# Comments

## *COPIAT v. UNITED STATES:* THE GREY MARKET GETS GREYER

### I. INTRODUCTION

Recent litigation concerning the importation and sale of "grey-market goods" has perpetuated an area of law that is inconsistent and confused.[1] Grey-market goods are defined as merchandise produced and sold legitimately abroad under a particular trademark and then imported into the United States market without the consent of the United States trademark owner[2] and sold in competition with the United States trademark owner's goods.[3] The grey market is conceived when foreign manufacturers create American subsidiaries that register trademarks in the United States and thereafter assume

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1. Lipner, *The Legality of Parallel Imports: Trademark, Antitrust, or Equity?*, 19 TEX. INT'L L.J. 553 (1984). As the controversy over the grey-market issue becomes more acute, the potential harm claimed by litigants is allegedly exacerbated. At the time of this writing, the price of the United States dollar was at its all time high relative to other foreign currencies. This factor alone made grey-market importation highly profitable to unlicensed importers. "Exclusive licensees and assignees claim that the practice threatens their ability to promote the trademark and to provide warranty and repair service." *Id.* at 554. To counter this argument, grey marketeers argue that grey-market goods are necessary because they help to keep down the price of imported goods. *Id.*

2. In this comment the "United States trademark owner" will be interchangeably referred to as the "American subsidiary," the "United States registrant," or the "United States markholder." All equally represent companies which have legitimately registered trademarks in the United States, and which rely on the protection of § 526 of the Tariff Act of 1930 (codified as amended at 19 U.S.C. § 1526 (1982)), in preventing the importation of grey-market products.

3. *See* Palladino, *High Court Duo on Discounters: Legal Fog Still Shrouds "Gray-Market" Goods*, Legal Times, June 20, 1988, at 19, col. 1. Grey-market "goods are *not* the same goods [as produced by the United States trademark owner] bearing a counterfeit trademark, and they are *not* the same as goods made overseas for the United States market that are imported after being rejected by the United States trademark owner." *Id.* (citation omitted). *See also* Vivitar Corp. v. United States, 593 F. Supp. 420 (Ct. Int'l Trade 1984), *aff'd*, 761 F.2d 1552, 1555 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986); Note, Vivitar Corp. v. United States: *Protection Against Gray Market Goods Under 19 U.S.C. Section 1526*, 60 S. CAL. L. REV. 179 (1986).

exclusive distribution of these products.[4] When the subsidiary's United States sale price exceeds that of the same product sold abroad, "grey marketeers" have an incentive to import and resell these goods in America.[5] This importation has been criticized as confusing and deceiving to consumers and as decreasing retail sales. It has also been condemned as providing unauthorized retailers with the opportunity to "free ride"[6] on the goodwill[7] and product market developed by the United States trademark owner.

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4. Coalition to Preserve the Integrity of Am. Trademarks v. United States (*COPIAT*), 790 F.2d 903, 904 (D.C. Cir. 1986), *aff'd in part, rev'd in part sub nom.* K Mart Corp. v. Cartier, Inc., 108 S. Ct. 1811 (1988). On appeal, however, a 5:4 majority of the Supreme Court categorized the grey market into three distinct "cases": (1) the prototypical grey-market situation; a domestic firm purchasing from an independent firm the rights to use and register the latter's trademark; (2) a domestic firm which registers goods manufactured by an affiliate abroad and is then subject to subsequent importation by a third party who buys the goods abroad; and (3) a domestic trademark holder which conditionally authorizes an independent foreign manufacturer to use the trademark abroad and is then subject to the importation of and competition with the goods. *See K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811, 1814 (1988). *See also infra notes* 154-200 and accompanying text (addressing *K Mart* fully).

The bulk of the analysis which follows concentrates almost exclusively on the second "case" and its variations. According to Justice Brennan, "There is no dispute that [19 U.S.C. § 1526 (1982)] protects the trademark holder in the first of the three gray-market contexts . . . . [The current dispute, however,] centers almost exclusively around the second context . . . ." *K Mart*, 108 S. Ct. at 1820 (Brennan, J., concurring in part). Although this comment addresses the issues in a less categorical fashion, it does focus on this context as well as that associated with the Customs Service's authorized use exception (so-called case 3).

5. *COPIAT*, 790 F.2d at 904. Because these "other" importers have paid less for the product, they can offer it to American consumers for less than the prices charged by the American affiliate. *See infra* note 204-16 and accompanying text (discussing reduced prices as an alleged benefit of grey-market importation).

6. "Free ride" is a term used by United States trademark owners to describe benefits derived by grey marketeers who allegedly capitalize on the benefits of a trademark without incurring the costs associated with those benefits. *See* United States v. Guerlain, 155 F. Supp. 77, 82 (S.D.N.Y. 1957). The strength and recognition of the United States trademark is said to allow unauthorized importers to "free ride" on the brand advertising and promotion paid for by the American markholder. *See generally* Posner, *Antitrust Policy and the Supreme Court: An Analysis of the Restricted Distribution, Horizontal Merger and Potential Competition Decisions*, 75 COLUM. L. REV. 282 (1975) (critical examination and appraisal of the Supreme Court's preference in the antitrust field); Gilbert, Ludwig & Fortine, *Federal Trademark Law and the Gray Market: The Need for a Cohesive Policy*, 18 LAW & POL'Y INT'L BUS. 103, 112 (1986) (examining the grey-market phenomenon and the application of grey-market protections by the federal government and courts).

7. "Goodwill" is a nebulous term. One commentator has suggested that it can be viewed from either of two perspectives, one business, one property:

Because grey-market products bear genuine trademarks, the ordinary case of trademark infringement becomes convoluted.[8] A trademark owner cannot complain of infringement unless a competitor's activities are likely to cause confusion, mistake, or deception among potential consumers.[9] Absent consumer deception, a competitor's use of a mark to impair the trademark owner's economic interests is not wrongful.[10] Since grey-market products possess "genuine" marks, it has been argued that there can be no confusion, and hence, no infringement. Thus, when the alleged injured party standing as the exclusive United States distributor of a specific mark claimed infringement, the response in early grey-market cases was to deny relief.[11] This position stemmed from the "universality" rationale[12]—that once a trademark owner had introduced the goods into commerce, he could no longer restrict the sale of those goods. Although this view is generally no longer accepted, universality principles often cloud trademark law issues, particularly in the area of grey-market importation.[13]

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> Goodwill . . . may be described to be the advantage or benefit which is acquired by an establishment beyond the mere value of the capital, stocks, funds, or property employed therein, in consequence of the general public patronage and encouragement which it receives from constant or habitual customers, on account of its local . . . reputation. From another perspective "goodwill is something intangible which exists only in the mind of the purchasing public; it is the state of mind of the consumers which induces them to buy a certain product or contract for a certain service."

Note, *Preventing the Importation and Sale of Genuine Goods Bearing American-Owned Trademarks: Protecting an American Goodwill*, 35 ME. L. REV. 315, 320-21 n.35 (1983) (citations omitted).

8. The Court of Appeals for the Federal Circuit has stated:

> But for international boundaries and the territoriality of trademark rights, the use of the trademark in competition with the U.S. owner would not constitute infringement because of the relationship between the foreign entity from whom the goods were directly or indirectly obtained and the owner of the U.S. rights in the mark. In this sense, grey market goods are "genuine" and bear a genuine trademark. In some instances, the U.S. trademark owner is an importer of the goods as well, in which case the goods are known as "parallel importations."

*Vivitar Corp.*, 761 F.2d at 1555.

9. 15 U.S.C. § 1114(1) (1982).

10. Ideal Indus., Inc. v. Gardner Bender, Inc., 612 F.2d 1018 (7th Cir. 1979); Bi-Rite Enter., Inc. v. Button Master, 555 F. Supp. 1188 (S.D.N.Y. 1983); 1 R. CALLMAN, THE LAW OF UNFAIR COMPETITION Trademarks and Monopolies § 219, at 75 (4th ed. 1981).

11. *See infra* notes 38-39 and accompanying text.

12. *See infra* note 37.

13. "The old universality cases and the theory upon which they rest represent

Relying on the Genuine Goods Exclusion Act,[14] registered United States trademarks owners have sought to impede this action. Grey marketeers respond, however, that importation of genuine goods is not prohibited by the Exclusion Act when the owner of the foreign trademark is related to the United States trademark registrant.[15] In support, they rely on regulations of the United States Customs Service (Customs).[16]

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an incorrect analysis that has been repudiated in both statutory and decisional law, at least where the domestic markholder has developed an independent goodwill." Osawa & Co. v. B & H Photo, Tri State Inc., 589 F. Supp. 1163, 1175 (S.D.N.Y. 1984). *See infra* note 37. *But see K Mart Corp.*, 108 S. Ct. at 1826 (Brennan, J., concurring in part, dissenting in part) (§ 526 was not intended to be a sweeping doctrinal change; the Conference Report that accompanied the Act implies congressional intent to remedy a specific inequity, not to abolish the entire doctrine).

14. This act was promulgated as § 526 of the Tariff Act of 1922, Pub. L. No. 356, 42 Stat. 858, 975. It was superceded by the Genuine Goods Exclusion Act (Goods Exclusion Act), § 526 of the Tariff Act of 1930, Pub. L. No. 497, 465 Stat. 590, 741 (codified as amended at 19 U.S.C. § 1526 (1982)). The superceding act proclaimed that foreign produced goods bearing the same trademark as one registered to a United States citizen or corporation was illegal. *See Osawa*, 589 F. Supp. at 1171.

15. Note, *Importation Control Under Tariff Act Section 526: Trademark Privileges and Antitrust Policy*, 67 YALE L.J. 1110, 1114 (1958) (discussing the district court's narrowing of the scope of § 526 of the Tariff Act of 1930 and concluding that trademarks might constitute an illegal monopoly); United States v. Guerlain, Inc., 155 F. Supp. 77 (S.D.N.Y. 1957)).

16. 19 C.F.R. § 133.21 (1988) [hereinafter the Customs regulations].

Section 133.21 provides in pertinent part:

Restrictions on importation of articles bearing recorded trademarks and trade names.

(a) *Copying or simulating marks or names.* Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importation. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.

(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d));

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner; . . . .

*Id. See infra* note 54-78 (analyzing these regulations).

Under these regulations, Customs does not prevent most grey-market merchandise from entering the United States.[17]

The purported conflict between section 526 and the Customs regulations[18] was recently at issue before the District of Columbia Court of Appeals.[19] The case, *Coalition to Preserve the Integrity of American Trademarks v. United States* (COPIAT), originated in the District of Columbia District Court where the plaintiffs, as American manufacturers and distributors of trademarked products,[20] sought declarative and injunctive relief against unauthorized importation of goods bearing trademarks identical to their own.[21] The plaintiffs urged that such importation and sale damaged their domestic business[22] and that the Tariff Act of 1930 prevented this type of importation.[23] They argued that genuine goods importation, in situations where the foreign and United States trademarks were under common control, and where the United States markholder did not consent, was inconsistent with the legislative statutes and should be set aside.[24] The district court, dismissing the case, held that the Customs regulations were a sufficient and reasonable

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17. Knoll, *Gray-Market Imports: Causes, Consequences and Responses*, 18 LAW & POL'Y INT'L BUS. 145, 149-50 (1986).

18. *See supra* note 16 (text of § 133.21).

19. Coalition to Preserve the Integrity of Am. Trademarks v. United States, 790 F.2d 903 (D.C. Cir. 1986), *aff'd in part, rev'd in part sub nom.* K Mart Corp. v. Cartier, Inc., 108 S. Ct. 1811 (1988). *COPIAT* and *K Mart Corp.* were consolidated by the Supreme Court and decided together as K Mart Corp. v. Cartier, Inc., 108 S. Ct. 1811 (1988). *See infra* note 154 (discussing the procedural setting of the case).

20. Coalition to Preserve the Integrity of Am. Trademarks v. United States, 598 F. Supp. 844 (D.D.C. 1984), *rev'd*, 790 F.2d 903 (D.C. Cir. 1986), *aff'd in part, rev'd in part sub nom.* K Mart Corp. v. Cartier, Inc., 108 S. Ct. 1811 (1988). The plaintiffs, American companies, were suing individually or by representation through their membership in the Coalition to Preserve the Integrity of American Trademarks. They are distributors or manufacturers of fragrances and cosmetics, watches, tires, fine crystal, cameras, photographic equipment, binoculars, and electronic goods. *Id.* at 846.

21. *Id.* at 846.

