufficiently uncertain to make unauthorized use of the McDonald's mark a valid negotiation-

111. *Id.* at 415-16.

112. *Id.* at 414.

113. *See supra* Section II.B.1.

114. *See supra* Section II.A.

provoking technique, the mere possibility of liability in the Fifth Circuit should not deter the Kosovars from this approach.

### 3. Ninth and First Circuits

The Ninth Circuit has taken an approach to extraterritorial application of the Lanham Act modeled after its own test for applying the Sherman Act extraterritorially. The approach is best articulated in *Star-Kist Foods, Inc. v. P.J. Rhodes & Co.*<sup>115</sup> The plaintiff in *Star-Kist* was a U.S. corporation that had been in a distribution agreement with the defendant, which was also a U.S. corporation.<sup>116</sup> The distribution agreement allowed the defendant to use the plaintiff's mark, which was protected under U.S. and Philippine law, on products sold by the defendant in the Philippines.<sup>117</sup> After the agreement was terminated, the defendant continued to use the mark in the Philippines and commenced an action there to have the plaintiff's mark registration canceled.<sup>118</sup> The plaintiff filed suit in the U.S. to enjoin the defendant from using the mark in the Philippines.<sup>119</sup> The Ninth Circuit upheld the district court's injunction, which was limited in scope to sales in the U.S. and products exported from the U.S., and which did not affect products both manufactured and sold outside the U.S.<sup>120</sup>

The Ninth Circuit test requires that: (1) there be some effect on American foreign commerce, (2) the effect is sufficiently great to present a cognizable injury to plaintiffs under the federal statute, and (3) the interests of and links to American foreign commerce be sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority.<sup>121</sup> The third factor in the test is determined by weighing seven additional subfactors: (a) the degree of conflict with foreign law or policy, (b) the nationality or allegiance of the parties and the locations or principal places of business of corporations, (c) the extent to which enforcement by either state can be expected to achieve compliance, (d) the relative significance of effects on the United States as compared with those elsewhere, (e) the extent to which there is explicit purpose to harm or affect American commerce, (f) the foreseeability of such effect, and (g) the relative impor-

115. 769 F.2d 1393 (9th Cir. 1985). The First Circuit has not addressed the issue, but a district court in the First Circuit has used the Ninth Circuit test. *Reebok Int'l Ltd. v. Sebelen*, 930 F. Supp. 720, 723 (D.P.R. 1996).

116. *Star-Kist*, 769 F.2d at 1394-95.

117. *Id.* at 1395.

118. *Id.*

119. *Id.*

120. *Id.* at 1395, 1398.

121. *Id.* at 1395.

tance to the violations charged of conduct within the United States as compared with conduct abroad.<sup>122</sup>

The Ninth Circuit has held that a loss of foreign sales and revenue by a U.S. plaintiff satisfies the first factor.<sup>123</sup> The second factor essentially requires the plaintiff to demonstrate that the effects have resulted from activities that violate federal law, such as infringement under the Lanham Act.<sup>124</sup> Although McDonald's could satisfy the second factor by showing that the Kosovar entrepreneurs have created a likelihood of confusion as to the authenticity of the Kosovar "McDonald's,"<sup>125</sup> McDonald's could show that it has lost any foreign sales or revenue.<sup>126</sup>

The third factor of the Ninth Circuit test requires combined analysis of the several subfactors. Subfactor (a), the degree of conflict with foreign law or policy, weighs against application of the Lanham Act. In considering the weight of this subfactor, the Ninth Circuit has considered not only whether there is or could potentially be a conflict with foreign law or policy, but also the degree of conflict.<sup>127</sup> If revocation proceedings began in the USM and resulted in the loss of McDonald's trademark rights under Kosovar law,<sup>128</sup> a U.S. decision granting protection would be in sharp contrast to the Kosovar decision, which weighs strongly against application of the Lanham Act. In fact, the Ninth Circuit held in *Star Kist* that this factor alone was strong enough to deny extraterritorial application of the Lanham Act if the remaining factors did not require a contrary result.<sup>129</sup> If no proceedings began, there could still be a potential conflict with Kosovar policy. Although Kosovar intellectual property and international economic policy are not at all clear, there exists the potential for a strong conflict with application of the Lanham Act should Kosovo pursue a policy favoring cancellation of all marks previously held under FRY law. Finally, the Kosovar entrepreneurs could wait to bring revocation proceedings in Kosovo until the U.S. mark holder brought suit in the U.S., thus providing itself with a strong factor against application of the Lanham Act.<sup>130</sup>

122. *Id.*

123. *Ocean Garden, Inc. v. Marktrade Co., Inc.*, 953 F.2d 500, 503 (9th Cir. 1991).

