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Into the United States

Richard B. Kelly*

Parallel imports raise the controversy of whether owners of goods which are internationally traded should enjoy unencumbered trade or whether the importation of those goods should be restricted by trademark laws. The act of importation, not the goods themselves, is the center of debate. Parallel imports are genuine, mass-merchandised consumer products bearing a brand name protected by a trademark or copyright. The goods are sold by the manufacturer or a subsequent purchaser in the distribution chain to an importer for overseas resale. Often the U.S. marketing subsidiary or other authorized agent of the foreign manufacturer challenges the subsequent parallel importation and sale of these goods in North America by "unauthorized" agents. The authorized agent usually alleges that parallel importation amounts to unfair competition in violation of U.S. trademark, copyright, contract, or criminal laws.

Proponents of free trade in these goods insist that competition with parallel independent U.S. importers imposes price discipline on authorized distributors. Restricting unauthorized imports results in substantial price increases for U.S. consumers. To avoid legitimizing geographical price discrimination, intellectual property law should include the antitrust concept of universality for the purpose of defining the geographic scope of the rights of authorized distributors. Universality results in worldwide competition and provides lower prices to consumers. Conversely, geographical price discrimination leads to "monopoly profits" for foreign manufacturers and their marketing affiliates. Foreign manufacturers who control the channels of distribution can potentially avoid U.S. income taxes by charging arbitrarily high wholesale prices to traditionally wholly-owned U.S. marketing subsidiaries, thereby shifting the excess gain earned in this country to an earlier portion of the transaction.¹ This inflation of wholesale prices enables foreign manufacturers to avoid the

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¹ For judicial recognition of foreign manufacturers' ability to set prices different from those paid by independent U.S. importers, see Hamrick v. United States, 585 F.2d 1015 (Ct. Cl. 1978); F & D Trading Corp. v. United States, 580 F.2d 414 (Ct. Cl. 1978).
transfer pricing rules of Internal Revenue Code section 482,\(^2\) giving foreign manufacturers an added incentive to avoid the price discipline imposed by alternative suppliers.

Opponents of parallel imports argue that “grey market goods” are “unauthorized” and misrepresent the products’ qualities, servicing, and warranties. They stress that allowing parallel imports reduces the investment foreign manufacturers make in trademark or copyrighted products, making prohibition necessary to protect investments of U.S. dealers in advertising and services. These arguments are based on U.S. intellectual property law and various criminal statutes.

The “grey” market is at the crossroads of several fundamental bodies of law. Recent suits brought against the U.S. government and importers, based on an array of theories,\(^3\) are viewed by some as “strike suits” commenced or threatened against discount retailers and middlemen. Individual defendants with meager resources, or limited revenues derived from a particular product, have economic disincentive to challenge these suits. The spectral of criminal charges further chills their defense despite intervention in some of these lawsuits by individual members of the Coalition for Competitive Imports. In such a litigious, unstable environment, trial judges often are not in a position to review adequately overall policy considerations, and rational national policy cannot be made.

Little impartial economic data exists on the consequences of eliminating resale competition. The existing evidence suggests that free competition is the preferable option for domestic consumers and the independent U.S. businessman. Furthermore, other countries do not reciprocate by protecting U.S. manufacturers in foreign markets.

The antitrust bar refuses to allow purported characterization or label classifications to override market realities. This practice is useful in the examination of claims for special protection under intellectual property rights. The companion U.S. Supreme Court cases of *Sears Roebuck & Co. v. Stiffel*\(^4\) and *Compco Corp. v. Day-Brite Lighting Co.*\(^5\) suggest an initial perspective. In those cases, the Court determined that simulation “knockoffs” of lamp designs were unfair competition.\(^6\) The Court stressed that if a product was not sufficiently unique to merit a monopoly granted under federal intellectual property laws, it can be sold with impunity.\(^7\) These cases recognize the limited need to restrict competition and to encourage “creativity.”

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\(^{3}\) See infra notes 51, 57, 75, 83, 117, 133 and accompanying text.

\(^{4}\) 376 U.S. 225 (1964).