22. *Id.*

23. *Id.* The plaintiffs also argued that the Lanham Act of 1946, 15 U.S.C. § 1051 (1982), also prevented this type of importation. Further, they contended that these statutory provisions gave them an unqualified right to demand such exclusion. "Although plaintiffs license certain foreign subsidiaries to manufacture goods bearing their trademarks, they assert that unrelated third parties import these products without their consent." *Id.*

24. *Id.*

interpretation of the federal statutes and therefore the plaintiffs were not entitled to relief.[25]

The court of appeals reversed, holding that the Customs regulations,[26] "do not display the necessary 'thoroughness, validity, and consistency' to merit judicial acceptance."[27] The case was remanded with instructions to issue a declaratory judgment stating "that the Customs regulations . . . are contrary to Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, and hence unlawful."[28]

The United States Supreme Court, in a split opinion, reversed in part and affirmed in part. It held that one of the questioned regulations conflicted with the unequivocal language of section 526 and could not stand, but that two other regulations which dealt with the common control exception, were consistent with section 526 and therefore valid.[29]

This comment will examine the grey-market phenomenon, and concentrate on the circuit court opinion in *COPIAT*. The circuit court in *COPIAT* correctly determined that the arena of grey-market law is confusingly inundated with antitrust and trademark tenets, and that only a return to the clear unambiguous language of the statute could ameliorate the confusion. This comment will consider the rationale behind the circuit court's theory, and discuss some of the resulting ambiguities of the holding in light of the court's failure to address the pressing concerns of the current trade market.[30] The discussion will also consider the Supreme Court's recent decision in *K Mart*. Its convoluted and numerous opinions, as well as the nature of the split, lead this commentator to believe that the Supreme Court holding in *K Mart* is not definitive and is subject to both critical scrutiny and a potential overruling.[31]

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25. *COPIAT*, 598 F. Supp. at 852-53.

26. 19 C.F.R. § 133.21 (1988).

27. *COPIAT*, 790 F.2d at 916 (citing Federal Election Comm'n v. Democratic Senatorial Campaign Comm., 454 U.S. 27 (1981)).

28. *Id.* at 918.

29. *K Mart*, 108 S. Ct. at 1812-13.

30. This comment briefly addresses some of the concerns that the Court in *COPIAT* determined were best left to Congress. *See infra* notes 153-84 and accompanying notes and text (analyzing the Supreme Court opinion).

31. One commentator assessing *K Mart* notes: "It took three different coalitions of justices congregating around three different opinions to do little more than construe a few words in tariff law, review some 50-year-old legislative history—and leave the gray-market goods issue about as murky as they found it." Palladino, *supra* note 3, at 19.

## II. BACKGROUND: THE LEGISLATIVE HISTORY OF SECTION 526 AND TRADEMARK EXCLUSION

### A. *The Inception of Protection*

The federal government has protected trademark misappropriation since 1871.[32] This protection was ultimately codified in the Tariff Act of 1930[33] and a portion of the Lanham Act of 1946.[34] Trademark protectionism has been the consequence of governmental concern that the public receive the product it recognizes and purchases based on its particular trademark.[35] The protections have served to safeguard the United States trademark owner, who has expended money, time, and energy presenting its product to the public, from the impropriety of pirating.[36]

Prior to these statutes, however, it was widely held that merchandise legally trademarked in one country would lawfully carry that mark wherever it went, and therefore, could not be deemed

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32. Gilbert, Ludwig & Fortine, *supra* note 6, at 104. "A statute enacted in 1871 prohibited importation of watches or watch parts bearing a trademark that 'shall copy or simulate' the name or trademark of any domestic company. Act of March 3, 1871, ch. 125, § 1, 16 Stat. 580." Gilbert, Ludwig & Fortine, *supra* note 6, at 104 n.3.

33. 19 U.S.C. §§ 1303-1677 (1982).

34. 15 U.S.C. § 1051 (1982). This comment will briefly discuss § 42 of the Lanham Act, Pub. L. No. 489, 60 Stat. 427 (1947), and concentrate primarily on § 526 of the Tariff Act of 1930, Pub. L. No. 497, 465 Stat. 590, 741 (codified as amended at 19 U.S.C. § 1526 (1982)), and its interpretive value in trademark law.

35. Gilbert, Ludwig & Fortine, *supra* note 6, at 105 (citing S. REP. No. 1333, 79th Cong., 2d Sess. 3 (1946)).

36. *Id.*

> Trademarks can be potent weapons in competitive markets [and] may serve in several distinct capacities simultaneously. A trademark functions on three levels: as an indication of origin or ownership, as a guarantee of the consistency of the quality or other characteristics of a product or service, and as a medium of advertisement.

1 R. CALLMAN, *supra* note 10, § 17.01, at 2 (citations omitted). The value of the trademark is incorporated into its symbol but intangible and transcendental values have been attributed to it as well. A trademark is the symbol which connotes the reputation of the business or the product itself. "Thus, in much the same [way] that 'goodwill' may reflect integrity, economic honesty and efficiency, a trademark may serve as a symbol of these same virtues." *Id.*

> The law of trade-marks is but a part of the broader law of unfair competition; the right to a particular mark grows out of its use, not its mere adoption; its function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his.

United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918).

an infringement in another country where the exclusive right to the mark was owned by someone else.[37] This viewpoint was commonly accepted at the turn of the century.[38] It was this view, coupled with its paradigmatic application in *A. Bourjois & Co. v. Katzel*,[39] that compelled Congress and the Supreme Court to effectuate change.

### *B.* A. Bourjois & Co. v. Katzel *Sets the Stage*

In 1920, an American company that had purchased United States trademark rights of a French firm's face powder, brought an infringement action against a third party purchasing the same powder abroad and selling it in the United States.[40] The district court enjoined the infringement,[41] but the circuit court reversed.[42] The Second Circuit reasoned that trademarks, unlike patents, did not confer any monopoly upon their owner; they merely indicate

> the origin of the goods they mark, so that the owner and public may be protected against the sale of one man's goods

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37. This view has often been referred to as the "universality" principle. Adoption of this principle effectively meant that a trademarked product could never infringe upon itself once the mark had been affixed to the product. This was so regardless of the product's international market; international goodwill and acceptance was not a considered factor. *See Osawa*, 589 F. Supp. at 1171 (*citing* Derenburg, *Territorial Scope and Situs of Trademarks and Goodwill*, 47 VA. L. REV. 753 (1961)).

38. *See* Apollinaris Co. v. Scherer, 27 F. 18 (S.D.N.Y. 1886) (holding that one who purchased exclusive rights in the United States to a trademark, could not prevent importation of identical merchandise imported by a competitor if it was legally obtained overseas). *See also* Fred Gretsch Mfg. Co. v. Schoening, 238 F. 780 (2d Cir. 1916). *Fred Gretsch*, interpreting § 27 of the Trademark Act of 1905, 33 Stat. 730 (codified as amended at 15 U.S.C. § 1125 (1982)), which broadened protection of trademarks to include the United States registered marks of importers as well as manufacturers, refused protection to the United States owner because the imported goods of a third party were genuine. The court held that the purpose of the act was to protect the public from ingenuine products. *Fred Gretsch*, 238 F. at 782.

39. 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

40. A. Bourjois & Co. v. Katzel, 274 F. 856 (S.D.N.Y. 1920) (granting plaintiff's motion for preliminary injunction thereby excluding defendant's importation of packaging boxes), *rev'd*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

41. *Id.* The court relied on "two factors—the complete transfer of trademark rights to the plaintiff and the plaintiff's separate 'American market,' " in creating this exception to the general principle that genuine goods can never infringe trademark rights. Note, *supra* note 7, at 322.

42. A. Bourjois & Co. v. Katzel, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

> as the goods of another man. [Therefore] if the goods sold are the genuine goods covered by the trademark, the rights of the owner of the trademark are not infringed.[43]

This rationale led to prompt judicial and legislative action.[44] Congressional response was evidenced by passage of section 526,[45] while Supreme Court action took the form of reversal.[46]

The subsequent reversal, however, failed to mention the newly enacted statute. Ostensibly the Court felt that because the statute was unavailable to the plaintiff in *Katzel*, it could not affect the case on appeal.[47] Writing for a unanimous Court, Justice Holmes held that the grey-market French powder infringed upon the United States trademark that was sold to the plaintiff.[48] The opinion formulated what is often referred to as the "territoriality" theory of trademark, and thereby supplanted the anachronistic "universality" principle relied on by the Second Circuit.[49]

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43. *Id.* at 543.

44. Note, *supra* note 7, at 323.

45. *Id.* (citing Tariff Act of 1922, § 526, Pub. L. No. 356, 42 Stat. 858, 975). The Act of 1922 was superceded by § 526 of the Tariff Act of 1930, Pub. L. No. 497, 46 Stat. 590, 741 (codified as amended at 19 U.S.C. § 1526 (1982)) [hereinafter § 526]). *See infra* notes 58-59 and accompanying text (discussing the hearings before the passage of the act).

46. A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923). *See* Note, *supra* note 7, at 323.

47. *COPIAT*, 790 F.2d at 909 n.9.

48. *Katzel*, 260 U.S. at 692. The Court stated:

> It is said that the trade-mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade-mark of the plaintiff only in the United States and indicates in law . . . by public understanding, that the goods come from the plaintiff although not made by it. It was sold and could only be sold with the good will of the business that the plaintiff bought.

*Id.* (citation omitted).

49. Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063 (E.D.N.Y. 1982), *vacated on other grounds*, 719 F. 2d 42 (2d Cir. 1983). "Territoriality" recognizes the separate legal existence of a trademark under each country's laws symbolizing the domestic goodwill of the domestic trademark owner. This separate legal entity becomes the "source of origin" of the trademarked goods. *Id.* at 1066-70. *See Osawa*, 589 F. Supp. at 1171-72 (discussing territoriality). "The concepts of universality and territoriality are inextricably intertwined with the doctrine of exhaustion, which allows the trademark holder to control only the first sale of its trademarked goods in its territory." Note, *The Greying of American Trademarks: The Genuine Goods Exclusion Act and the Incongruity of Customs Regulation 19 C.F.R.* § 133.21, 54 FORDHAM L. REV. 83, 108-09 (1986) (citations omitted). After the first sale is made and the goods enter the stream of commerce, the trademark owner's rights are "exhausted." *Id.* The *Osawa* court noted that under the doctrine of exhaustion

In reaching its decision, the Court took note of the plaintiff's promotional expenses and costs related to maintaining the product's good standard,[50] and suggested that the plaintiff's reputation was affected by the character of the goods.[51] These facts, in the Court's view, justified legal protection of the domestic assignee from the potential harms of permitting another to import these same products.[52] As the Court noted, had the domestic assignee (the plaintiff) not promoted the mark and become so associated with it, injunctive relief would have been improper.[53]

### C. *Section 526 and Its Legislative History*

Just prior to the Supreme Court's reversal of *Katzel*, Congress enacted section 526 as part of the Tariff Act of 1922.[54] Under section 526(a):

> It shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation, or association created or organized within, the United States, and registered in the Patent and Trademark office by a person domiciled in the United States, under the provisions of sections 81 to 109 of title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said title 15, unless written consent of the

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a markholder may no longer control branded goods after releasing them into the stream of commerce. *Osawa*, 589 F. Supp. at 1173.

Once the goods enter the stream of commerce, the trademark owner's rights are deemed exhausted. "This doctrine, however, is inapplicable to grey-market imports where the domestic trademark owner has developed goodwill independent of the goodwill established by its foreign affiliates." *Id.* at 109. *See generally* Premier Dental Prods. Co. v. Darby Dental Supply Co., 794 F.2d 850 (3d Cir. 1986) (holding that the exclusive distributor of a product owned that product's trademark and could obtain a preliminary injunction to prevent unauthorized importation of the product by a third party); Osawa & Co. v. B & H Photo, Tri State Inc., 589 F. Supp. 1163 (S.D.N.Y. 1984) (granting a preliminary injunction upon a proper showing of infringement of the rights of a United States markholder).

50. *Katzel*, 260 U.S. at 691.

51. *Id.* at 692.

52. *Id.*

53. *Id.*

54. Tariff Act of 1922, § 526, Pub. L. No. 356, 42 Stat. 858, 975 (codified as amended at 19 U.S.C. § 1526 (1982)).

owner of such trademark is produced at the time of making entry.[55]

This power to exclude unauthorized imports was deemed necessary to protect the American purchaser from fraud or breach of contract by the foreign vendor against whom traditional legal remedies might be ineffective.[56] It has been suggested that the initial impetus for section 526 was the Second Circuit's decision in *Katzel*, and that if the Supreme Court had reversed sooner, Congress might not have enacted this legislation.[57] While this is conceivable, contemporaneous congressional debates suggest that Congress never intended to limit section 526's application to the facts of *Katzel*,[58] nor that it be limited

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55. *Id.* The remainder of § 526 provides and details procedural remedies for those aggrieved by violations of the statute. *See* 19 U.S.C. § 1526(c) (1982).

The provisions of this section appear to create a comprehensive bar to importation of any goods bearing the same trademark as that owned by an American company. The position adopted by many federal courts is that Congress unquestionably intended § 526 to bar such importation absent owner consent. *See, e.g.*, Olympus Corp. v. United States, 792 F.2d 315, 320 (2d Cir. 1986) (discussing congressional intent to ban unauthorized importation); *Vivitar Corp.*, 761 F.2d at 1569 (same). Aside from the consent exception, and the later 1978 amendment allowing exception for personal goods importation, nothing in the language of the statute suggests that it is limited to independent distributors. While it is true that Congress may entrust an agency with the discretionary duty of enforcing a statute, no such authoritative language is subscribed with § 1526. *See, e.g.*, 15 U.S.C. § 1123 (1982) (granting power to the Patent and Trademark Office Commissioner to promulgate rules and regulations pursuant thereto). Furthermore, the legislative history of the statute fails to substantiate that an interpretive power was contemplated. *See Vivitar Corp.*, 761 F.2d at 1569. *Cf.* Note, *Trade-mark Infringement: The Power of an American Trade-mark Owner to Prevent the Importation of the Authentic Product Manufactured By a Foreign Company*, 64 YALE L.J. 557, 566 (1955) (suggesting § 526 was passed to overrule the circuit court decision in *Katzel*, and that although not explicit, the legislative history of § 526 indicates it was designed solely to protect independent American trademark owners). *See also infra* note 58.