124. *Reebok Int'l, Ltd. v. Marnatech Enters., Inc.*, 970 F.2d 552, 555 (9th Cir. 1992).

125. *See supra* Section I.

126. *See supra* Section II.B.1 (McDonald's does currently operate in Kosovo, and has therefore not lost any hamburger sales; nor has McDonald's created a U.S. market for Kosovar franchises).

127. *Star-Kist Foods, Inc. v. P.J. Rhodes & Co.*, 769 F.2d 1393, 1396 (9th Cir. 1985).

128. *See supra* Section II.A.2 (discussing the possibility of revocation proceedings in the FRY and the USM).

129. *Star-Kist*, 769 F.2d at 1396.

130. *See supra* Section II.A.

Subfactor (b) weighs against application of the Lanham Act because the Kosovar entrepreneurs are not U.S. citizens. Alternatively, this subfactor is perhaps neutral because McDonald's is a U.S. corporation.<sup>131</sup>

Subfactor (c), the likelihood of enforcement by either state, weighs against applying the Lanham Act. The Ninth Circuit has considered this factor in support of application of the Lanham Act when the U.S. possesses a superior ability to enforce the eventual judgment, such as when the defendants are U.S. citizens.<sup>132</sup> The U.S. would have little ability to enforce an injunction in Kosovo and would be able to enforce a money judgment only to the extent that the Kosovar infringers have assets in the U.S.<sup>133</sup>

Subfactor (d), the relative effects on U.S. and foreign commerce, does not support application of the Lanham Act. Only foreign consumers would be misled by the infringing activity, and the potential economic losses or gains by the U.S. or Kosovar parties likely would be similar or equal and inversely related. If the U.S. mark holder were engaged in the sale of franchises or licenses to sell the protected product in Kosovo, however, and conveyed those franchises or licenses in the U.S. market, the potential effects in the U.S. might outweigh the potential effects in Kosovo.

Subfactors (e) and (f), specific intent to harm U.S. commerce and foreseeability of the effect on U.S. commerce, would depend on the particular circumstances of the infringement. If the Kosovar entrepreneurs deliberately infringed the McDonald's mark in an effort to take advantage of McDonald's popularity, intent to harm the U.S. mark holder's foreign sales of goods produced abroad could be inferred. The defendant must intend to hurt U.S. commerce, however, not merely foreign commerce by a U.S. party.<sup>134</sup> Because McDonald's cannot likely show any effect on U.S. commerce,<sup>135</sup> subfactors (e) and (f) do not support application of the Lanham Act to unauthorized use of the McDonald's mark by the Kosovar entrepreneurs in Kosovo.

Subfactor (g), the relative importance of the activities in the U.S. and abroad in relation to the alleged violations, would weigh against application of the Lanham Act. All allegedly infringing activity would occur in Kosovo.

131. See *Reebok Int'l, Ltd. v. Marnatech Enters., Inc.*, 970 F.2d 552, 556 (9th Cir. 1992) (weighing the nationality factor in favor of Lanham Act application when all parties involved were either U.S. citizens or residents).

132. *Id.* at 557.

133. See *infra* Section IV.C.

134. *Marnatech*, 970 F.2d at 557 (discussing activities directed at U.S. commerce).

135. See *supra* Section II.B.1 (U.S. consumers of hamburgers would not be affected by unauthorized use in Kosovo, and McDonald's cannot show a U.S. market for Kosovar franchises).

The majority of the subfactors indicate that Kosovar interests outweigh U.S. interests. Most importantly, there would exist the potential for conflict with Kosovar law or policy, which alone would defeat McDonald's attempt to have the Lanham Act applied to the Kosovars actions in Kosovo. Further, McDonald's would not be able to demonstrate any effect on its Kosovar commerce because it does not engage in any such commerce. It is very unlikely that McDonald's would enjoy protection under the Lanham Act if it brought suit in the Ninth or First circuits.

