

# THE SUPREME COURT SPEAKS:

*Iancu v. Brunetti*



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In 2017, the U.S. Supreme Court and the Court of Appeals for the Federal Circuit both invoked the First Amendment in separate cases to strike down certain federal trademark registration restrictions barring “scandalous and immoral” language. Those cases raised questions about whether similar federal alcohol laws barring such language from beverage labeling likewise violate the First Amendment.

In a decision handed down on June 24, 2019, the U.S. Supreme Court revisited the government’s authority to restrict immoral and scandalous speech, balancing the government’s interest in barring such language under the federal Lanham Act against the protections afforded to those who speak it under the First Amendment to the U.S. Constitution. In the case of *Iancu v. Brunetti*,<sup>1</sup> the Court once more ruled in favor of free speech and the First Amendment.

Justice Kagan delivered the majority opinion in which five other justices joined, with accompanying concurrences and concurring/dissenting opinions authored by several other justices.<sup>2</sup> In ruling that the Lanham Act’s prohibition on registration of immoral or scandalous trademarks violates the First Amendment, the Court made the clear point that government is not entitled to exercise a “viewpoint bias” that allows the U.S. Patent and Trademark Office (USPTO) to refuse registration of trademarks communicating “immoral” or “scandalous” views about (among other things) drug use, religion, and terrorism, while approving registration of marks expressing more socially-accepted views on the same topics.

## BACKGROUND ON THE EVOLVING REGULATION OF ALCOHOL LABELING

In the United States, alcohol is a regulated product at both the federal and state level. Federally, the Alcohol Administration Act<sup>3</sup> sets forth the labeling requirements for distilled spirits, wine and malt beverages. Alcohol producers must get alcohol labels approved by the U.S. Department

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<sup>1</sup> *Iancu v. Brunetti*, SCOTUS Case No. 18-302 (decided June 24, 2019).

<sup>2</sup> Kagan, J., delivered the opinion of the Court, in which Thomas, Ginsburg, Alito, Gorsuch and Kavanaugh JJ., joined. Alito, J., filed a concurring opinion. Roberts, C. J., and Breyer, J., filed opinions concurring in part and dissenting in part. Sotomayor, J., filed an opinion concurring in part and dissenting in part, in which Breyer, J., joined.

<sup>3</sup> 27 U.S.C. §§ 201 *et seq.*

of the Treasury, Alcohol and Tobacco Tax and Trade Bureau (TTB). These approvals come in the form of a Certificate of Label Approval/Exemption or “COLA.”

The labeling requirements of the FAA Act are detailed in 27 U.S.C. §205(e) and prohibit labels that “are disparaging of a competitor’s products or are false, misleading, obscene, or indecent...”

<sup>4</sup> The associated rules are promulgated in 27 C.F.R. Parts 4, 5, and 7. These rules similarly prohibit statements on labels that are “disparaging of a competitor’s products,” or which are “obscene or indecent.”<sup>5</sup>

### Tam, Brunetti and the FAA Act

The Lanham Act<sup>6</sup> contains provisions reasonably similar to the FAA Act regarding whether trademarks may be registered. Specifically, Section 1052(a) of the Lanham Act bars the registration of marks that comprise “immoral, deceptive, or scandalous matter” or that “disparage... or bring...into contempt, or disrepute” any “persons living or dead.”<sup>7</sup>



In 2017, the U.S. Supreme Court ruled that the disparagement clause of Section 1052(a) violates the

First Amendment. The case of *Matal v. Tam*,<sup>8</sup> *Tam* concerned a refusal by the USPTO to register the mark “THE SLANTS” for a rock and roll group that used its name to express social commentary on the plight of Asians Americans in modern society.

As attorneys Michael Colitz and Elizabeth DeConti recently explained,<sup>9</sup> the Supreme Court found the disparagement clause restricted speech in contravention of the standards previously announced in *Central Hudson Gas & Elect. v. Public Serv. Comm’n of N. Y.*<sup>10</sup>

Ultimately, the Supreme Court rejected the notion that the government had a legitimate interest in preventing speech that expresses offensive ideas and determined that Section 1052(a) was little more than a “happy-talk clause.”<sup>11</sup> The Court’s ruling, however, was limited to the

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<sup>4</sup> See 27 U.S.C. §205(e)(4).

<sup>5</sup> 27 C.F.R. §4.39, §5.42, and §7.29.