56. Note, *supra* note 7, at 319. Absent § 526, an infringement action seemed unavailable to an American distributor/owner of a trademark being imported by one who legitimately purchased the goods abroad. The sole remedy, in this context, was couched in contract law. Because of the vendor's foreign status, this often meant considerable expense in bringing a breach of contract action abroad. Furthermore, the contract may be held unenforceable as violative of foreign alienation laws. Without § 526, the United States trademark owner could be without redress. *See generally* Lorenzen, *Validity and Effects of Contracts in the Conflict of Laws*, 30 YALE L.J. 565 (1921) (discussing contract enforcement in foreign countries).

57. *See* Coty, Inc. v. Le Blume Import Co., 292 F. 264, 269 (S.D.N.Y.), *aff'd*, 293 F. 344 (2d Cir. 1923). *See also Vivitar Corp.*, 761 F.2d at 1565 (mentioning proposition but not expressing agreement).

58. *See* Note, *supra* note 49, at 91-92. "The fact that [§ 526] was passed to overturn the Court of Appeals decision in *Katzel* does not mean that, in spite of

to trademark owners independent of foreign manufacturers (as the grey-market importers insist).[59] Applying section 526, Judge Augustus Hand in *Sturges v. Clark D. Pease, Inc.*[60] stated, "[T]he object of this drastic statute is to protect the owner of a foreign trademark from competition in respect to goods bearing the mark . . . ."[61] As Judge

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its broad language, it should govern only the narrowest version of *Katzel* facts." *Osawa*, 589 F. Supp. at 1175.

Furthermore, the congressional report, issued shortly after the Second Circuit holding in *Katzel*, and that accompanied the Tariff Act of 1922, made implicit note of the *Katzel* decision, and said that the existing law *did not* preclude a trademark owner's ability to prevent genuine goods bearing his mark from entering this country. *See* H.R. REP. No. 1233, 67th Cong., 2d Sess. 158 (1922). This report suggests that *Katzel* may have been a motivating factor, but the statute's broad language connotes a more general application. *Compare id. with* 19 U.S.C. § 1526 (1982).

59. "Despite the briefness of the debate .. . opponents raised sharp and passionate objections to the broad property rights granted." *COPIAT*, 790 F.2d at 910. The record itself is only four pages long. *See* 62 CONG. REC. S11,602-05 (daily ed. Aug. 19, 1922). Some bill opponents thought the restrictions would apply to manifestly all imports. Senator Kellogg suggested that the bill applied to everything, *id.* at S11,603, and Senator Lenroot thought it would apply to related as well as unrelated trademark owners. *See* Knoll, *supra* note 17, at 205 (citing 62 CONG. REC. S11,603, S11,605 (daily ed. Aug. 19, 1922)). Although the proponents of the bill discussed when it would apply, they did not say that the United States business would have to be independent of the foreign trademark owner. *Id.*

A scenario quite like the facts of the *COPIAT* case was also discussed. Senator McCumber was asked whether § 526 would preclude competition with an American firm that acquired an exclusive distributorship of a foreign trademarked product. Unsatisfied with McCumber's negative response, Senator Lenroot commented on the developed hypothetical:

> This is an international trademark of Pears' soap, registered here by an American, with American domicile. Under it Pears' soap could not be bought in the markets of the world and sold here without the written consent of the Pears' soap company, or their agent domiciled here in America.

*COPIAT*, 790 F.2d at 912 (citing 62 CONG. REC. at S11,605).

> Thus, the debate does not unequivocally resolve all questions about the scope of Section 526. Nevertheless, we think that the appropriate inference to be drawn is that Senator Lenroot was correct in fearing that the statute meant exactly what it said. . . . The reasonable inference to be drawn from all this is that lawmakers consciously drew the line at American companies, and did not adopt distinctions among different categories of American companies.

*Id.*

60. 48 F.2d 1035 (2d Cir. 1931).

61. *Id.* at 1037. In *Vivitar* the court, discussing § 526 and Judge Hand's evaluation, states:

> It seems quite clear that Judge Hand did not consider that the statute was limited in scope to the facts of *Katzel*. In his view the statute was "drastic" in that it gave a trademark owner the right to control imports

Learned Hand wrote in *Coty, Inc. v. Le Blume Import Co.*,[62] "Section 526(a) . . . was intended only to supply the *casus omissus* supposed to exist in section 27 of the Act of 1905 because of the decision of the Circuit Court of Appeals in Bourjois v. Katzel."[63] In other words, the section could be applied specifically to foreign products bearing genuine marks that were imported against the United States registrant's consent.[64]

In 1930 the statute was repealed and reenacted in identical form, becoming section 526 of the Tariff Act of 1930.[65] Notwithstanding efforts in 1929 to amend the section, the identical reenactment seems indicative of congressional contentment and satisfaction, and imports a sensed realization of the statute's sweeping language.[66]

Since 1930, there have been congressional attempts to limit the scope of section 526. In 1954 and 1959 proposals for reform were voiced but defeated.[67] A 1969 congressional push to repeal section 526 was also unsuccessful.[68] These unsuccessful efforts to repeal or modify section 526, if anything, suggest an undercurrent of congressional opposition to a narrow interpretation of its scope.

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> of "all" goods bearing the mark to which it owned U.S. rights, regardless of the relationship between the U.S. trademark owner and the foreign producer.

*Vivitar Corp.*, 761 F.2d at 1565.

62. 292 F. 264 (S.D.N.Y.), *aff'd*, 293 F. 344 (2d Cir. 1923).

63. *Coty*, 292 F. at 268-69 (citations omitted). "Casus Omissus" literally translates as "case omitted" and relates to those situations not provided for by the statute. Resolution of the issue is thus left for common law interpretation. For Judge Hand, the casus omissus "was foreign goods with genuine marks imported in derogation of the U.S. mark owner's trademark rights." *Osawa*, 589 F. Supp. at 1175.

64. *Osawa*, 589 F. Supp. at 1175. "This previously supposed omission from the coverage of § 27 was independently plugged by both the passage of § 526 and the *Bourjois* decisions." *Id.*

65. *COPIAT*, 790 F.2d at 913.

66. *See* S. REP. No. 37, 71st Cong., 1st Sess. 75 (1929). In attempting to amend § 526 this bill provided: "Where the laws of the United States protect the interest of a trademark holder by allowing him a monopoly in the use of the mark, it is reasonable to require . . . that in return, the holder of the trademark shall manufacture his goods in the United States." *Id.* This bill was never enacted.

Thus the amendment did not become law, and is further evidence that Congress was fully aware of the absolute bar that § 526 conferred. *See generally* Note, *supra* note 49, at 100 n.93 (discussing Customs' interpretation of § 526). *See also COPIAT*, 790 F.2d at 912-13.

67. Note, *supra* note 49, at 94. These reforms called for limiting the availability of § 526 to American companies unrelated to foreign manufacturers.

68. *Id.*

In 1958 the Supreme Court was prepared to address the questions generated by section 526. In *United States v. Guerlain, Inc.*,[69] the district court held that use of section 526 by affiliated firms was a form of monopolization condemned by section two of the Sherman Antitrust Act.[70] The Solicitor General, however, abandoned the suit before the appeal was heard[71], blaming intergovernmental conflict between Customs, which regarded itself as legally constrained to enforce section 526,[72] and the Antitrust Division, which considered section 526 as unavailable to subsidiaries affiliated with foreign manufacturers.[73] Upon a motion of the Solicitor General, the Supreme Court vacated the judgment and remanded the case to the district court.[74]

In the Customs Procedural Reform and Simplification Act of 1978,[75] Congress did create the first amended exception to the broad exclusions of section 526, but the exempted items only included those imported for personal use.[76] Similarly, section 1643 exempts from

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69. 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958), *action dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959).

70. *Id.* at 78. Section two of the Sherman Act is codified at title 15 of the United States Code. 15 U.S.C. § 2 (1982).

71. Gilbert, Ludwig & Fortine, *supra* note 6, at 127.

72. *COPIAT*, 790 F.2d at 915.

73. Gilbert, Ludwig & Fortine, *supra* note 6, at 127 n.105.

74. Appellee's Motion to Vacate Judgment at 7, Guerlain, Inc. v. United States, 358 U.S. 915 (1958) (No. 24, 1958). See Note, *supra* note 49, at 94 nn.51-54 (discussing the motion to vacate).

75. Pub. L. No. 412, 92 Stat. 888 (1978) (codified as amended at 19 U.S.C. § 1526(d) (1982)).

76. This amendment reversed the longstanding rule of Sturges v. Clark D. Pease, Inc., 48 F.2d 1035 (2d Cir. 1931), which had prevented importation of genuine goods even if for only personal use. The justification advanced for this change was related to the narrow issue of tourists returning to the country with trademarked goods intended for personal use. *See COPIAT*, 790 F.2d at 916. *See also Vivitar Corp.*, 761 F.2d at 1568, 1569 n.22. (discussing when a theory of interpretation may be implied from legislative history if no express legislative acknowledgement exists). The fact that Congress deemed such legislative exception necessary, further strengthens the argument that Congress intends § 526 to be applicable to *all* genuine products. *See, e.g.*, United States v. Eighty-Nine (89) Bottles of "Eau de Joy," 797 F.2d 767, 771 (9th Cir. 1986) (finding congressional intent that § 526 apply to all genuine products).

Grey marketeers often use the 1978 amendment, which only slightly altered § 526, as indicative of congressional acceptance of the regulations. They claim that Congress was poignantly aware of the administrative practice and that reenactment of the statute without change evidences adoption of that practice. *Cf. Vivitar*, 593 F. Supp. at 532-33 (defendant raised this argument).

An alternative and more plausible explanation is that Congress was not considering the validity of the regulations, but simply providing a remedy to a vacationer

section 526's restrictions, importations into the Virgin Islands of "foreign merchandise bearing a genuine foreign trademark."[77] These acts illustrate modern congressional cognizance of the broad preclusive effect of the section.[78] If Congress believed, as Customs does, in a more narrow application, the legislation would have been superfluous.

### D. *Administrative Interpretation and the Common Control Exception*

Unlike section 526, the Customs regulations permit the importation of grey-market goods that bear genuine trademarks when the foreign manufacturer and the United States trademark owner are "parent and subsidiary companies or are otherwise subject to common control or ownership."[79]

In justifying this inconsistent interpretation of section 526, proponents of the Customs regulations utilize post-1936 congressional debates which they believe extol the regulations as a reasonable interpretation of the statute.[80] Grey-market importers maintain that the Customs regulations represent a consistent, longstanding administrative policy that has been passively accepted through congressional acquiescence.[81]

The Customs regulations have interpreted section 526 and its relation to parallel importation[82] for over sixty years.[83] Review of the various interpretations can be categorized into three general points of view. These include: (1) that the regulations are an acceptable

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who would otherwise be prevented, by this sweeping and clear statute, from bringing home United States trademarked products. Neither the Senate nor the Conference Reports that accompanied the legislation made any reference to the administrative practice. *See COPIAT*, 790 F.2d at 916. *See also* H.R. REP. No. 1517, 95th Cong., 2d Sess. 16 (1978); S. REP. No. 778, 95th Cong., 2d Sess. 33 (1978); Pub. L. No. 412, 92 Stat. 888 (1978) (codified as amended at 19 U.S.C. § 1526(d) (1982)).

77. 48 U.S.C. § 1643 (1982).

78. *Eau de Joy*, 797 F.2d at 771.

79. 19 C.F.R. § 133.21(c)(2) (1988).

80. *See infra* note 143 and accompanying text.

81. *COPIAT*, 598 F. Supp. at 850. *See Olympus*, 792 F.2d at 320 (congressional acquiescence in the longstanding administrative interpretation of the statute legitimates that interpretation as an exercise of Customs enforcement discretion).

82. Parallel importation is defined as importation of goods bearing a trademark legally affixed in a foreign country but not authorized by a domestic owner of the identical trademark. One major category of parallel importation cases occurs when the domestic and foreign trademarks are owned by the same entity. The other major category of cases occurs when the domestic and foreign trademark are owned by different people. *See* Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 WASH. L. REV. 433, 452 (1982).

83. *COPIAT*, 790 F.2d at 916.

interpretation;[84] (2) that the regulations have not been consistent and are of questioned validity;[85] and (3) that Customs exceeded its authority in promulgating these regulations, and thus they are invalid.[86] Categorically, the *COPIAT* decision fuses the second and third points in its rejection of the Customs regulations as a valid interpretation of section 526 of the Tariff Act of 1930.[87]

### *E. Vivitar Corp. v. United States: The Questioned Validity of the Regulations*

Since the 1950s, the validity of the Customs regulations has been questioned.[88] The leading case to place them and their relation to section 526 squarely at issue was *Vivitar Corp. v. United States*.[89] Vivitar, as owner of the Vivitar trademark in the United States, authorized affiliated foreign firms to manufacture and sell Vivitar products abroad.[90] When third party distributors, who had legitimately purchased from these foreign subsidiaries, attempted to import the Vivitar goods into the United States without consent, the Vivitar

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84. *See, e.g.*, *Olympus*, 792 F.2d at 321 n.1 (discussing the consistency of the regulations with § 526).