\(^{5}\) 376 U.S. 234 (1964).

\(^{6}\) See *Sears*, 376 U.S. at 232; *Compco*, 376 U.S. at 236.

\(^{7}\) See *Sears*, 376 U.S. at 232; *Compco*, 376 U.S. at 236.
By analogy, parallel imports, identical goods made in the same plant by the same manufacturer, should be allowed if the creator of the product has made its first sale and realized its profit incentive.

I. Trademarks

A. Section 526

Section 526(a) of the Tariff Act of 1930 provides that in the absence of the mark owner’s written consent, it is unlawful to import foreign manufactured merchandise bearing a registered trademark owned by a citizen of, or by a corporation or association created or organized within, the United States. A copy of the certificate of registration must be filed with the Secretary of the Treasury in the manner provided by section 42 of the Lanham Act. Merchandise imported in violation of section 526 is subject to seizure and forfeiture. Though the statute does not provide specific exceptions, the Customs Service has consistently recognized that goods manufactured abroad under the authority of the U.S. trademark owner should not be barred from importation.

The legislative history of section 526(a) is well documented. After enactment of the Trademark Act of 1905, Fred Gretsch Manufacturing Co. v. Schoening and A. Bourjois & Co. v. Katzel tested the meaning of the phrase “copy or simulate” in the Act. In Gretsch a German manufacturer of violin strings gave an exclusive agency for the sale in the United States to a company which registered the trademark. In Katzel a French manufacturer of “Java” face powder sold its entire operation and trademark to Bourjois, which imported and repackaged it under the “Java” trademark. Katzel bought the powder directly from the French manufacturer and sold it in the original French packaging. The trademark purchasers in both cases brought suit claiming that sale of the imports violated their

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10 Section 42 of the Lanham Act provides that no imported merchandise that copies or simulates a trademark shall be admitted into the United States. The Customs Service Regulations, 19 C.F.R. § 133.21 (1986), implement both § 526 of the Tariff Act and § 42 of the Lanham Act. Almost without exception (see infra note 24 and accompanying text), however, § 42 has been held to apply only to merchandise bearing counterfeit or spurious trademarks that copy or simulate genuine ones. See, e.g., Olympus Corp. v. United States, 627 F. Supp. 911 (E.D.N.Y. 1985), aff’d, 792 F.2d 315 (2d Cir. 1986).
11 19 C.F.R. § 133.21(c) (1986).
14 238 F. 780 (2d Cir. 1916).
15 275 F. 539 (2d Cir. 1921), rev’d, 260 U.S. 689 (1923).
16 Gretsch, 238 F. at 780-81.
17 Katzsel, 275 F. at 539-40.
18 Id.
trademark rights. In both cases, the Second Circuit held that the trademark on the challenged imports did not copy or simulate the plaintiffs' marks, reasoning that the Act was not intended to bar trademarked imports if the mark accurately described the manufacturing source for the goods.19

Section 526(a) was enacted in response to Katzel.20 The section was added as a floor amendment to the Tariff Act of 1922.21 The legislative history is sparse, consisting of a short floor debate and a brief paragraph in the Conference Report. That paragraph makes clear that the purpose of section 526(a) was to reverse Katzel.

A recent decision of the Circuit Court of Appeals holds that existing law does not prevent the importation of merchandise bearing the same trademark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. The Senate amendment makes such importation unlawful without the consent of the owner of the American trademark, in order to protect the American manufacturer or producer . . . .22

As Judge Hand noted, it "was intended only to supply the casus omissus supposed to exist in section 27 of the Act of 1905 (Comp. St. § 9513), because of the decision of the Circuit Court of Appeals in Bourjois v. Katzel . . . . Had the Supreme Court reversed that decision last spring, it would not have been enacted at all."23