<sup>6</sup> 15 U.S.C. § 1051 *et seq.* The Lanham Act (also known as the Trademark Act of 1946) is the federal statute that governs trademarks, service marks, and unfair competition. It was passed by Congress on July 5, 1946 and signed into law by President Harry Truman.

<sup>7</sup> See 15 U.S.C. §1052(a).

<sup>8</sup> 137 S. Ct. 1744, 198 L. Ed. 2d 366 (2017).

<sup>9</sup> Michael Colitz, III, and Elizabeth DeConti, “Federal Alcohol Labeling Following Tam and Brunetti,” *IP Watchdog.com* (May 21, 2019); the views of Mr. Colitz and Ms. DeConti are accessible online at: <https://www.ipwatchdog.com/2019/05/21/federal-alcohol-labeling-following-tam-brunetti/id=109412/>

<sup>10</sup> 447 U.S. 557 (1980).

<sup>11</sup> See *Tam*, 137 S.Ct. at 1765.

disparagement clause of Section 1052(a) and it did not address the prohibition against registering immoral or scandalous marks.

Subsequently, the Court of Appeals for the Federal Circuit, citing *Tam*, struck down the Lanham Act's immoral / scandalous clause on similar First Amendment grounds. In the 2017 case of *In re Brunetti*<sup>12</sup> concerned the USPTO's refusal to register the trademark "FUCT" for various items of apparel on the basis that the mark was immoral or scandalous. The Federal Circuit, employing a rationale similar to that in *Tam*, determined that the Lanham Act's immoral / scandalous clause ran afoul of *Central Hudson* and rejected arguments that the government had sufficiently demonstrated by competent evidence the necessary legitimate interest in "protecting public order and morality."<sup>13</sup>



### Appeal to the Supreme Court

The USPTO, though the Undersecretary of Commerce for Intellectual Property, appealed the Federal Circuit's *Brunetti* decision to the U.S. Supreme Court. On April 15, 2019, the Court heard oral arguments on the intersection of free speech and trademark law when opposing advocates addressed the constitutionality of prohibiting trademark registration for offensive trademarks. The question before the Court was whether the prohibition on federal registration of immoral or scandalous trademarks is facially invalid under the First Amendment. As University of New Hampshire School of Law Professor Megan Carpenter recently noted, "both sides faced a hot bench:"

One thing seemed clear: No one particularly liked the statute as it has been interpreted over time. Deputy Solicitor General Malcolm Stewart argued on behalf of the government. Stewart conceded that the evaluation of immoral or scandalous trademarks under the Lanham Act has encompassed material that is offensive or shocking because of the "outrageous views" that language expresses, and that such viewpoint discrimination is "not a valid basis for denial of federal registration of a trademark." However, Stewart argued that although the U.S. Patent and Trademark Office has previously defined scandalous as encompassing marks that are "shocking," "offensive," "disgraceful" and "disreputable," going forward the agency would read the statute more narrowly, limiting it to terms that are shocking or offensive because of their "mode of expression," rather than the "ideas that are expressed." Multiple justices were troubled by that argument. Justice Elena Kagan was particularly concerned about the implications of upholding a statute on the basis of the government's promise not to enforce the statute to the full breadth of its language: "[T]hat's a strange thing for us to do, isn't it, to basically ... take your commitment that ... these are very broad words, but we're going to pretend that they say something much narrower than they do?" Chief Justice John Roberts emphasized multiple times in questioning that this is a facial challenge to the statute. . . .

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<sup>12</sup> 877 F.3d 1330 (Fed. Cir. 2017).

<sup>13</sup> *Id.* at 1350.

Problems with the statute's language and application over time were raised by Justices Brett Kavanaugh, Neil Gorsuch and Ruth Bader Ginsburg. Ginsburg noted on two occasions the difference in perception of trademarks depending on the market audience; consumers of FUCTION merchandise may find the mark "mainstream." Gorsuch was particularly troubled by inconsistencies in acceptances and rejections in the PTO's application of this provision over time, and the resultant inability to give adequate notice to trademark owners. He asked Stewart how a person who wants to develop a brand is supposed to predict what the PTO is going to do. He added that he himself could not "see a rational line" through the refusals and registrations, and asked "is it a flip of the coin?" Stewart defended the inconsistencies by explaining that trademarks are evaluated in context, and marks differ in appearance and presentation, and in the particular goods and services at issue.<sup>14</sup>

And yet, despite voiced concerns with the statutory language and application, the Justices ultimately sided with the First Amendment.