85. *See, e.g.*, *COPIAT*, 790 F.2d at 916 (discussing the inconsistency of the regulations with § 526); *Vivitar Corp.*, 761 F.2d at 1565 (same); *Osawa*, 589 F. Supp. at 1163 (same).

86. *COPIAT*, 790 F.2d at 903. While no case has specifically determined the Customs interpretation as tantamount to an unauthorized usurpation, certain opinions reflect judicial discontent. *See Osawa*, 589 F. Supp. at 1177 (the statute "contains no suggestion that the right of the U.S. markholder to receive its benefits depends on subtle variations in its relationship with the foreign markholder . . . and . . . nothing in the statute suggests that Congress conferred authority on . . . Customs to condition its benefits on the Customs' analysis of antitrust policy"). *See also COPIAT*, 790 F.2d at 918 (holding Customs regulations contrary to § 526 of the Tariff Act of 1930, 19 U.S.C. § 1526 (1982), and hence unlawful); *Vivitar Corp.*, 761 F.2d at 1569 n.22 (questioning, but ultimately upholding, the Customs regulations); *Bell & Howell*, 548 F. Supp. at 1079 (discussing the proposition that interpretations of § 526 by Customs may be *ultra vires*).

87. *COPIAT*, 790 F.2d at 905.

88. *See infra* notes 114, 142 and accompanying text (discussing cases in which the validity of Customs regulations has been questioned).

89. 593 F. Supp. 420 (Ct. Int'l Trade 1984), *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986). *See* Knoll, *supra* note 17, at 200-01.

90. *Vivitar*, 593 F. Supp. at 422. This case does slightly differ from the aforementioned case law on parallel importation. Here, the parent company is based in the United States and it is the parent who asserts § 526 protection against importation of genuine products legitimately purchased from its foreign distributors. This distinction, although worth mentioning, does not appear to have been an influencing factor. *Id.* at 435.

Corporation initiated a declaratory judgment suit to invalidate the Customs regulations.[91] Vivitar claimed that the regulations were contrary to section 526, which Vivitar believed gave it an absolute right to enjoin importation of goods bearing its registered trademark "Vivitar."[92] The Court of International Trade upheld the regulations as reasonably construing the statute and granted the government's summary judgment motion.[93]

On appeal, the Court of Appeals for the Federal Circuit affirmed the Court of International Trade decision, albeit on "narrower grounds."[94] The regulations were not struck down as invalid; rather they were found uncontrolling with respect to section 526.[95] The court held that in complex and unclear areas, Customs could decline to impose the extreme sanction of exclusion since the private remedies of section 1526(c) efficaciously afforded sufficient protection.[96]

## III. *COPIAT v. UNITED STATES*

### A. *Analysis of Case*

*Coalition to Preserve the Integrity of American Trademarks v. United States*[97] represents the only case to definitively hold that the Customs regulations do not display the requisite "thoroughness, validity, and

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91. *Id.* at 422-23.

92. *Id.* at 423.

93. *Id.* at 436. The Court of International Trade also held that it had jurisdiction under 28 U.S.C. § 1581(i)(3), (4) (1982) to hear plaintiff's claim. *Vivitar Corp.*, 761 F.2d at 1555. On appeal this holding was affirmed. This comment does not consider any jurisdictional issues presented by this case or the *COPIAT* decision.

94. *Vivitar Corp.*, 761 F.2d at 1556.

95. *Id.* at 1570. This curious language in the opinion fails to comport with the discussion that proceeds it. That this opinion could systematically eradicate all support for interpretation of the regulations and still find them valid seems questionable. Perhaps the private remedy available to the plaintiff justified the denial of injunctive relief, but this does not ameliorate the inherent inconsistency. This case further illustrates how confused the area of parallel importation has become. It quite clearly invites another court to take the next step and overturn the regulations.

96. *Id.* at 1570. Restricting the trademark owner to private action against the importer, however, is inadequate for a number of reasons. The identities of importers are often difficult, if not impossible, to ascertain. Even if the identities are determined, the probability of substantial litigation (on a case by case attack) prevents this purported remedy from being equitable, since even a favorable holding for the United States registrant will only mean preclusion of goods of a particular importer.

97. 790 F.2d 903 (D.C. Cir. 1986).

consistency" to merit judicial acceptance.[98] In a unanimous opinion, Judge Silberman, writing for the Circuit Court of Appeals for the District of Columbia, held that Customs regulations[99] were contrary to section 526 of the Tariff Act of 1930, and therefore unlawful.[100] In so doing, the validity of the regulations expressed by *Vivitar Corp.* was expanded to a more logical resolution.[101]

The action was instituted by American manufacturers and distributors of various trademarked products who claimed to suffer damage from the unauthorized importation and sale in the United States of products that were manufactured abroad by their foreign subsidiaries or licensees and which bore their trademarks.[102] This action sought a mandatory order directing Customs to exclude the importation on the basis that section 526 of the Tariff Act of 1930 and the Lanham Trademark Act of 1946 gave the plaintiffs this right of exclusion. The district court rejected the plaintiffs' contention that the Customs regulations enforcing section 526 were inconsistent with the Act, and held that "the policy of the Customs Service of excluding from protection foreign-produced merchandise bearing a genuine trademark has been long-standing and consistent [and] clearly implements the limited purpose for which section 526 was enacted . . . ."[103] The plaintiffs appealed to the District of Columbia Circuit Court of Appeals.

After finding that the district court properly exercised jurisdiction,[104] the court of appeals examined the validity of the regulations by scrutinizing section 526(a).[105] Qualifying the question as one of statutory interpretation,[106] Judge Silberman discussed those circum-

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98. *Id.* at 916 (quoting *Federal Election Comm'n*, 454 U.S. at 37).

99. 19 C.F.R. § 133.21(c)(1)-(3) (1988).

100. *COPIAT*, 790 F.2d at 918. The case was remanded with instructions to issue a declaratory judgment that the Customs regulations were unlawful. *Id.*

101. *Vivitar* opened to the courts the possibility that grey-market goods may be prohibited beyond Customs' narrow regulations. The court found the plain language of the statute is not limited by its legislative history nor by Customs' constantly changing view of its role in enforcing § 526(a). *Vivitar Corp.*, 761 F.2d at 1565.

102. *COPIAT*, 598 F. Supp. at 846.

103. *Id.* at 852.

104. *COPIAT*, 790 F.2d at 907.

105. *Id.*

106. Notwithstanding the potential relationship between antitrust law and trademark infringement, the question before the *COPIAT* court, on appeal, was one of statutory interpretation. Congress enacted § 526; the Treasury Department thereafter adopted regulations that impose different restrictions than those contemplated by

stances that legitimized the doctrine of deference to agency interpretation. Citing *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*,[107] the *COPIAT* court explained that the doctrine is applicable when "Congress has not directly addressed the precise question at issue."[108] The court then held that the intent of section 526 was clear and "thus that is the end of the matter."[109]

Notwithstanding this holding, Judge Silberman considered four potential justifications for adopting an agency interpretation over a seemingly clear statute. These included: (1) a consistent interpretation of a statute by an agency; (2) contemporaneous adoption of the interpretation with or soon after statute codification; (3) legislative (statutory) delegation of interpretive authority to an agency; or (4) congressional acquiescence regarding longstanding agency policy.[110] After evaluating these considerations, the court successively rejected the justification for each. By not acknowledging these exceptions,

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the statute. The resulting question thus becomes whether deference to the agency interpretation is warranted. *See* Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 837, 844 (1984); United States v. Shimer, 367 U.S. 374, 383 (1961) ("If this choice represents a reasonable accommodation of conflicting policies that were committed to the agency's care by the statute, we should not disturb it unless it appears [that it] is not one that Congress would have sanctioned.").

107. 467 U.S. 837 (1984).

108. *Id.* In *Chevron*, the Court held that review of an agency's construction of a statute depends upon two distinct considerations. First, whether Congress has directly spoken on the precise question at issue. "For [i]f the intent of Congress is clear, that is the end of the matter; for the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress." *Id.* at 842-44. In the alternative, the second ground is used if:

> the court determines Congress has not directly addressed the precise question at issue, the court does not simply impose its own construction on the statute, as would be necessary in the absence of an administrative interpretation. Rather, if the statute is silent or ambiguous with respect to the specific issue, the question for the court is whether the agency's answer is based on a permissible construction of the statute; [deference to] an administrative agency's interpretation [becomes appropriate] where Congress has specifically *left a gap* for the agency to fill. Such legislative regulations are given controlling weight unless they are arbitrary, capricious or manifestly contrary to the statute.

*Id.* (citations omitted).

109. *COPIAT*, 790 F.2d at 908-16. This determination was based on the court's extensive evaluation of the statute's purpose, background, legislative history, reenactment in identical form in 1930 after staunch congressional debate, and certain contemporaneous judicial interpretations. *Id.*

110. *Id.* at 914-18. These exceptions are modified extractions of those described in *Chevron*. *Compare id. with Chevron*, 467 U.S. at 842-44.

*COPIAT* closed the door to trademark importers who previously relied on the regulations to subvert the import prohibition. In other words, *COPIAT* put the continued existence of the grey market on tenuous grounds.

*COPIAT* confers that the decision is not founded on trademark principles at all,[111] but rather on administrative law advocations of plain meaning interpretation of an unambiguous statute.[112] Uncharacteristic of a decision that both reverses the lower court and invalidates federal regulations,[113] there is very little reference to the supportive case law,[114]

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111. "[T]he regulations simply cannot be squared with Section 526 and are thus invalid. In light of this holding it is unnecessary to decide whether the regulations would be consistent with section 42 [of the Lanham Act] standing alone." *COPIAT*, 790 F.2d at 907.

112. To the *COPIAT* court, congressional statements from 1922 coupled with the statute's subsequent reenactment in 1930 were enough to indicate Congress' clear understanding of the broad sweep of the statute. *Id.* at 913. *See supra* notes 58-61 and accompanying text.

As one commentator has noted:

> No rationale or official justification has ever been published by the Customs Service to explain its departure from the plain meaning of section 526 . . . . *Congress left no gap* for Customs to fill. A thorough analysis of the statute's legislative history, its contemporary judicial assessments and the history of administrative inconsistencies . . . *mandate using the plain meaning* of the statute to govern its interpretation.

Note, *supra* note 49, at 102-03 (emphasis added).

113. 19 C.F.R. § 133.21(c) (1988). In 1972 the Customs regulations were revised to their present form. *See* Note, *supra* note 49, at 100. The "same entity" language used in the 1953 and 1959 versions is present, but the regulations also include new language excluding protection to any United States trademark owner with foreign common ownership, parent/subsidiary or licensee relationship with a foreign company. *Id.* These modifications do suggest that the regulations have not been as consistent as their proponents would suggest. *See infra* note 142 (discussing evolution of the Customs regulations).

114. Aside from a perfunctory mention of *Bell & Howell*, 548 F. Supp. at 1063, *COPIAT* disregards the potentially supportive reasoning developed in *Bell & Howell*. *See COPIAT*, 790 F.2d at 905.

In *Bell & Howell*, 548 F. Supp. at 1063, the district court granted injunctive relief to the American distributor of Mamiya cameras as against an authorized importer who was selling the cameras for substantially less. The court specifically questioned the validity of the interpretation of § 526 advanced by Customs. *Id.* at 1079. On appeal in Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983), the district court decision was vacated and remanded for failure to show irreparable harm. Interestingly, no previous parallel imports case had ever required such proof. By expressly refusing to consider the likelihood of success on the merits, this "irreparable harm" decision is of questionable authority.

In *Osawa*, 589 F. Supp. at 1163, the court held that the same plaintiff from *Bell & Howell* was entitled to a preliminary injunction. Examining the irreparable harm suffered by plaintiff because of parallel importation, as well as the inequities

or the district court opinion.[115] There is also no attempt to distinguish contrary opinions.[116]

Judge Silberman did not ignore the voluminous grey-market case law. Instead he choose not to develop that law because he saw

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of free-riding and consumer confusion, the court found that injunction should issue. The court also noted, in passing, that it too questioned the Customs regulations and the authority of Customs in promulgating such regulations. *Id.* at 1177.

115. Coalition to Preserve the Integrity of Am. Trademarks v. United States, 598 F. Supp. 844 (D.D.C. 1984), *rev'd*, 790 F.2d 903 (D.C. Cir. 1986), *aff'd in part, rev'd in part sub nom.* K Mart v. Cartier, Inc., 108 S. Ct. 1811 (1988). The district court held that the regulations were sufficiently reasonable and that Congress had passively accepted them through acquiescence. *Id.* at 852. This view is untenable. As stated in *Vivitar Corp.*, "legislation by total silence is too tenuous a theory to merit extended discussion." *Vivitar Corp.*, 761 F.2d at 1568.