Shortly after section 526(a) became law, the Supreme Court reversed Katzel, holding that the Trademark Act of 1905 outlawed importation of trademarked goods from a foreign manufacturer when the foreign manufacturer had sold the U.S. trademark to the plaintiff.24 Section 526(a) nevertheless remained. In 1936, the Customs Regulations of 1931,25 promulgated pursuant to the Act, responded to many concerns raised in the initial debate.26 Goods of foreign manufacture bearing a genuine trademark were prohibited imports absent the U.S. trademark owner's consent, but this protection was not extended if the same entity owned the foreign and domestic trademarks.27 Thus, the plaintiff in Katzel who bought the U.S. trade-

19 Id. at 543; Gretsch, 298 F. at 782.
21 Id.
22 Id.
23 Coty, Inc. v. Le Blume Import Co., 292 F. 264, 269 (S.D.N.Y. 1923), aff'd, 293 F. 344 (2d Cir. 1923).
24 Katzel, 260 U.S. at 689.
26 The Customs Regulations of 1931 were amended to add the following:
   However, merchandise manufactured or sold in a foreign country under a trade-mark is registered and recorded, or which trade name is recorded under the trademark laws of the United States, shall not be deemed for the purpose of these regulations to copy or simulate such United States trade-mark or trade name if such foreign trade-mark or trade name and such United States trade-mark or trade name are owned by the same person, partnership, association, or corporation.
27 Id. (emphasis added).
mark rights to a product would have been protected. Imports of genuine goods bearing the trademark of the foreign company that sold its U.S. rights were outlawed. The 1936 regulation also bars a company from registering a trademark in both the United States and abroad, selling the trademarked goods abroad and restricting importation of these goods into the United States.

The thrust of this regulation remains unchanged. In 1972, the Bureau of Customs revised the 1936 regulation to provide that restrictions relating to trademark imports do not apply to imported articles when:

1. both the foreign and U.S. trademarks are owned by the same person or business entity;
2. the foreign and domestic trademark owners are parent and subsidiary companies or are otherwise subject to common ownership or control; or
3. the articles of foreign manufacture bear a recorded trademark applied under authorization of the U.S. owner.

Under the new regulation, Customs will not restrict genuine imports bearing a trademark if the foreign and domestic trademark owners are the same, closely related, or the U.S. trademark owner consented to the application of its trademark to the imported goods.

Opponents of grey market goods contend that Customs' interpretation of section 526(a) is unreasonable because it permits grey market importers to exploit a trademark holder's goodwill. The argument amounts to a theory of geographic territoriality of trademark rights not previously recognized by the courts. It asserts that the continued introduction of diverted goods will destroy the essence of the trademark and the property value it represents by permitting third parties not contributing to the products' goodwill to obtain a free ride. Plaintiffs seek to block middlemen from buying the diverted merchandise cheaply in Europe, the Far East, or elsewhere, and then importing the goods into this country, underselling the "authorized" dealers by as much as forty percent.

Osawa & Co. v. B & H Photo raises doubt about the validity of Customs' current policy under section 526(a), but the Osawa court specifically declined to decide whether Customs had exceeded its authority. Osawa was not appealed and thus, lacks precedential value.

In Bell & Howell: Mamiya Co. v. Masel Supply Co. the Second Circuit reversed a preliminary injunction on the grounds that legitimate goods of the foreign manufacturer did not confuse consumers as to their source. The court specifically held with respect to cam-

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28 Id.
29 Id.
30 19 C.F.R. § 133.21(c) (1986) (emphasis added).
32 Id. at 1177.
33 719 F.2d 42 (2d Cir. 1983).
34 See id. at 45-46.
eras that

there would appear to be little confusion, if any, as to the origin of
the goods and no significant likelihood of damage to BHMC's reputa-
tion since thus far it has not been shown that Masel's [the competitive
importer's] goods, which have a common origin of manufacture
with BHMC's goods, are inferior to those sold by BHMC and are
injuring BHMC's reputation.35

The court found an analogous situation in Parfums Stern, Inc. v.
United States Customs Service,36 suggesting that the plaintiff does not
lose anything to which it was entitled:

[T]he Plaintiff's international enterprise was paid and receives compensation
for the Oscar de la Renta products which are manufactured and pro-
duced by one of the Plaintiff's entities and . . . receives the royalties
due it. Therefore, there is no evasion of legal rights flowing either
to the manufacturer in the first instance or the person or entity enti-
tled to the royalties. What is occurring is that a complete circle has
brought some of the Plaintiff's products back to haunt it in the
United States.37