#### 4. Seventh Circuit

The Seventh Circuit has not explicitly formulated a test for extraterritorial application of the Lanham Act but has essentially followed the *Vanity Fair* test.<sup>136</sup> A district court in the Seventh Circuit, however, has recently used a hybrid test based on both the *Vanity Fair* test and the Ninth Circuit test, whereby the effect on U.S. commerce factor of the *Vanity Fair* test is measured through the seven subfactors of the third factor of the Ninth Circuit test.<sup>137</sup> The district court further held that there is a strong presumption against application of the Lanham Act to foreign citizens acting abroad;<sup>138</sup> that despite the lack of actual conflict with foreign law, the potential for conflict makes that factor neutral;<sup>139</sup> and that a multinational corporation cannot claim that its multinational nature makes an effect on its foreign commerce an effect on its domestic commerce.<sup>140</sup> If this trend continues in the Seventh Circuit, extraterritorial application of the Lanham Act against Kosovar entrepreneurs would be even less likely in the Seventh Circuit than elsewhere.<sup>141</sup>

#### C. U.S. State Laws

The vast majority of U.S. states have trademark laws that follow the Model State Trademark Bill.<sup>142</sup> The Model Bill's provisions are largely the same as those of the Lanham Act with respect to acquisition of trademark rights and the test for infringement.<sup>143</sup> Because the extraterritorial reach of

136. *Scotch Whiskey Ass'n v. Barton Distilling Co.*, 489 F.2d 809, 812-13 (7th Cir. 1973).

137. *Alcar Group, Inc. v. Corporate Performance Systems, Ltd.*, 109 F. Supp. 2d 948, 951 (N.D. Ill. 2000).

138. *Id.* at 950.

139. *Id.* at 951.

140. *Id.* at 951-52.

141. The Third, Eighth, Tenth, and D.C. circuits have not addressed extraterritorial application of the Lanham Act.

142. MCCARTHY, *supra* note 13, § 22:5.

143. *Id.*

state trademark laws is no greater than that of the Lanham Act, state trademark laws would not increase the likelihood of McDonald's relief.<sup>144</sup>

### III. FORUMS

McDonald's could potentially bring suit against the Kosovar entrepreneurs in a Kosovar, USM, or U.S. state or federal court. Regardless of which forum McDonald's chose, it would face difficulties and uncertainty in its litigation.

#### A. Kosovo

Kosovo has a functioning court system that includes the Supreme Court of Kosovo, District Courts, Municipal Courts, and Minor Offense Courts.<sup>145</sup> Because UNMIK has promulgated no procedural rules, Yugoslav procedural rules in effect in 1989 continue to apply.<sup>146</sup> An analysis of those rules is unnecessary, however, because the trademark laws themselves provide sufficient procedural guidelines for the purposes of this Note.

Both the 1981 Law and the 1995 Law allow foreign holders of marks registered in the FRY to bring infringement proceedings in Yugoslav courts.<sup>147</sup> A Kosovar court would therefore be an appropriate forum for claims based on either the 1981 Law or the 1995 Law.

Although Kosovo may seem a logical forum for McDonald's to bring suit against the Kosovar entrepreneurs, McDonald's would face significant difficulties if it brought suit in Kosovo. There is an extensive backlog of cases in the Kosovar court system that would prevent McDonald's from obtaining prompt relief.<sup>148</sup> McDonald's may not be able to enjoin the Kosovars through the Kosovar court system from use of the McDonald's mark until after McDonald's had planned to enter the Kosovar market.<sup>149</sup>

There has also been substantial confusion and unpredictability in the Kosovar courts in determining which law to apply when there has not been any law promulgated through UNMIK relevant to the subject matter of the

144. See *Atl. Richfield v. Arco Globus Int'l Co., Inc.*, 150 F.3d 189, 194 n.5 (2d Cir. 1998).

145. On a Constitutional Framework for Provisional Self-Government in Kosovo, U.N. Interim Administration Mission in Kosovo, U.N. Doc. UNMIK/REG/2001/9 § 9.4.4 (May 15, 2001).

146. See UMMIK/REG/1999/24.

147. See *supra* Section II.A.

148. OMBUDSPERSON INST. IN KOSOVO, FOURTH ANNUAL REPORT 12-13 (July 12, 2004) [hereinafter OMBUDSPERSON FOURTH ANNUAL REPORT].