116. The seemingly inconsistent Customs regulations advance long-discarded antitrust and trademark law, while principles in the modern sphere of these areas of law support following the plain meaning of § 526. Proponents of the regulations point to the private remedies available under § 526(c) to justify their preclusive distinction for related companies, but this is both an inadequate and an inequitable limitation of the broad remedy of exclusion available under § 526(a). *See supra* note 56 and accompanying text. *See also* Note, *supra* note 49, at 104.

It is precisely this misapplication of trademark law that seemed to justify upholding the Customs regulations in Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986). After reviewing the factual history of the regulations and referring to *COPIAT*, the Second Circuit held that congressional acquiescence in the longstanding administrative interpretation of the statute legitimizes the interpretation as an exercise of Customs enforcement discretion because of the underlying administrative problems of Customs. The court pointed out that the markholder still has private rights under the statute. The court specifically found the regulations were "of questionable wisdom," in light of Continental T.V., Inc. v. GTE Sylvania Inc., 433 U.S. 36 (1977) (recognizing that use of vertical restraints, such as territorial or consumer restrictions, could be procompetitive). Yet, the court still upheld the interpretation. That this court could find congressional acquiescence, especially in view of the 1978 amendment, seems inconsistent, but in any case, the overwhelming concern of the Second Circuit with issues of irreparable harm and infringement per se, make it distinguishable from the *COPIAT* decision. *See infra* note 131.

In a similar case, Parfums Stern, Inc. v. United States Customs Serv., 575 F. Supp. 416 (S.D. Fla. 1983), protection was denied an American trademark owner when the court found that the plaintiff's rights in the Oscar de la Renta trademark had been exhausted once the product was placed into the international stream of commerce. The court denied relief by holding that the plaintiff was seeking protection under trademark laws for actions which it had set in motion through its own foreign manufacturing and distribution sources. *Id.* at 418.

Analogous to the rationale adopted by the district court in *COPIAT*, *Parfums Stern* apparently disregards the fact that this "exhaustion theory" is inapplicable to a United States trademark owner who has developed a separate and distinct goodwill. *See Osawa*, 589 F. Supp. at 1174-79. The D.C. Circuit in *COPIAT* suggests that these questions should not be decided by the judiciary, but rather by Congress which can "take into account the considerations" not foreseen 60 years ago. *COPIAT*, 790 F.2d at 918.

the issue before the court as one of statutory interpretation. The issue, therefore, could not be resolved within the parameters of existing and inconsistent case law; rather it had to be resolved by the language of the statute itself.[117]

Much of the case law has questioned the justification for the regulatory interpretation,[118] and by attempting to refer to trademark law postulates these cases have failed to consider the language of the controlling statute. To include such, therefore, would not implement Judge Silberman's purpose.[119] Furthermore, other cases have either not specifically addressed the issue of validity, or have carefully avoided the confrontation.[120] The court, in closing, does admit that a plain meaning interpretation of section 526 could deprive American consumers of some of the economic benefits associated with the grey market,[121] and that it could be an anachronistic approach to current trade practices, but states that these arguments are properly directed to Congress, which has both the authority and the democratic means to correct inequity.[122]

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117. This inference is derived from the opinion's pervasive reliance on a plain meaning statutory interpretation. It also justifies *COPIAT*'s sparse treatment of trademark case law. *See also COPIAT*, 790 F.2d at 907-18 (discussing cases that the court did not consider).

Some commentators have argued that the grey market is not a trademark problem at all, and that "it is a perversion of trademark concepts to say that trademark laws should extend protection to a situation that has been created by private contractual arrangements." Vandenburgh, *The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem*, 49 TRADEMARK REP. 707, 714 (1959). *See also* Dam, *Trademarks, Price Discrimination and the Bureau of Customs*, 57 TRADEMARK REP. 14, 27-28 (1967) (arguing that exclusive distributorships are protected through contract and tort law, not through trademark law).

118. *See Eau de Joy*, 797 F.2d at 770 n.2 ("the validity of the regulations is not before us in this appeal."); *Vivitar Corp.*, 761 F.2d at 1570 ("we hold the current regulations to be valid but not controlling"); *Bell & Howell*, 548 F. Supp. at 1079 ("the regulatory exception has no application in this case [and] the variance between the literal language of the statute and the current interpretation adopted by the Customs Service has prompted more than one commentator to question whether the regulations are . . . *ultra vires*."). *See also supra* note 86.

119. *COPIAT* determines that regardless of potential ramifications, this statute is clear and will prevent importation of genuine goods absent consent from the United States registrant. *COPIAT*, 790 F.2d at 912-13.

120. *See supra* note 114 and accompanying text.

121. *COPIAT*, 790 F.2d at 917. The court admitted that American consumers may be deprived of the lower prices often associated with grey-market goods, and recognized that it is entirely possible for a foreign producer to maintain artificially high prices on imports by maintaining an exclusive distributorship in the United States. *Id.* at 917-18.

122. *Id.* at 918. The court stated: "these arguments are properly addressed

### B. *Evaluation*

*COPIAT* can be categorized as the single case in a confused area of the law that has recognized that the inherent conflict between the Customs regulations and section 526 cannot be resolved as long as both are considered valid. *COPIAT* follows a statutory construction principle that a court should always begin with the statute itself and only admit extraneous interpretation when ambiguity in the statute so requires.[123]

The *COPIAT* opinion conforms with the proposition that "the judiciary is the final authority on issues of statutory construction and must reject administrative constructions which are contrary to clear congressional intent."[124] This tenet is hardly novel or uniquely attributable to Judge Silberman.[125] However, his application of the rule to the grey-market problem illustrates a sagacious approach to the problems involved.[126] Nevertheless, the plain meaning approach of *COPIAT* has been praised and criticized.[127]

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to Congress; it is not open to the Customs Service, still less the Judiciary, to modify the law to take into account these considerations." *Id.*

123. This canon has been termed the plain meaning rule and represents the logical place to begin the analysis of a statutory interpretation problem. Under this rule, "[i]f the words convey a definite meaning, which involves no absurdity, nor any contradiction of other parts of the instrument, then that meaning, apparent on the face of the instrument, must be accepted . . . ." 3 N. SINGER, SUTHERLAND STAT. CONST. 681 (4th ed. 1986).

124. *Chevron*, 467 U.S. at 843 n.9. "If the intent of Congress is clear, that is the end of the matter; for the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress." *Id.* at 842-43. The Court is not precluded from evaluating the agency's statutory interpretation if it finds that Congress has not directly addressed the relevant questions. *Id.* at 843. *See supra* note 108 (discussing two-prong analysis of *Chevron* for legislative and agency construction).

125. *See Federal Election Comm'n*, 454 U.S. at 32; SEC v. Sloan, 436 U.S. 103, 117-18 (1978); FTC v. Colgate-Palmolive Co., 380 U.S. 374, 385 (1965); Webster v. Luther, 163 U.S. 331, 342 (1896).

126. Various courts that have questioned the validity of the Customs regulations have held that other avenues of relief for the injured trademark owner, aside from invalidation, were available. Therefore, the question of validity could be waived for subsequent determination. The *COPIAT* court took a "buck stops here" approach and carried out what earlier courts called for but were reluctant to do themselves. *See supra* notes 114, 116.

127. *See, e.g.*, *Premier Dental Products*, 794 F.2d at 857 ("The statutory language [of § 526] is broad and unambiguous. It declares illegal the unauthorized importation of *any* merchandise of foreign manufacture bearing a domestically-owned trademark."). In *Osawa*, 589 F. Supp. at 1174-75, Judge Leval, addressing the unauthorized importer's contention that § 526 be narrowly limited to situations where

As *COPIAT* states, the statute itself does not admit exceptions based on the relationship between the foreign and American trademark owners.[128] Although congressional statements concerning the statute do illustrate limited confusion as to its application,[129] they do not detract from the clear words of the statute. As one commentator noted, "[A] literal interpretation of section 526 is more reasonable than a non-literal interpretation."[130]

As noted, the court's finding that the statute is clear and unambiguous should, under the rule explained in *Chevron*, end the inquiry. However, in what seems like superfluous justification for its position, *COPIAT* continued its examination and alternatively held the Customs regulations invalid for being an unreasonable interpretation of section 526.[131] In this alternative argument, the court dis-

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the United States markholder was not related to the foreign mark originator, stated, "I find no basis for this contention either in fact or in logic . . . at least where the domestic markholder has developed independent goodwill." *Id.* at 1175. This statement, while supportive of *COPIAT*'s plain meaning interpretation, is indicative of the influence of infringement unfairness principles ("independent goodwill") that Silberman chose not to address. *See supra* notes 111-23 and accompanying text. *Cf.* NEC Elecs. v. CAL Circuit ABCO, 810 F.2d 1506, 1510 (9th Cir. 1987), *cert. denied*, 108 S. Ct. 152 (1988) (where the United States trademark owner is a wholly owned and controlled subsidiary of the foreign manufacturer, neither of the *Katzel* rationales applies). In vacating the preliminary injunction for this United States markholder, the court adopted a rationale of exhaustion which is intimately tied to antitrust law. *Id.* at 1510-11.

128. *COPIAT*, 790 F.2d at 907-08. The court noted that the district court believed that the Customs regulations represented a reasonable agency interpretation of the statute. The D.C. Circuit rejected this view believing it to be an enormous misapplication of the doctrine of deference to agency interpretation. *Id.* at 908.

129. *See supra* note 59 (discussing the Senate debate prior to the passage of § 526).

130. *See* Note, *supra* note 49, at 89. This is based on the rationale that § 526 was enacted as a protection of United States trademark owners from unauthorized importation and not as a device to shield grey marketeers. *Id.* at 89 n.23.

131. *COPIAT*, 790 F.2d at 908. *But see Olympus*, 792 F.2d at 319. In *Olympus*, the Second Circuit, using similar guidelines, specifically disagreed with the Federal Circuit and district court's conclusions in *Vivitar* and *COPIAT*, respectively, and held that there were longstanding administrative interpretations and such interpretations coupled with congressional acquiescence justified Customs enforcement discretion. *Id.* at 320.

Although evidently opposed to the rationale behind the "invalidation" holding of *COPIAT*, the *Olympus* court did state that it found "the regulations of questionable wisdom." *Id.* The court also suggested that change is a matter for the legislative or executive branch and not the judiciary. This result is not inconsistent with *COPIAT*, and suggests that even those courts that have upheld the Customs regulations have done so with some reservation.

cussed when deference to agency interpretation was warranted.[132] Regardless of the propriety of this alternative stance, it does fortify the opinion in two ways. First, it reiterates that there is absolutely no basis for Customs' interpretation of section 526.[133] Second, it shows that the same finding of invalidity is reached even if the statute is later determined to be less than clear (i.e., open to interpretation).[134]

*COPIAT*'s rationale is easily discerned. The statute does not delegate authority to an agency as some statutes do;[135] the agency interpretation is not reflected in contemporaneous case law;[136] and congressional activity since 1930 can hardly be termed acquiescence.[137] Conceivably, the only exception upon which supporters of the Customs regulations could rely, and the one they most adamantly assert, is the longstanding and consistent agency interpretation.[138]

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132. *COPIAT*, 790 F. 2d at 916-17.

133. *Id.* at 916. In dismantling the government's position the court further stated; "Nor has the Customs Service's interpretation since that time been supported by anything more than poorly articulated and vacillating reasoning. As our analysis shows, . . . the legislative history of Section 526 provides little if any support for its interpretation." *Id.*

134. *Id. COPIAT* first held that the intent of Congress was clear, which represented the end of the court's inquiry.

135. *See supra* note 55.

136. *See supra* note 58 and accompanying text.

137. *See supra* note 76 and accompanying text (discussing the minor amendment to § 526 in 1978). *See also* Note, *supra* note 49, at 95-96 nn.61, 62.

138. In 1923 the first regulations promulgated by Customs were created. These regulations offer little insight into the agency's interpretation, in that they merely recognized that United States owners of registered marks were "entitled to the protection of section 526." Note, *supra* note 49, at 98. The regulations that were issued in conjunction with the 1930 reenactment of § 526, specifically barred imported merchandise bearing a genuine trademark where no consent was evident. *Id.* (citations omitted). "The bar against goods with 'genuine' marks appears to have been considered at *that* time, by Customs, to be absolute." *Vivitar Corp.*, 761 F.2d at 1566 (emphasis added). In 1936, Customs completely revised the regulations and provided that merchandise which copied or simulated a trademark was protected under § 27 of the Trademark Act of 1905, 33 Stat. 730 (codified as amended at 15 U.S.C. § 1125 (1982)), *unless* the foreign and domestic owners were the same person, association or corporation. T.D. 48,537, 70 Treas. Dec. 336 (1936). These regulations made no reference to § 526 and offered no explanation for this change. *Vivitar Corp.*, 761 F.2d at 1566.

As the *COPIAT* opinion points out, the reference to related companies in the 1936 regulations was considered a reference to § 27 but not § 526. *See Hearings Before a Subcomm. of the Comm. on H.R. 82*, 78th Cong. 2d Sess. 86-87 (1944) (§ 526 of the Tariff Act *does* apply to American trademark owners even where merchandise was produced abroad).