The Court recognized in Parfums Stern38 that competitive imports
benefit consumers. No court of appeals has held that section 526
bars the importation of genuine trademarked goods. District courts
have upheld the validity of the 1972 regulations.39

In Vivitar Corp. v. United States40 the International Court of Trade
upheld the validity of the Customs Regulations in an exhaustive and
compelling analysis of the legislative history of the Act and regula-
tions. That opinion, however, did little to clarify the existing state of
the law.41

In Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.42
the Ninth Circuit also considered the propriety of parallel imports
and recognized that some genuine goods created a likelihood of
public confusion about the trademark. The court, however, found

35 Id. at 46.
37 Id. at 419 (emphasis added).
38 Id. at 421. The court stated:

[T]here is adequate evidence that the public has the benefit of lower prices in
that those products . . . are usually less expensive than sold by Plaintiff
through its authorized distributors . . . . Therefore, it appears that the Court
would be doing the public a disservice by preventing the dissemination of
what appears . . . to be equally good, yet less expensive, legitimate Oscar de
la Renta fragrance products.

Id.

39 See Olympus, 627 F. Supp. at 911; United States v. 89 Bottles of "Eau de Joy," 797
F.2d 767 (9th Cir. 1986); Coalition to Preserve the Integrity of Am. Trademarks
1986).

41 Vivitar, 761 F.2d at 1552. The court did not examine or fully consider the thor-
ough analysis of the lower court.

42 707 F.2d 1054 (9th Cir. 1983).
no confusion was created since Daewoo’s shirts were not imitations of Monte Carlo products. Indeed, Daewoo shirts had been produced for Monte Carlo by Daewoo under a contract for future sale which was subsequently cancelled. Similarly, in *El Greco Leather Products Co. v. Shoe World, Inc.* the district court held that genuine shoes manufactured for plaintiff in Brazil under authority of plaintiff trademark owner (for orders which were then cancelled) was not infringing under either section 32 or section 43(a) of the Lanham Act. Also, in *DEP Corp. v. Interstate Cigar Co.* the court held that it was “anomalous” that a trademark infringement action would lie where the soap sold by the defendant parallel importer was in fact genuine and not “spurious.”

B. Section 1337

Section 1337 of the Tariff Act of 1930 provides for proceedings before the International Trade Commission (ITC) and prohibits unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States.

Section 1337, sometimes perceived as an “anti-dumping” statute, recently was invoked to prevent parallel imports in *Duracell, Inc. v. United States International Trade Commission.*

In *Duracell* a U.S. battery manufacturer attempted to prevent parallel imports purchased from a related company overseas. The case was uncommon because the overseas company was the subsidiary, and the U.S. company actually made the product in the United States. The U.S. trademark holder filed a complaint with the International Trade Commission, and three of the five commissioners voted to exclude the imports. President Reagan disapproved the decision on January 4, 1985, on both substantive and procedural

43 Id. at 1058.
44 Id.
46 Id. at 1384.
47 622 F.2d 621 (2d Cir. 1980).
48 Id. at 622 n.1.
50 Id. § 1337(a).
52 Id.
53 Id. at 824.
54 Id.
Despite the finality of Duracell, a toy manufacturer recently filed another grey market goods case under section 1337 in In re Matter of Certain “Cabbage Patch Kids” Dolls naming various sellers as respondents. The complainant brought ten separate federal lawsuits in six different states. Though the ITC complaint admits that the parallel imports are manufactured by a duly authorized licensee, it nevertheless cites section 1337 of the Tariff Act. This is, however, in conjunction with section 602(a) of the Copyright Act.