### THE DECISION: A Strong Win for the First Amendment

Writing for the majority, Justice Elena Kagan made clear that the Court disfavors government playing favorites between what is politically correct or socially acceptable speech, versus what is scandalous or immoral. Drawing those lines leads to what the majority calls "viewpoint discrimination."<sup>15</sup>

According to the majority decision in *Brunetti*, a core postulate of free speech law is that "[t]he government may not discriminate against speech based on the ideas or opinions it conveys." That includes letting government decide whose speech is immoral or scandalous, and whose is socially acceptable. To make her point, Justice Kagan delved into the definitions of "immoral" and "scandalous."

The meanings of "immoral" and "scandalous" are not mysterious, but resort to some dictionaries still helps to lay bare the problem. When is expressive material "immoral"? According to a standard definition, when it is "inconsistent with rectitude, purity, or good morals"; "wicked"; or "vicious." Webster's New International Dictionary 1246 (2d ed. 1949). Or again, when it is "opposed to or violating morality"; or "morally evil." Shorter Oxford English Dictionary 961 (3d ed. 1947). So the Lanham Act permits registration of marks that champion society's sense of rectitude and morality, but not marks that denigrate those concepts. And when is such material "scandalous"? Says a typical definition, when it "giv[es] offense to the conscience or moral feelings"; "excite[s] reprobation"; or "call[s] out condemnation." Webster's New International Dictionary, at 2229. Or again, when it is "shocking to the sense of truth, decency, or propriety";

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<sup>14</sup> Megan Carpenter, "Argument analysis: Justices grapple with immoral and scandalous trademarks," *SCOTUSblog* (Apr. 16, 2019, 7:03 PM); Professor Carpenter's views are accessible online at: <https://www.scotusblog.com/2019/04/argument-analysis-justices-grapple-with-immoral-and-scandalous-trademarks/>

<sup>15</sup> *Iancu v. Brunetti*, SCOTUS Case No. 18-302 at p.4 (decided June 24, 2019), citing *Rosenberger v. Rector and Visitors of Univ. of Va.*, 515 U. S. 819, 829–830 (1995) (explaining that viewpoint discrimination is an "egregious form of content discrimination" and is "presumptively unconstitutional").

“disgraceful”; “offensive”; or “disreputable.” Funk & Wagnalls New Standard Dictionary 2186 (1944). So the Lanham Act allows registration of marks when their messages accord with, but not when their messages defy, society’s sense of decency or propriety. Put the pair of overlapping terms together and the statute, on its face, distinguishes between two opposed sets of ideas: those aligned with conventional moral standards and those hostile to them; those inducing societal nods of approval and those provoking offense and condemnation. The statute favors the former, and disfavors the latter. “Love rules”? “Always be good”? Registration follows. “Hate rules”? “Always be cruel”? Not according to the Lanham Act’s “immoral or scandalous” bar. The facial viewpoint bias in the law results in viewpoint-discriminatory application.<sup>16</sup>

The Court’s majority opinion in *Brunetti* went on to directly demonstrate its point by citing actual examples of USPTO trademark rejections that purportedly were too scandalous or immoral because that appeared to condone drug use:

- **YOU CAN’T SPELL HEALTHCARE WITHOUT THC** for pain-relief medication;
- **MARIJUANA COLA** and **KO KANE** (for beverages) because it is scandalous to “inappropriately glamoriz[e] drug abuse.”<sup>17</sup>

But at the same time, the PTO registered marks with such sayings as **D.A.R.E. TO RESIST DRUGS AND VIOLENCE** and **SAY NO TO DRUGS—REALITY IS THE BEST TRIP IN LIFE**.<sup>18</sup> It is the act of condoning some speech, while barring other speakers, when both sets of speakers address the same contextual subject that the Court found most objectionable.

Similarly, the Court observed that the USPTO disapproved registration for the mark **BONG HITS 4 JESUS** because it “suggests that people should engage in an illegal activity [in connection with] worship” and because “Christians would be morally outraged by a statement that connects Jesus Christ with illegal drug use.”<sup>19</sup> Likewise, Court noted that the USPTO refused to register trademarks associating religious references with products (**AGNUS DEI** for safes and **MADONNA** for wine) because they would be “offensive to most individuals of the Christian faith” and “shocking to the sense of propriety.”<sup>20</sup>

During oral arguments, several justices questioned the enforceability of the Lanham Act provisions under scrutiny, suggesting that the language used by Congress was overly broad. In the parties’ briefing, the government urged the Court to save the statute by narrowly construing its prohibition against “immoral and scandalous” language. However, the Court declined to do so, arguing that any such attempt would involve rewriting the legislation passed by Congress:

[W]e cannot accept the Government’s proposal, because the statute says something markedly different. This Court, of course, may interpret “ambiguous statutory language”

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<sup>16</sup> *Id.* at pp. 5-6.