The 1953 Customs revisions further reduced the § 526 protections by allowing § 526 unauthorized importation when the foreign trademark was owned by a "related

Therefore, *COPIAT*'s rejection of the regulations as "a longstanding and consistent policy of the Customs Service"[139] is both logical and corroborated in the dicta of other courts.[140] Alternatively the rejection can be supported by the argument that "[a]ntitrust questions are far too complex to be reasonably decided by reference to a short questionnaire about corporate ownership."[141] Allowing determinations to be based on such a form prevents consideration of whether the similarly marked goods actually compete against each other, and leads to an incomplete definition of a relevant competitive market.[142] These considerations reinforce the court's decision to rely solely on the clear statute.[143]

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company" of the United States markholder. Knoll, *supra* note 17, at 149, 175 (citing 19 C.F.R. § 11.14 (1953)). "Despite these regulations, some U.S. trademark owners continued to enjoy the exclusion of imports of 'genuine' goods from abroad apparently by reason of earlier recordation of a mark before disclosure of affiliates was required." *Vivitar Corp.*, 761 F.2d at 1566.

The regulations were changed from "related company" and replaced with a "same entity" exception of the 1936 Act. *Vivitar Corp.*, 761 F.2d at 1567. *See supra* notes 69-74 and accompanying text (discussing the Supreme Court's involvement in the controversy surrounding § 526). The present form of the Customs regulations were codified in 1972 and excluded from protection all United States trademark owners who had either foreign common ownership, parent/subsidiary relationships, or licensed foreign manufacturers. *See* 19 C.F.R. § 133.21(c)(1)-(3) (1988).

Superficial review illustrates that Customs prevented importation of genuine goods from 1923 through 1936 regardless of relationship. From 1936-1953 the protections of § 526 were held unavailable if the American and foreign companies were related. In the aftermath of *Guerlain*, from 1959-1962, this preclusion was cut back so that only the "same" companies could not use § 526 for protection. In 1972, the regulations reinstituted the "related company" language. *See* Gilbert, Ludwig & Fortine, *supra* note 6, at 122-30 (discussing the evolution of § 526). Such vacillating policy can hardly be considered consistent and longstanding, as the advocates of 19 C.F.R. § 133.21 (1988) and the grey marketeers assert. *See* Note, *supra* note 49, at 100-01.

139. *See* Note, *supra* note 49, at 100-01.

140. *Osawa*, 589 F. Supp. at 1177, states, § 526 "contains no suggestion that the right of the U.S. markholder to receive its benefits depends on subtle variations in its relationship with the foreign markholder."

141. *Id.*

142. *Id.* It is interesting to note that under Customs application of 19 C.F.R. § 133.21(a) (1988), denial of the prohibitions of section 526 because of relationship, could prohibit the United States trademark owner from preventing importation of counterfeit trademarks simply by reason of that relationship. *Osawa*, 589 F. Supp. at 1177 n.10. Although the logic behind this seems inconceivable, this situation is entirely probable under the interpretation of § 526 asserted by Customs. In *Osawa* the court adds: "I cannot imagine what principle of antitrust law is served by withholding the exclusion of counterfeits by reason of relationships between the domestic and foreign markholder . . . ." *Id.*

143. One commentator has suggested that "to permit Customs to refuse to exclude grey-market goods as an act of agency discretion is to allow it to engage

There are, however, problems with the circuit court opinion. Opponents of a plain meaning interpretation of section 526 argue that by failing to specifically address the parent/subsidiary issue, the statute is ambiguous with respect to that issue and is, therefore, subject to subsequent interpretation.[144] In this light, the question becomes "whether the agency's answer is based on a permissible construction of the statute."[145] The probable response of the *COPIAT* court to this attack would be that the relationship theory was considered and rejected in contemporaneous congressional reports,[146] and that even if the statute did not consider the issue, the Customs regulations have been too inconsistent to be accepted as a valid interpretation. Unfortunately, *COPIAT* offered no such clarification.

*COPIAT* is also disturbing because it assigns no parameters to its holding. The decision is couched in terms of judicial responsibility of enforcing clear statutes, however, by failing to consider policy factors involved with enforcement (which Judge Silberman believes are best left to Congress), *COPIAT*'s scope is vague. On its face the opinion upholds a 1930 statute in the 1986 world of trademark infringement. As a consequence of failing to discuss the relevance of such a holding in terms of the current market, the case has limited applicability.[147]

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in a pattern of nonenforcement of clear statutory language." Knoll, *supra* note 17, at 209 (citing Heckler v. Chaney, 470 U.S. 821, 839 (1985) (Brennan, J., concurring)).

144. *See Olympus*, 792 F.2d at 321 n.1. *See also* Lewin, *The Ten Commandments of Parallel Importation*, 18 LAW & POL'Y INT'L BUS. 217, 228-32 (1986) (discussing the validity of the grey market under the Customs regulations and questioning the "not so plain" meaning of § 526). *Cf. Olympus*, 792 F.2d at 322 (Winter, J., dissenting) ("Enforcement of Section 526 as written is simplicity itself. Goods of foreign manufacture bearing a trademark owned by a U.S. citizen or firm must be excluded from the country absent written consent from the owner.").

145. *Chevron*, 467 U.S. at 843.

146. *See supra* note 59.

147. The precedential value of *COPIAT* is equally limited. Obviously United States trademark owners will extol the opinion as one that bolsters their effort to destroy the grey market. It is, however, equally likely in lieu of *COPIAT*'s statement that concerns of grey marketeers "are properly addressed to Congress," *COPIAT*, 790 F.2d at 917-18, that grey marketeers will offer the holding as one that calls for legislative reform. Such an interpretation is not untenable, especially considering the failed congressional amendments concerning § 526. Although strict proponents of 19 C.F.R. § 133.21 (1988) cannot favorably manipulate this invalidating opinion, unauthorized importers can fall back on their alter status as grey marketeers to proffer *COPIAT* as the suggestive impetus for change.

A third interpretation suggests that Silberman intended the scope to be developed by future courts. This is, however, of no consolation to a potential litigant.

One final point is related to the remedy granted the victorious plaintiffs. Is it really a remedy at all? The appellants requested that Customs be enjoined from enforcing the current regulations and be ordered to enforce section 526 to its fullest.[148] By holding that "injunctive relief is inappropriate *at this juncture* of the controversy,"[149] the uncertain nature of the scope becomes glaringly apparent. Both grey-market importers and United States trademark owners are left in an unclear position.[150]

In perspective, the holding nevertheless represents the most logical response to the confusion generated by grey-market importation. Recognizing its limitation to offer judicial interpretation, as opposed to the congressional power of rectification, *COPIAT* fully utilizes its power to enforce the language of an unambiguous statute.[151] This declaration, coupled with the holding's ambiguous scope and denial of specific relief, suggests the decision was made either in contemplation of, or as stimulation for, legislative clarification.[152]

## IV. THE SUPREME COURT RESPONDS—*K MART CORP. V. CARTIER, INC.*

### *A. Analysis*

On December 8, 1986, the United States Supreme Court granted the government's petition, on a writ of certiorari, to resolve the conflict among the circuits over the Customs regulations.[153] On May 31, 1988, the Supreme Court announced its decision in *COPIAT v. United States* as a companion case, with its holding in *K Mart Corp.*

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148. *COPIAT*, 790 F.2d at 918.

149. *Id.* (emphasis added).

150. The relief granted suggests that the court was willing to invalidate what it believed to be an erroneous agency interpretation, but that it will not be responsible for enforcing the statute. *Cf. id.* This seems consistent with *COPIAT*'s implied deference to Congress. *See supra* note 136 (discussing the confusion under the regulations).

151. *COPIAT*, 790 F.2d at 908.

152. *See Osawa*, 589 F. Supp. at 1178 n.11. *See generally* Gilbert, Ludwig & Fortine, *supra* note 6 (discussing grey-market protections afforded by the federal government and courts).

153. Coalition to Preserve the Integrity of Am. Trademarks v. United States, 790 F.2d 903 (D.C. Cir.), *cert. granted*, 479 U.S. 1005 (No. 625, 1986 Term).

*v. Cartier, Inc.*[154] The Customs regulations, invalidated by the appeals court in *COPIAT*, were essentially upheld by the Court. Its splintered 5-4 decision effectively precludes trademark owners from prohibiting grey-market imports that are produced abroad by companies subject to common control.[155] Although a majority faction sustained the common control exception of sections 133.21(c)(1) and (c)(2) and effectively reversed the reasoning of *COPIAT*, the Court did hold the regulations invalid with respect to the authorized use exception found in section 133.21(c)(3).[156]

In *K Mart*, Justice Kennedy announced the judgment of the Court and categorized grey-market questions into three distinct cases.[157] He determined that in "case 1" the prototypical grey-market victim was the domestic purchaser of trademark registration and usage rights from a foreign producer.[158] Importation of trademarked goods by an independent foreign firm, in this situation, harms the trademark holder's investment.[159] In "case 2," a domestic firm is the owner of the United States trademark for goods manufactured abroad and is (a) a subsidiary of the foreign firm, (b) a parent to the foreign firm, or (c) an unincorporated manufacturing division of the foreign

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154. 108 S. Ct. 1811 (1988). The case, a consolidation of three separate cases, was argued before the Court twice. It was not until the second presentation that the Court finally reached the merits. The first oral argument focused on questions of jurisdiction and the first opinion of the court, 108 S. Ct. 950 (1988), only upheld the jurisdiction of the district court and scheduled reargument of the merits of the case. *See* Palladino, *supra* note 3, at 20, col. 2.

155. *K Mart*, 108 S. Ct. at 1812-14. The five member majority that included Justices Brennan, White, Marshall, Stevens, and Kennedy found 19 C.F.R. § 133.21(c)(1) & (c)(2) to be consistent with § 526 and thus valid. *See Most of Customs Service Rule Allowing Gray Market Imports is Upheld by Court*, 36 Pat. Trademark & Copyright J. (BNA) 105 (June 2, 1988).

156. Section 133.21(c)(3) provides an exception to the general prohibitions of § 526 where "[t]he articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner . . . ." *See K Mart*, 108 S. Ct. at 1816 (citing 19 C.F.R. § 133.21(c) (1987)). *See supra* note 16 (full text of § 133.21).

157. *K Mart*, 108 S. Ct. at 1814.

158. *Id.* Justice Kennedy summarized a typical grey-market victim in case 1 as a domestic firm which buys the right to register and use the trademark of an independent foreign firm as a United States trademark and to sell the foreign firms product in the United States. The domestic firm can be forced into an intra-brand competition if the foreign firm can import and sell the trademarked goods in the United States, or if the foreign firm markets the goods outside the United States to a third party, and that third party then imports them into the United States, a grey market arises and the United States trademark holder's investment is jeopardized. *Id.* at 1815-16.

159. *Id.*

firm.[160] Here the importation of goods sold abroad by the trademark holder or its subsidiary leads to competition with the holder's domestic sales.[161] In "case 3," the trademark's domestic holder restrictively authorizes an independent foreign firm to use the mark, subject to a promise not to import.[162] Subsequent importation by that firm or a third party leads to grey-market competition with the domestic holder's goods.[163]

Noting that "[a]ll [m]embers of the Court are in agreement that the agency may interpret the statute to bar importation of gray-market goods in what we have denoted case 1,"[164] Kennedy defined the controversy as one involving the permissible construction of section 133.21(c)(1) and (c)(2) with respect to the latter two grey-market "cases."[165]

Determining that section 526 contained ambiguous language,[166] Justice Kennedy upheld subsections (c)(1) and (c)(2) as a reasonable

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160. *Id.* at 1815. The most common type of case 2 situation arises when a foreign firm desires to control the distribution of its goods by incorporating a United States subsidiary. The subsidiary registers a United States trademark identical to that of the parent firm's trademark. A grey market is created by the parallel importation of goods by a third party who purchases the goods abroad and then imports them. Justice Kennedy also notes two variations on the case 2 scenario which occur when a United States based firm establishes a subsidiary abroad (case 2b), or a United States firm owns an unincorporated manufacturing division abroad, produces the trademarked goods, and then imports them for domestic distribution (case 2c). If the holder of the trademark or the foreign subsidiary then sells the trademarked goods abroad, the parallel importation of the goods competes on the grey market against the holder's domestic sales. *Id. See also* Palladino, *supra* note 3, at 20, col. 2.

161. *K Mart*, 108 S. Ct. at 1815.

162. *Id.* Justice Kennedy described a case 3 situation as one in which a domestic holder of a United States trademark authorizes an independent foreign manufacturer to use the domestic's trademark. If the foreign manufacturer or a third party later import the foreign manufactured goods into the United States those imported goods will then compete on the grey market with the domestic holder's United States sales. *Id.*

163. *Id.*

164. *Id.* at 1818.

165. *Id.* (referring to Brennan, J., concurring *id.* at 1820).

166. *Id.* Justice Kennedy found the term "owned by" to be sufficiently ambiguous to entitle the agency to choose any reasonable definition, including one that says "goods manufactured by a foreign subsidiary or division of a domestic company are not goods 'of foreign manufacture.' " *Id.* Furthermore, neither the varied interpretation or arguably inconsistent phraseology employed by the agency over the years detract from this finding.