C. Foreign Jurisdiction Judicial Decisions

The Supreme Court of Canada faced the issue of parallel imports in Consumers Distributing Co. Ltd. v. Seiko Time Canada Ltd. The court held that Seiko could not prevent parallel imports of “grey market” watches, finding that neither the classic doctrine of “passing off” nor other claims of unfair competition were applicable to the sale of a package. The court reasoned that an extension of the doctrine to include these circumstances would result in monopoly situations, not unlike patent monopolies, because only authorized dealers would be able to offer the “complete package.” Furthermore, the court indicated that a different decision might unwisely...

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55 225 U.S.P.Q. at 862 (Jan. 4, 1985), appeal dismissed sub nom. Duracell, Inc. v. United States Int’l Trade Comm’n, 778 F.2d 1579 (Fed. Cir. 1985). The disapproval stated: The Commission’s interpretation of section 42 of the Lanham Act (15 U.S.C. § 1124), one of several grounds for the Commission’s determination, is at odds with the longstanding regulatory interpretation by the Department of Treasury . . . . Recent decisions of the U.S. District Court for the District of Columbia and the Court of International Trade explicitly uphold the Treasury Department’s interpretation. Allowing the Commission’s determination in this case to stand could be viewed as an alteration of that interpretation. I, therefore, have decided to disapprove the Commission’s determination. The Departments of Treasury and Commerce, on behalf of the Cabinet Council on Commerce and Trade, have solicited data from the public concerning the issue of parallel market importation and are reviewing responses with a view towards formulating a cohesive policy in this area. Failure to disapprove the Commission’s determination could be viewed as a change in the current policy prior to the completion of this process. Id.


60 Id.
recognize that marketers could control the sale of legitimately acquired property.  

II. Copyrights

U.S. copyright claims rest upon a different statutory standard than trademarks. Section 602(a) of the Copyright Act provides:

Infringing importation of copies or phono records: Importation into the United States, without the authority of the owner of the copyright under this title, of copies . . . of a work that has been acquired outside of the United States is an infringement of the exclusive right to distribute copies . . . under Section 106, actionable under Section 501.

A plain reading of the statute reveals that consent of the overseas owner of the copyright is sufficient "authority" to distribute. A copyright owner lacks an exclusive right to prohibit importation, however, because "exclusive right to distribute" is defined in section 106 of the Copyright Act only to include the rights

1. to reproduce the copyrighted work in copies . . . ;
2. to prepare derivative works based upon the copyrighted work;
3. to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending . . .

These sections should be read to permit any activity not described by section 106, such as parallel importation. This interpretation is consistent with various federal laws governing the subject.

Section 109 embodies the "first sale" doctrine, under which the owner loses control over a specific product once it is sold. Thus, though the subsequent owner cannot reproduce the product or distribute unauthorized copies, the new owner may dispose of it and use it in any manner not limited by section 106.

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61 Id. at 606. In Consumers Distributing the defendant lawfully acquired Seiko watches and sold them in Canada where the plaintiff was the only authorized distributor. Guarantees accompanied the Seiko watches sold by the defendant. The plaintiff, however, did not recognize those guarantees. Since the "product" included the guarantee and the Seiko watches, the plaintiff argued that defendant had attempted to pass off the watches and guarantees as products sold by plaintiff. The court rejected this argument because the defendants gave public notice that the guarantees were not made by plaintiff. According to the court, this notice alleviated any market confusion caused by plaintiff's sales. Therefore, the doctrine of passing off was held inapplicable. Id. at 602, 604.

63 Id. (emphasis added).
64 Id.
66 For example, § 109 of the Act states:
(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy of phonorecord lawfully made under this title, or any person authorized by such owner, is entitled without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.
(b) The privileges prescribed by subsection (a) do not (unless authorized by the copyright owner) extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan or otherwise, without acquiring ownership of it.

The International Trade Act of 1930, however, appears to limit parallel importation. This import prohibition, however, is focused on the narrow problem of possible fraud attendant in a bona fide sale of exclusive U.S. trademark rights to an independent U.S. company. The situation addressed by Congress in *Katzel* involved a foreign company which reneged on a transaction in which a domestic company had purchased exclusive U.S. rights; Congress in no way intended to limit parallel imports with this Act. As was held in *Vivitar*:

Congress adopted § 1526(a) to protect an American trademark owner, like the one in *Katzel*, who had purchased the trademark of an independent foreign company. Congress decided it was unfair to permit unauthorized imports of goods bearing the foreign company's trademark. These imports violated the rights of the American trademark owner purchased from the foreign company in an arms-length transaction. The sole purpose of § 1526(a) was to resolve this problem.