<sup>17</sup> *Id.* at p.7.

<sup>18</sup> *Id.*, citing USPTO, Reg. No. 2975163 (July 26, 2005); Reg. No. 2966019 (July 12, 2005).

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

to “avoid serious constitutional doubts.” *FCC v. Fox Television Stations, Inc.*, 556 U. S. 502, 516 (2009). But that canon of construction applies only when ambiguity exists. “We will not rewrite a law to conform it to constitutional requirements.” *United States v. Stevens*, 559 U. S. 460, 481 (2010) (internal quotation marks and alteration omitted). So even assuming the Government’s reading would eliminate First Amendment problems, we may adopt it only if we can see it in the statutory language. And we cannot. The “immoral or scandalous” bar stretches far beyond the Government’s proposed construction. The statute as written does not draw the line at lewd, sexually explicit, or profane marks. Nor does it refer only to marks whose “mode of expression,” independent of viewpoint, is particularly offensive. *Brief for Petitioner* 28 (internal quotation marks omitted). It covers the universe of immoral or scandalous—or (to use some PTO synonyms) offensive or disreputable—material. Whether or not lewd or profane. Whether the scandal and immorality comes from mode or instead from viewpoint. To cut the statute off where the Government urges is not to interpret the statute Congress enacted, but to fashion a new one.<sup>21</sup>

The bottom line for the Court in *Brunetti* is that federal statutes barring “immoral or scandalous” language paint with too broad a brush on a canvas (the First Amendment) that will not tolerate such overarching brushstrokes by the government. As the majority’s opinion concludes:

There are a great many immoral and scandalous ideas in the world (even more than there are swearwords), and the Lanham Act covers them all. It therefore violates the First Amendment.<sup>22</sup>

#### *Relevance of Brunetti to Regulation of the Alcohol Industry*

*Brunetti* appears directly relevant to the labeling requirements under the FAA Act. The words and logos on alcohol labels frequently contain trademarks registered with the USPTO, and many times those trademarks are obtained before industry members apply to the TTB for COLAs.

Even when alcohol labels do not contain trademarked material, they nonetheless are subject to TTB review under 27 U.S.C. Sec. 205(e) for language that the agency deems “obscene or indecent.”

#### **§205. Unfair competition and unlawful practices**

It shall be unlawful for any person engaged in business as a distiller, brewer, rectifier, blender, or other producer, or as an importer or wholesaler, of distilled spirits, wine, or malt beverages, or as a bottler, or warehouseman and bottler, of distilled spirits, directly or indirectly or through an affiliate:

##### **(e) Labeling**

To sell or ship or deliver for sale or shipment, or otherwise introduce in interstate or foreign commerce, or to receive therein, or to remove from customs custody for consumption, any distilled spirits, wine, or malt beverages in bottles, unless such products are bottled, packaged, and labeled in conformity with such regulations, to be

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<sup>21</sup> *Id.* at p. 9 (footnote omitted).

<sup>22</sup> *Id.* at 11.

prescribed by the Secretary of the Treasury, with respect to packaging, marking, branding, and labeling and size and fill of container  
(4) as will prohibit statements on the label that are disparaging of a competitor's products **or are false, misleading, obscene, or indecent;**"<sup>23</sup>

Prior efforts to balance the dictates of the FAA Act against the protections afforded by the First Amendment have not worked out well for alcohol regulators. In *Rubin v. Coors Brewing Co.*,<sup>24</sup> the Supreme Court considered the FAA Act's prohibition against displaying alcohol content on beer labels. One substantial interest advanced by the government in *Rubin* was facilitating state efforts at regulating alcohol under the 21st Amendment.<sup>25</sup> However, the Court rejected that as a legitimate interest under *Central Hudson*.<sup>26</sup>

Likewise, in *44 Liquor Mart v. Rhode Island*,<sup>27</sup> the Supreme Court held that a state law prohibiting the advertisement of alcohol beverage prices was unconstitutional under the First Amendment, and that the Twenty-first Amendment did not salvage the state law.