> Additionally, I believe that agency regulations may give a varying interpretation of the same phrase when it appears in different statutory contexts.

and permissible construction designed to resolve the ambiguity.[167] Justice White joined Kennedy in this respect. Justices Brennan, Marshall, and Stevens agreed that the common control exception was consistent with section 526 and hence valid, but for reasons different from Justices Kennedy and White.[168]

The Brennan coalition[169] presented an involved analysis of the legislative history and congressional intent related to section 526's passage and found that Congress never intended the protections of section 526 to extend to affiliates of foreign manufacturers.[170] Treating section 526 as merely the congressional response to *Katzel* and questioning the *COPIAT* court's interpretation of certain congressional exchanges that preceded the section's passage,[171] this coalition determined that congressional intent was to exclude trademark owners affiliated with foreign manufacturers from section 526's shield.[172] Thus, the Brennan group upheld the common control exceptions of sections 133.21(c)(1) and (c)(2) as consistent and reasonable interpretations of section 526.[173]

Believing that Congress addressed "case 3" in the same ambiguous way that it dealt with cases 2a, 2b, and 2c, the Brennan group further asserted that section 133.21(c)(3) was also consistent

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> There may well be variances in purpose or circumstance that have led the agency to adopt and apply dissimilar interpretations of the phrase "of foreign manufacture" in other regulations implementing different statutes.

*Id.* at 1818 n.4.

167. *K Mart*, 108 S. Ct. at 1817-18.

168. *Id.* at 1819-28 (Brennan, J., concurring). By concurring in the result, the requisite majority for holding § 133.21(c)(1) & (2) valid was established.

169. Justices Marshall and Stevens concurred with Brennan. Justice White concurred with Brennan only on the issue of the authorized use exception. *K Mart*, 108 S. Ct. at 1819.

170. *Id.* at 1822.

171. *Id.* at 1824 n.5.

172. *Id.* at 1826. Justice Brennan's response is no less speculative than Judge Silberman's in *COPIAT*. Consider the case of Coty, Inc. v. Le Blume Import Co., 292 F. 264, 269 (S.D.N.Y.), *aff'd*, 293 F. 344 (2d Cir. 1923), where Judge Learned Hand said that § 526 did not merely apply to the *Katzel* facts. *See supra* note 58. The problem with Justice Brennan's reliance on the congressional exchange seems obvious—the legislative history is confused. *See supra* note 59 (discussing the legislative debate before the adoption of § 526).

173. *K Mart*, 108 S. Ct. at 1827. This determination was based on the premise that "§ 526 does not require exclusion of all gray-market goods." *Id.* Interestingly, Justice Brennan justifies his position by stating that "[w]e do not lightly overturn administrative practices as longstanding as the ones challenged in this action [especially] where, as here, an immense domestic retail industry has developed in reliance on that consistent interpretation." *Id.* at 1828.

with section 526.[174] Only four Justices supported this view; a different majority held the authorized use exception as inconsistent with section 526, and hence invalid.[175]

In dissent, Justice Scalia, joined by Chief Justice Rehnquist and Justices Blackmun and O'Connor, found that all three of the regulations conflicted with the clear language of section 526.[176] Adopting a deferential approach, Justice Scalia commented that, notwithstanding the arguable ambiguity of the statute, "[t]he authority to clarify an ambiguity in a statute is not the authority to alter even its unambiguous applications, and § 526(a) unambiguously encompasses most of the situations that the regulation purports to exclude."[177]

The dissent expressed concern over various aspects of the majority's holding. First, it found the majority interpretation of section 526's "of foreign manufacture" language to be a queer reading of the words and inconceivable in light of the purpose of the statute.[178] The majority felt that these words might mean "manufactured by a foreigner" rather than "manufactured in a foreign country"; Justice Scalia could not accept this view. According to Justice Scalia, common usage of the words should dictate, and hence "of foreign manufacture" meant "manufactured abroad."[179] Second, the dissent

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174. *Id.* at 1829. Justice Brennan stated: "Since I believe that the application of § 526 to case 3 is ambiguous, the sole remaining question is whether Treasury's decision to exclude case 3 from § 526's prohibition is entitled to deference." *Id.* at 1830.

175. *Id.* at 1836 (Scalia, J., concurring in part and dissenting in part). The remainder of this minority was made up by Chief Justice Rehnquist, and Justices Blackmun and O'Connor. *Id.* at 1831.

176. *Id.* at 1831.

177. *Id.*

178. *Id.* at 1832.

179. *Id.* The dissent suggests that the majority interpretation conflicts with that expressed by Customs. Citing the Brief of the Federal Petitioners, Justice Scalia includes correspondence from the Commissioner of Customs which states:

> As interpreted by the [Customs] Bureau, section 526 prohibits the importation of genuine articles *of foreign origin* bearing a genuine trademark . . . . For example: if the foreign owner of a trade-mark applied to *articles manufactured in a foreign country* assigns the United States rights [to a United States citizen] *no articles of foreign origin* bearing such mark . . . may be imported. . . . However, if the United States trade-mark owner and the owner of the foreign rights to the same mark are one and the same person, *articles produced and sold abroad* by the foreign owner may be imported by anyone . . . .

*Id.* With this in mind, Justice Scalia continued: "[I]t is a strange sort of deference to agency interpretation [as stated by the majority] which adopts a view of the statute that the agency clearly rejects." *Id.*

questioned the majority's interpretation of "owner," stating: "[N]o matter how that ambiguity is resolved it is impossible to conclude that a trademark owned by a United States corporation . . . or its foreign subsidiary is 'owned by' anyone other than a United States corporation."[180] Third, attacking Justice Brennan's assertion that section 133.21(c)(3) is valid, the dissent also questioned the use of a theory of statutory construction that considered what the enacting Congress *would have* adopted had it foreseen these modern circumstances.[181] Agreeing with Justice Brennan that the results may be anachronistic, Justice Scalia responded that such a result grew out of the statute itself—"which Congress has chosen not to update."[182] By declining to apply the statute to a situation covered in the language of the statute (as Justice Brennan and the majority would do) the Court, according to Justice Scalia, engaged in "rewrit[ing] the United States Code to accord with the unenacted purposes of Congresses long since called home."[183] Justice Scalia found no justification for such action.[184]

### *B. Evaluation of* K Mart

This 5-4 decision, with its overlapping opinions and piecemeal majority holding, fails to provide definitive answers to the questions involved with grey-market importation. One commentator has expressed concern that the Court has left open a host of grey-market questions by focusing only on the ambiguous nature of section 526 and the validity of the Customs regulations.[185] "Strictly speaking, the Court's holding *is limited* to the validity of Customs' regulations."[186] With this in mind, the significance of *K Mart* can and should be questioned not only for its failure to address pertinent

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180. *Id.* at 1831.
181. *Id.* at 1834.
182. *Id.*
183. *Id.*
184. *Id.* at 1835. Without referring to the *COPIAT* opinion, Justice Scalia's dissent impliedly adopts its underlying deferential rationale.
185. *See* Palladino, *supra* note 3, at 20. Palladino lists the following as unaddressed issues: (1) How the Court might treat cases brought under §§ 32, 42 or 43(a) of the Lanham Act, 15 U.S.C. § 1124 (1982); (2) Whether private actions are still allowed; and (3) If private causes are allowed, how should lower courts use *K Mart* as guidance? *Id.* Palladino believes that ultimately these questions, and others, can only be adequately addressed by Congress. *Id.*
186. *Id.* (emphasis added).

trademark questions, but also in terms of its holding.[187] This discussion previously hailed *COPIAT* for its plain meaning statutory approach to the Goods Exclusion Act, and its clear deferential policy on law making questions. The failure of *COPIAT* to discuss pertinent trademark questions can thus be justified because the decision was not validating, i.e., legislating, the regulations. For *COPIAT*, these questions could better be handled by Congress. *K Mart*, however, validates the regulations without mentioning competing trademark questions and destroys the laudable intent of *COPIAT*.

As the dissent of Justice Scalia illustrates, the Court's holding with respect to the validity of the Customs regulations may rest on a strained application of statutory construction theory.[188] By engaging in an analysis of what the 1931 Congress *would have done* had they foreseen modern situations, Justice Brennan seems to have overstepped the Court's scope of review.[189] Furthermore, as Justice Scalia points out, adoption of the majority opinion leads to the acceptance of an interpretation of section 526 that even Customs rejects.[190]

This dissent is thus more deferential and closer to the rationale that supported the circuit court's opinion in *COPIAT*. Notwithstanding its criticism of the Kennedy-Brennan majority, the dissent is also subject to criticism. Justice Scalia's response to Justice Brennan's contention over the ambiguity of the term "ownership" does not

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187. At a recent ABA conference, a panelist discussing the *K Mart* decision suggested that the case has not ended the dispute. This panelist admonished that the narrow majority opinion would lead the lower courts to return to the pre-*COPIAT* case law to resolve infringement cases. *ABA's Toronto Meeting Addresses Inequitable Conduct*, 36 Pat. Trademark & Copyright J. (BNA) 426, 427 (Aug. 25, 1988).

188. *K Mart*, 108 S. Ct. at 1834. *See also supra* note 108 and accompanying text.

189. Justice Scalia comments: "The reality, I fear, may be even worse than [Justice Brennan's statutory construction theory]. In practice, the rewriting is less likely to accord with the legislative purposes of yesteryear than the judicial predelictions of today." *K Mart*, 108 S. Ct. at 1834-35.

190. *Id.* at 1832-33 (discussing the interpretation of § 526 held by the Commissioner of Customs). *See also supra* note 185. Justice Scalia also criticizes Justice Kennedy's interpretation. Although Justice Kennedy believes that the current interpretation of the regulations is being sustained, Justice Scalia points out that no regulation requires the nationality of the manufacturer to be indicated on imports. Justice Scalia states, however, that "[a]fter today's decision . . . the Customs Service, if it would not rather amend its regulations, will presumably have to devise means to enforce *what we say it has been enforcing.*" *Id.* at 1833 (emphasis added).

satisfactorily address Justice Brennan's concerns.[191] Although Justice Scalia concedes it may be reasonable to accept that nominal ownership of a domestic subsidiary is really ownership of the foreign parent, he dodges confrontation with Justice Brennan's question by stating that because the regulation deals with more than just this arguable ambiguity, "§ 526(a) unambiguously encompasses *most* of the situations that the regulation purports to exclude."[192]

The discordant opinions of *K Mart* thus illustrate their own limitations and indicate that maybe the issues could have been better answered by Congress.[193] Congressional recognition of this point may be reflected by the recent flurry of legislation designed to regulate grey-market importation.[194]

In May of 1987, Senator John Chafee introduced a bill (S. 1097) to codify the Customs regulations as amendments to § 526.[195] Four months later, Senator Orrin G. Hatch presented a bill (S. 1671) that would require the Customs Service to prohibit the importation of genuinely trademarked goods where the trademark owner so requested.[196] On June 14, 1988, Representative Rod Chandler introduced the Price Competitiveness Products Act of 1988 (H.R. 4803). The Act is identical to S.1097 and seeks to enact "the longstanding Customs regulation[s] which [were] largely upheld by the Supreme Court"[197] in an effort to settle questions of grey-market importation.

## V. THE COSTS AND BENEFITS OF GREY-MARKET GOODS

Unfortunately the proposed legislation, like the *K Mart* decision, does nothing more than validate the Customs regulations.[193] It does

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191. Justice Brennan treats "owner" as ambiguous because that term can encompass an American parent with foreign subsidiaries and a foreign parent with American subsidiaries. Justice Brennan is concerned that the protections afforded by § 526 would be *too easily* compromised if a foreign manufacturer could insulate itself from competition from parallel imports by simply incorporating a shell corporation in the United States and then transferring to the subsidiary its trademark. *K Mart*, 108 S. Ct. at 1821.

192. *Id.* at 1831 (emphasis added).

193. Palladino, *supra* note 3, at 20.

194. *Bill to Codify Customs Rules Allowing Gray Market Imports Introduced in House*, 5 Int'l Trade Rep. (BNA) 953 (June 29, 1988).

195. *Id.* at 954.

196. *Id.*

197. *Id.* at 953-54 (referring to Chandler's introductory comments on the bill).

198. *See* H.R. 4803, 100th Cong., 2d Sess., 134 CONG. REC. H4232 (1988).

not answer the other questions that plague grey-market importation.[199] To fully appreciate the ramifications of *COPIAT*, *K Mart*, and the proposed bill, a brief discussion of some of these areas is warranted.[200]

Courts recognize that a trademark simultaneously serves the interest of the consuming public as well as the private interest of the trademark owner.[201] When grey-market goods enter the consumer market, serious questions must be asked concerning the potential harms of this infiltration.

### A. *The Alleged Benefits*

Grey marketeers often assert that their products offer consumers lower prices, and contend that importation prevention unfairly allows a trademark owner to engage in monopolistic price discrimination.[202] They argue that establishment of a grey market is a necessary consequence of the attempt by worldwide distributors to discriminate against American consumers by charging United States distributors more than their foreign counterparts for the same products.[203] These grey-market proponents believe that adoption of the interpretation of section 526 advanced by Customs, which permits a grey market, is the *only* way to alleviate this discrimination and at the same time offer lower prices to consumers.[204]

This argument is unpersuasive for a number of reasons. First, absent a confusingly similar trademark to the product, the trademark owner (unlike a patent owner) cannot prevent competitors from making the same or similar products.[205] Second, the current Supreme

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In fact, this legislation really does nothing more than codify the result in *K Mart*. This hardly seems like the action that the *COPIAT* decision was calling for when it deferred to Congress.