Section 1526(a) is inapplicable when the U.S. copyright owner has authorized production and first sale of the work abroad, earning a profit on the price set when the copyright owner introduced the goods into international commerce. Extending section 602 beyond *Katzel* allows international price discrimination, which disrupts the harmony between trademark, copyright, and antitrust law, discourages creative product development, and frustrates a fundamental purpose of the law. Congressional testimony on the precursor of section 602(a) reveals that Congress was aware of the issue.

As with trademarks, Congress intended that importation after first sale be no more an infringement of a copyright owner's rights than any other distribution after first sale of the copy.

There was no direct counterpart to section 602(a) in the copyright law prior to 1976. The House Report accompanying the Act explains that section 602 was designed to address two separate cate-

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69 Section 1526(a) provides:

> Except as provided in subsection (d) of this section, 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 owner of such trademark is produced at the time of making entry.

Id. § 1526(a) (emphasis added).
70 *Vivitar*, 593 F. Supp. at 434.
71 See STAFF OF SENATE COMM. ON THE JUDICIARY, 93RD CONG., 2D SESS., COPYRIGHT LAW REVISION PART 4: FURTHER DISCUSSION AND COMMENT ON PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW 190, 209 (Comm. Print 1974).
72 For a further explanation of congressional activity, see infra note 144 and accompanying text.
gories of importations: (a) importations of so-called unauthorized "piratical copies" and (b) unauthorized importations of copies that have been lawfully made. The House Report defines the second category as lawfully made copies whose "distribution would infringe the U.S. copyright owner's exclusive rights." This passage suggests that importation would be prohibited only when, under sections 106(3) and 109(a), the accompanying distribution would be infringing. The report does not state specifically that section 109 limits 602, though it seems that section 602 is limited by both sections 106 and 109.

In Cosmair, Inc. v. Jade Drug Co. fragrances were sold in the United States, then exported and later re-imported into the United States. While there had been a first sale in the United States clearly cognizable under section 602, the goods later were acquired outside the United States. The court found no reason to construe congressional intent to require that section 602 prohibits such imports. There is thus insufficient authority to support the claim that Congress intended to confer upon copyright owners a unique power to deny U.S. consumers access to genuine, authorized foreign merchandise.

The Lanham Act, the International Trade Act, section 1337, the Sherman Act, and other federal statutes should be construed in pari materia. Reading the trademark laws, copyright laws, and antitrust laws consistently, rather than in conflict, is important when analyzing a statute that has not received wide judicial interpretation. Section 602(a), which governs the "subject matter of Section 526, should be presumed in accord with the policy embodied in" that prior statute. Congress cannot be presumed to have undone the choice it made with respect to section 526.

Whether a company that expressly "authorizes" the sale of its goods abroad and releases them into world commerce can withdraw its consent at the U.S. border has been examined under copyright law. In Columbia Broadcasting System, Inc. v. Scorpio plaintiff alleged that an importer of records purchased from an overseas manufac-

77 Id. The court analyzed the relationship between §§ 109 and 602 of the Copyright Act and recognized the first sale doctrine as controlling. Id.
78 See, e.g., United States v. American Trucking Ass'n, 310 U.S. 344, 351 (1940); J.G. SUTHERLAND, STATUTORY CONSTRUCTION § 51.02 (4th ed. 1972) ("[A]bsent express repeal or amendment, . . . new provision[s] [are presumed] . . . in accord with the legislative policy embodied in . . . prior statutes . . . [T]hus, they all should be construed together.").
79 Dynamite Enter., 226 U.S.P.Q. at 344.
turer, who was authorized to sell exclusively in the Phillipines, violated section 602. The trial court, with little analysis of the competing interests and conflicting precedent, agreed, adopting a territoriality concept of distribution. The court concluded that interpreting sections 106 and 109 otherwise would meaninglessly deny plaintiff control over the domestic market. Scorpio conflicts with other parallel import cases recognizing the ‘‘first sale’’ doctrine. The court did not consider that Congress may not have meant to equate control over importation with the right to control distribution. The court failed to apply antitrust considerations of the free flow of international commerce balanced with the need for restriction to encourage creativity.