The Court's ruling in *Rubin* suggests that the government may face difficulties in articulating a broad interest in preventing disparagement or indecency on alcohol labels. The Court's plurality opinion concluded that while states have a wider latitude to regulate commercial speech, and even though the Twenty-first Amendment bolsters state authority in the realm of alcohol regulation, Rhode Island had gone too far in banning truthful, consumer-relevant speech, *i.e.* product pricing. Writing for the plurality, Justice John Paul Stevens observed:

[B]ans that target truthful, nonmisleading commercial messages rarely protect consumers from such harms. Instead, such bans often serve only to obscure an "underlying governmental policy" that could be implemented without regulating speech. In this way, these commercial speech bans not only hinder consumer choice, but also impede debate over central issues of public policy.<sup>28</sup>

Perhaps most relevant to the question of whether regulatory morality standards are irrelevant is the infamous *Bad Frog* case. Although it is a federal appellate court decision and not a U.S. Supreme Court decision, the judicial precedent created by *Bad Frog Brewery, Inc. v. New York State Liquor Authority*<sup>29</sup> has been an indelible stain on the minds of state alcohol regulators for a generation.

In that case, the appellate court determined that the plaintiff's beer labels, depicting a caricature frog giving viewers "the



<sup>23</sup> See 27 U.S.C. §205(e)(4) (emphasis added).

<sup>24</sup> 514 U.S. 476 (1995).

<sup>25</sup> See *Rubin*, 514 U.S. at 485.

<sup>26</sup> See *id.* at 496.

<sup>27</sup> 517 U.S. 484 (1996).

<sup>28</sup> *Id.* at 502-03.

<sup>29</sup> 134 F.3d 87 (2d Cir. 1998).

finger” were entitled to First Amendment protection available to commercial speech, and that the efforts of the New York State Liquor Authority to ban the labels by denying the product a state registration violated the brewery's First Amendment commercial speech rights.<sup>30</sup>

In the words of the Second Circuit panel:

NYSLA maintains that the raised finger gesture and the slogan “He just don't care” urge consumers generally to defy authority and particularly to disregard the Surgeon General's warning, which appears on the label next to the gesturing frog. See Brief for Defendants–Appellees at 30. NYSLA also contends that the frog appeals to youngsters and promotes underage drinking. See *id.*

The truth of these propositions is not so self-evident as to relieve the state of the burden of marshalling some empirical evidence to support its assumptions. All that is clear is that the gesture of “giving the finger” is offensive. Whether viewing that gesture on a beer label will encourage disregard of health warnings or encourage underage drinking remain matters of speculation.

NYSLA has not shown that its denial of Bad Frog's application directly and materially advances either of its asserted state interests.<sup>31</sup>

#### New TTB Rules

Partly in view of all these judicial precedents, the TTB recently [published updated labeling and advertising regulations](#). According to the TTB, the updated rules reflect “contemporary case law with regard to the protection of commercial speech under the First Amendment.”<sup>32</sup> The new rules now prohibit labels containing a “false or misleading statement that explicitly or implicitly disparages a competitor’s product.”<sup>33</sup>

Limiting disparagement to “false or misleading” statements seems to place the new rules on firmer constitutional footing. Notably, however, the new rules maintain the TTB’s blanket prohibition against labeling that it considers “obscene or indecent.”<sup>34</sup> The TTB apparently concluded that “contemporary case law” does not require updating these rules. This may be because the TTB considers the FAA Act’s obscene/indecent prohibitions as stricter than the Lanham Act’s immoral/scandalous prohibitions.

Nonetheless, given the Supreme Court’s decision to affirm the Federal Circuit’s decision upholding Brunetti’s First Amendment rights, the TTB rules regarding obscene or indecent labels would appear ripe for a constitutional challenge.

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<sup>30</sup> *Bad Frog*, 134 F. 3d 96-100.

<sup>31</sup> *Bad Frog*, 134 F. 3d at 100.

<sup>32</sup> See 83 FR 60562, 60566 (November 26, 2018).

<sup>33</sup> See 27 C.F.R. §4.124, §5.124, §7.124.

<sup>34</sup> See 27 C.F.R. §4.103, §5.103, §7.103.

The public comment period for the TTB's proposed rules has been extended until June 26, 2019. Time will tell whether courts will apply the rationale *Brunetti* to the FAA Act, or whether courts will apply a higher level of scrutiny given the regulated nature of alcohol.

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