199. One commentator discussing the multibillion dollar marketing practice points to other pressing issues which include the value of a trademark as a symbol of domestic goodwill, the differences between domestic and foreign products that bear the same trademark, and the real effect such products have on lowering consumer price margins. Palladino, *supra* note 3, at 20, col. 3.

200. A great deal of legal commentary has explored the multitude of issues that are generated by the grey market. An in-depth analysis of these questions is beyond the purview of this comment. *See* Knoll, *supra* note 17, at 174-217 (extensive analysis of the grey market); *Antitrust Perspective on Intellectual Property Protection*, 30 Pat. Trademark & Copyright J. (BNA) 321 (July 25, 1985) (same).

201. Knoll, *supra* note 17, at 157 (citations omitted). *See supra* notes 8-13 and accompanying text (discussing policy concerns regarding grey-market goods).

202. Dam, *supra* note 117, at 28-31.

203. *Osawa*, 589 F. Supp. at 1176.

204. *Id.*

205. Knoll, *supra* note 17, at 152.

Court view, expressed in *Continental T.V., Inc. v. GTE Sylvania Inc.*,[206] states that this distribution scheme is not per se monopolization since imposed vertical restraints can promote interbrand competition incentives.[207] Furthermore, certain courts have recently determined that there are competitive benefits in protecting against "free rider" subjugation.[208] These courts apply a "rule of reason" that balances the anti-competitive and procompetitive effects of restraint.[209]

There are other reasons, notwithstanding arbitrary price discrimination, that equally explain why grey marketeers can sell at lower prices than exclusive distributors.[210] The fluctuating interna-

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206. 433 U.S. 36 (1977).

207. *Id.* at 55. Agreements between similar product manufacturers are representative. Vertical restraints involve restrictions imposed on parties on different levels of product distribution, while horizontal restraints involve the restrictions between parties on the same level. *See* Knoll, *supra* note 17, at 155 n.41. Horizontal restraints have been considered per se violations of § 2 of the Sherman Antitrust Act. *See* United States v. Topco Assocs., 405 U.S. 596 (1972) (holding explicit territorial restrictions in trademark licenses are illegal per se). However, vertical restraints that do not involve a restriction on the selling price, i.e., non-price vertical restraints, have not been so harshly dealt with. Application of § 526 is a non-price vertical restraint since the restriction involves the exclusive right to sell among parties at different levels in the distribution scheme. The Supreme Court has indicated that this type of vertical restriction does not present the same dangers to the competitive process as horizontal restrictions. *Cf. Sylvania*, 433 U.S. at 49-53 (discussing the different considerations supporting the per se and rule of reason approach to antitrust law). *See also* Posner, *The Rule of Reason and the Economic Approach: Reflections on the* Sylvania *Decision*, 45 U. CHI. L. REV. 1 (1977) (providing a more complete analysis of vertical restraints).

208. *See supra* note 4 and accompanying text.

209. *See* Knoll, *supra* note 17, at 155. Under the "rule of reason" applied in *Sylvania*, numerous questions are asked to aid a court faced with a parallel imports case. Has the United States trademark owner paid valuable consideration for the right to use the mark? Has the United States trademark owner actually spent money on advertising or promotions not similarly incurred by the grey marketeer? Are repair and warranty services offered by the seller? Does the grey marketeer offer the same such services? Since competitive injury is usually the result of a limited number of competitors, these considerations should be balanced against the possibility that competitive injury will result if grey-market imports are barred. *See* Lipner, *supra* note 1, at 570. *See* National Soc'y of Professional Eng'rs v. United States, 435 U.S. 679, 689-92 (1978). *See* Zelek, Stern & Dunfee, *A Rule of Reason Decision Model After* Sylvania, 68 CALIF. L. REV. 13 (1980) (analyzing rationale supporting the rule of reason).

210. *Osawa*, 589 F. Supp. at 1176. The grey marketeers argue that a worldwide distributor is able to indirectly discriminate against United States consumers by selling to its United States distributors at arbitrarily higher prices than their foreign distributors are charged. *Id.* at 1166.

tional currency market,[211] different manufacturing cost conditions in other countries, and the operating expense of promoting the trademark not borne by the grey marketeer,[212] are just three of these explanations.

Alleged benefits also focus on the legitimate alternative that grey-market products afford a consumer who is aware of dissimilar qualities.[213] The argument suggests that people realize the risks involved with the grey-market goods and still purchase them, receiving their compensation in the form of lower prices. Grey marketeers argue that it would be unfair to deny consumers this alternative.[214]

This argument is inherently flawed, however, because it relies on the speculation that Americans are informed consumers. Furthermore, even if the consumer is considered "informed," the question of how adequately informed remains unanswered.[215] In other words, mere knowledge of the risks involved with purchasing grey-market products may not sufficiently reflect true awareness of their potential shortcomings.[216]

### B. *The Potential Harms*

If the price is substantially lower, the consumer does initially benefit from the grey market. There are, however, hidden costs and

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211. This specific area lends itself to interesting speculation. The grey market has proliferated since the 1950s along with the progressive increase in strength in the American dollar overseas. With a weakened dollar in foreign markets, it may no longer be cost efficient to engage in grey-market importation. It is, therefore, entirely possible that the ultimate limitation on the grey market will not relate to § 526 or any future congressional equivalent, but rather on the vacillating and volatile market itself.

212. *Osawa*, 589 F. Supp. at 1176. "Other costs" a grey marketeer free-rides on include: costs for maintenance and enhancement of the mark's reputation, costs for consumer education, and warranty costs. *Id.*

213. Note, *supra* note 3, at 204 (citing Arthurs, *Trademark Holders Tackle Gray Market*, Legal Times, Apr. 9, 1984, at 7, col. 2).

214. Note, *supra* note 3, at 204.

215. *Id.* at 206.

216. *Id.* An "informed" purchase of a grey-market good does not necessarily establish: (1) that the consumer "knows" the value of the warranty, (2) that the consumer relied on the information about the grey marketeer and not the reputation associated with the product manufacturer before purchase, or (3) that there was ever enough substantial information available to the consumer to make him an "informed" consumer. *Id.* at 206-07.

long term ramifications that should be noted.[217] Without strict transit and inspection regulation of the product by the United States distributor, product quality could decrease.[218] Analogously, confusion between the registered and grey-market products, their price discrepancy, and uncertain warranty availability, can easily result in loss of the goodwill and reputation associated with the mark.[219] Consequently, the potential disincentive to maintain a mark's quality is great, especially where another distributor can capitalize at another's expense.[220] Taken to an unlikely extreme, "[i]f there [were] no return from having a recognizable trademark, companies would have no incentive to develop trademarks, and without trademarks that allowed customers to recognize manufacturers and reward their quality with continued purchases, manufacturers would have no incentive to develop quality goods."[221]

### C. *The Grey Market: Proposed Solution*

Aside from various private solutions[222] to the grey market, there are several public proposals that attempt to ameliorate the situation. One proposal suggests that grey marketeers be required to label their products in such a way as to disclose that they are "neither authorized

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217. In *Osawa*, 589 F. Supp. at 1168, the court characterized the grey marketeer's conduct as bad faith, stating:

> Defendants tell the customers the good news about their cheap prices. But they conceal or affirmatively misrepresent the bad news [that their merchandise was not imported by the authorized distributor and carried no warranty protection]. Plaintiff is left with the choice of providing free warranty service on defendants' merchandise or suffering damage to the reputation of its marks.

218. *See id.* at 1173; Monte Carlo Shirt, Inc. v. Daewoo Int'l (Am.) Corp., 707 F.2d 1054, 1058 n.5 (9th Cir. 1983).

219. *Osawa*, 589 F. Supp. at 1169-70. *See also supra* note 7 (defining goodwill two different ways); *supra* note 185.

220. *Osawa*, 589 F. Supp. at 1168.

221. Note, *supra* note 3, at 195-96 (quoting *In re* Certain Alkaline Batteries, 225 U.S.P.Q. (BNA) 823, 841 (U.S. Int'l Trade Comm'n 1984), *rev'd by Presidential Order*, 225 U.S.P.Q. (BNA) 862 (Presidential Order 1985)).

222. Some private solutions include: (1) the United States trademark owner's attempt to limit grey-market importation by using different trademarks here and abroad (although to do such would involve incredible expense and therefore is not much of a *real* solution); (2) the use of private contracts with distributors agreeing not to sell to grey marketeers (this solution, however, could not prevent sale to grey marketeers unknown to the distributor and only intensifies the potential for fraud). *See* Knoll, *supra* note 17, at 177-78.

nor warranted by the U.S. trademark holder."[223] While a laudable proposal, it fails to prevent the grey-market importers from free-riding on the mark's reputation already established in the American market.[224] Furthermore, it forces courts to determine whether a labeling disclosure adequately informs consumers, leading to the ultimate result of non-uniform judicial interpretation.[225]

A second proposal would permit grey-market goods importation only after the obliteration or removal of the genuine trademark.[226] Here, the rationale is that without the mark of the United States trademark owner, the imported merchandise could not infringe on American goodwill, nor could it fool consumers into purchasing grey-market products based on trademark recognition.[227] Theoretically this position is sound, but the practicalities of the market illustrate its limitations. Obliteration of the mark (demarking) may also be impracticable with goods that would be substantially destroyed if the offending trademark were removed.[228]

Another option suggests allowing the United States trademark owner who is related to a foreign manufacturer, to request import exclusion following a determination by Customs that such goods are not identical to the authorized goods.[229] Here, the obvious flaw is placing the insurmountable task of determining product identity and international business relationships on Customs, and as this comment has already expressed, such a burden is impracticable.[230] This proposal would defer to Customs on the determination of the convoluted and intricate distinctions of international relationships, which has been shown to be improvident.[231]

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223. Note, *supra* note 49, at 111. Such a law would be limited to only those products which would ordinarily carry warranties. *See* Note, *supra* note 3, at 204-08 (discussing labeling alternative).

224. Knoll, *supra* note 17, at 181. Even if the consumer knows the product is from the grey market and that it does not come from an authorized dealer, any bad experiences with that grey-market product will probably be sent to the trademark owner and not the "grey" distributor. Note, *supra* note 3, at 207-08.

225. *See* Note, *supra* note 3, at 207.

226. Knoll, *supra* note 17, at 182.

227. *See* Note, *supra* note 49, at 114.

228. One commentator, considering the demarking of a sport shirt which visibly displayed the trademark, found that removal of the mark would make the shirt unsellable. *See* Knoll, *supra* note 17, at 182.

229. *See* Note, *supra* note 49, at 114.

230. Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 TRADEMARK REP. 301, 308 (1969).

231. *See supra* notes 137-43 and accompanying text (discussing the rationale of *COPIAT* regarding the Customs regulations).

Consequently, many grey-market issues remain unsettled. The *K Mart* opinion does not provide stable, definitive answers, yet attorneys who represented K Mart and other grey-market proponents hail the case as one that legitimizes what retailers have relied on for years.[232] These proponents treat the case as a big win for American consumers, but the question of whether the decision will lead to greater grey-market importation remains almost as unclear as the other questions left unaddressed by the opinion and the proposed legislation.[233]

## VI. CONCLUSION

United States importation of genuine products manufactured abroad is prohibited under section 526 of the Tariff Act of 1930 when the products bear a trademark identical to a trademark registered to an unconsenting American company. Customs regulations expressed in section 133.21(a)-(c) have erroneously interpreted section 526 as unavailable to a United States trademark owner that is "related" to the foreign manufacturer, thereby permitting the proliferation of the grey market. *COPIAT* represents a well reasoned invalidation of these regulations, which according to the court, failed to display the necessary thoroughness, validity, and consistency meriting judicial acceptance.[234] *K Mart Inc. v. Cartier*, on the other hand, by attempting to judicially clarify the confusion in the grey market, has validated the Customs regulations without adequately supporting them and has interfered in matters that both the *K Mart* dissent and the *COPIAT* opinion believed were best left to Congress.

This comment has intimated that the harms of the grey market outweigh its benefits. Exclusion of grey-market products seems consistent with both current antitrust law which essentially permits nonprice vertical restraint as procompetitive, and trademark law which under section 526 clearly excludes unauthorized imports. Denial of the right of United States trademark owners to exclude genuine

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232. *See* Wermiel, *Justices Uphold Customs Rules on Gray Market*, Wall St. J., June 1, 1988, at 2, col. 2; *Supreme Court Upholds Most of Customs Regulation Allowing Gray Market Imports*, 5 Int'l Trade Rep. (BNA) 778 (June 1, 1988).

233. In discussing the effect of the Court's invalidation of the authorized use exception of 19 C.F.R. § 133.21(c)(3) (1988), Nathan Lewin, an attorney representing one of the grey-market proponents, said: "[T]he part of the gray market blocked by the Supreme Court 'is only 5% of the total market, if that much.' " Wermiel, *supra* note 232, at 2, col. 2.

234. *COPIAT*, 790 F.2d at 916.

merchandise which was intended for sale abroad could lead to adverse affects on international trade. Thus, the answer to the question of whether grey-market goods importation should be enjoined, requires intimate policy consideration that is clearly not proper for judicial determination. In this light, the *K Mart* decision is questionable and its ramifications on the grey market have yet to be realized.

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