149. See *supra* Introduction.



suit.<sup>150</sup> This would be significant to McDonald's because its prospects for relief may depend on which trademark law, if any, applies and how that law is interpreted.

### B. The USM

McDonald's could also bring an infringement claim in the USM under the 1995 Law, alleging that the USM legal system retains jurisdiction over Kosovo. The existence of a Kosovar legal system under the auspices of the United Nations, however, would seem to preclude any jurisdiction of the USM legal system in Kosovo, unless the infringement affected the USM proper.<sup>151</sup>

Even if a USM court asserted jurisdiction, McDonald's would be left without a meaningful remedy unless the Kosovars had assets in the USM against which McDonald's could levy, because a Kosovar court likely would not enforce a USM judgment.<sup>152</sup>

### C. United States

Assuming that McDonald's could establish personal jurisdiction in the U.S.,<sup>153</sup> a U.S. federal court might be its preferable forum. McDonald's would face much shorter delays than it would in Kosovo, and a U.S. court likely would be more sympathetic to McDonald's case than would a Kosovar court. McDonald's might, however, face *forum non conveniens* issues in a U.S. federal court, which might result in the dismissal of its suit.<sup>154</sup> U.S. state court would also be an option for McDonald's but would present the same jurisdiction and *forum non conveniens* problems.

## IV. CONFLICT OF LAWS

Conflict of laws analysis addresses the concerns that arise when multiple states or nations may have jurisdiction over a given claim.<sup>155</sup> Choice of law, jurisdiction, and judgment enforcement are implicated in conflict of laws analysis.

150. OMBUDSPERSON FOURTH ANNUAL REPORT, *supra* note 148, at 8-9.

151. See UNMIK/REG/1999/1.

152. See *infra* Section IV.C.

153. See *infra* Section IV.B.

154. See *infra* Section IV.C.

155. RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 1 (1971).

### A. Choice of Law

U.S. federal courts have not undertaken choice of law analyses between the Lanham Act and foreign law.<sup>156</sup> They have dismissed trademark actions entirely when the test for extraterritorial application of the Lanham Act indicates that Lanham does not apply rather than retain the case and apply the relevant foreign law.<sup>157</sup>

Although it is conceivable that a USM or Kosovar choice of law rule would require its courts to apply U.S. law, such a result is unlikely when the alleged infringement occurs within the USM or Kosovo. Thus, a USM or Kosovar court likely would apply its own trademark laws.

### B. Jurisdiction and Forum Non Conveniens

Personal jurisdiction would seem to exist in Kosovo because the defendants are Kosovar citizens.<sup>158</sup> Personal jurisdiction in the USM might exist if the Kosovar entrepreneurs have sufficient contacts with the USM, such as regular travel there.<sup>159</sup>

USM or Kosovar law likely would apply in USM or Kosovar courts,<sup>160</sup> and most relevant evidence would be in the USM or Kosovo.<sup>161</sup> Therefore, no *forum non conveniens* issues would seem to be implicated in USM or Kosovar court proceedings.<sup>162</sup>

Personal jurisdiction would exist in the U.S. if the Kosovar entrepreneurs have sufficient contacts with the U.S., but those contacts would be difficult to establish because the Kosovar entrepreneurs do not regularly

156. See Pamela E. Kraver & Robert E. Purcell, *Application of the Lanham Act to Extraterritorial Activities: Trend Toward Universality or Imperialism?*, 77 J. PAT. & TRADEMARK OFF. SOC'Y 115 (1995).

157. *Id.* Theoretically, McDonald's could sue in state court and argue that state choice of law analysis points towards Kosovar law. The Kosovars could, however, simply remove the case to federal court on diversity grounds and seek *forum non conveniens* dismissal. 28 U.S.C. § 1441(a) (2000); see *infra* Section V.B. The application of uncertain Kosovar law would almost certainly warrant *forum non conveniens* dismissal. *Gulf Oil Corp. v. Gilbert*, 330 U.S. 501, 509 (1947) (where a court must "untangle problems in conflict of laws, and in law foreign to itself," *forum non conveniens* dismissal may be warranted).

158. UNMIK has not promulgated any laws on civil procedure in Kosovo. Therefore, pre-1989 FRY procedural law would apply. UNMIK/REG/1999/24. The author was unable to locate any translated versions of FRY procedural law. This Note therefore assumes that FRY procedural law grants personal jurisdiction over domestic citizens.

159. See *id.* This Note assumes that regular contact with the USM would warrant personal jurisdiction. If this assumption is incorrect, McDonald's potential for relief would be diminished.

160. See *supra* Section IV.A.

161. Perritt Interview, *supra* note 6.

162. Assuming that FRY procedural law even recognizes *forum non conveniens* doctrine. See *supra* note 158.

conduct business in the U.S.<sup>163</sup> Alleged infringement in Kosovo that causes foreseeable injury in the U.S. is not sufficient to establish personal jurisdiction.<sup>164</sup> McDonald's would instead need to base jurisdiction on failed franchise or licensing negotiations. Those negotiations need not be conducted in person in the U.S.<sup>165</sup> so long as they result in continuing obligations with McDonald's as a resident of the forum state.<sup>166</sup> Because the negotiations between the Kosovar entrepreneurs and McDonald's ended quickly and without any resulting obligations, personal jurisdiction in the U.S. over the Kosovars is unlikely. McDonald's may instead need to base jurisdiction on personal service within the U.S., which the Kosovars could easily defeat by remaining outside the U.S. once the unauthorized use of the McDonald's mark has begun.

If a federal court applied the Lanham Act and McDonald's suit proceeded in federal court, McDonald's would face *forum non conveniens* obstacles. Evidence of the alleged infringement would be located almost entirely within Kosovo, and a U.S. court would be forced to untangle the uncertainty of Kosovar trademark law.<sup>167</sup> If McDonald's sued first in Kosovo and a Kosovar court determined that no trademark law exists in present-day Kosovo, however, the complete lack of an available remedy in the Kosovar forum would make *forum non conveniens* dismissal unwarranted.<sup>168</sup> The delays in the Kosovar legal system, however, make it extremely unlikely that McDonald's would seek relief first in Kosovo.<sup>169</sup>

### C. Enforcement of Judgments

Judgment enforcement would present difficulties for McDonald's in all forums. A U.S. court would only be able to enforce a money judgment to the extent that the Kosovars have U.S. assets. European governments are often hesitant to enforce U.S. judgments that apply to conduct occurring outside the U.S. Given the history of armed conflict and animosity between Kosovo and Serbia, neither Kosovo nor the USM is likely to enforce the other's judgments.

163. Perritt Interview, *supra* note 6.

164. See *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 474 (1985).

165. *Id.* at 476 (allowing jurisdiction despite lack of physical contacts with forum state).

166. *Id.*

167. *Gulf Oil Corp. v. Gilbert*, 330 U.S. 501, 508 (1947) (noting that location of witnesses and evidence are factors to consider to determine the propriety of dismissal for *forum non conveniens*); see also *supra* note 157.

168. *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 254 (1981) (noting that lack of clearly inadequate remedy in alternate forum weighs in favor of dismissal for *forum non conveniens*).

169. See *supra* Section III.A.

### CONCLUSION

Should the Kosovar entrepreneurs elect to pursue this strategy for renewing negotiations with McDonald's, their journey would not be without potential peril. McDonald's is well-known for vigorous protection of its marks worldwide<sup>170</sup> and may decide to pursue its legal options regardless of the uncertainty of its relief. The nature of McDonald's protection from the Kosovars' unauthorized use is uncertain and could very well result in liability for the Kosovars. Further, this course of action may imperil any hopes of a future business relationship with McDonald's.

Yet the strategy also offers real hope for success. McDonald's would almost certainly lack the ability to establish personal jurisdiction in the United States and would face great uncertainty in the extraterritorial application of the Lanham Act and *forum non conveniens* areas. McDonald's, therefore, likely would be forced to litigate in Kosovo. Kosovar trademark law is anything but clear, and the Kosovar legal system is fraught with delay and uncertainty. If the Kosovars could show in the interim that a market for Big Macs exists in Kosovo and that they have the ability to satisfy that market, McDonald's may decide to forgo uncertain legal relief for a demonstrably profitable business venture. Most importantly, should the Kosovar entrepreneurs succeed, the Kosovar economy would enjoy an infusion of both capital and hope, and take a critical step towards development.

170. See Cris Larano, *McDonald's Wins Philippine Suit Over Trademark*, ASIAN WALL ST. J., Aug. 25, 2004, at A2 (describing sixteen year court battle in the Philippines).