Scorpio cited Nintendo of America, Inc. v. Elcon Industries, Inc. in which the trial court granted a temporary restraining order and an injunction against the importer of an electronic game similar to “Donkey Kong.” Although the U.S. distributor was a wholly owned subsidiary of the foreign manufacturer, a foreign licensee of a similar game sold its product to a U.S. importer, raising an issue of confusion by “misrepresentation.” Because Nintendo rests on the more traditional type of infringement of competing products, rather than the same product, it is inappropriate authority for the grey market goods issue.

Copyright laws advance the public welfare by promoting creativity, while giving the public maximum access to the work. The financial reward guaranteed to the copyright holder is an incident of this general objective, rather than an end in itself. Once the author’s profit is exacted from the first sale of the work, the purpose of the law is satisfied. Free trade in copies sold in the marketplace thereafter should be encouraged. The Supreme Court has noted that the limited scope of the copyright holder’s statutory monopoly reflects a balance of competing claims upon the public interest: creativity is encouraged, but ultimately serves availability. The interest of the United States and the object of conferring a monopoly lies in the general benefits derived by the public.

In such circumstances continued control over the distribution of copies is not so

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81 See id. at 49. See also Weil Ceramics & Glass v. Dash, 618 F. Supp. 700 (D.N.J. 1985) (barring importation of genuine goods).
84 Id. at 938.
85 Id.
87 See Twentieth Century Music Corp. v. Aiken, 500 F.2d 127, 130 (3d Cir. 1974), aff’d, 422 U.S. 151 (1975).
89 See Mazer, 347 U.S. at 201; see also Twentieth Century Music, 422 U.S. at 151.
90 See Twentieth Century Music, 422 U.S. at 156.
much a supplement to the intangible copyright, but is rather primarily a device for controlling the disposition of the tangible personal property which embodies the copyrighted work. Therefore, at this point the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraint on alienation.91

The exclusive right of distribution supplements control of unauthorized copying. The copyright owner's protection against distribution of authorized copies is inapplicable where the copyright owner consents to the first sale. Granting a foreign manufacturer further rights unduly restricts the public's access to copyrighted work because the enterprise takes its profit from a "first sale" in exchange for creativity. The legitimate goal of the copyright statutes is achieved whether authorized copies are made in the United States or overseas. Hence, U.S. antitrust laws prohibiting restraints of trade apply with equal force to foreign and domestic goods.92 A restrictive interpretation of section 602 otherwise would enable copyright owners to carve up international markets, making the United States an island of high prices in a worldwide sea of competitive prices.

III. Conceptual Limits of Intellectual Property Rights

The "globalization" of the international economy blurs distinctions between import-competing companies, export-competing companies, and domestic companies. It is almost universally recognized that international competition is desirable and is best fostered in an arena of free trade.93 Grey market goods usually are imports of a foreign manufacturer with a U.S. marketing subsidiary. Domestic employment, industrial protection, and balance of trade arguments are irrelevant to the "grey market goods" issue because U.S. manufacturing and jobs are not ordinarily involved in parallel imports.

Section 602's protections should apply wherever the merchandise is manufactured. If national policy only recognized first sales made in the United States, a copyright owner would avoid the "first sale" doctrine and prevent importation by manufacturing the products overseas. It is not in the national interest to promote overseas manufacture of domestically sold goods.

A trademark, copyright, or patent licensee is suspect when it seeks to extend its rights beyond the promotion of the creativity needed for the initial sale of the product.94 Our economic system

93 See Calvani Recognizes Importance of Global Competition in Analyzing Antitrust Issues, 49 Antitrust & Trade Reg. Rep. (BNA) 888, 890 (1985) (international competition is desirable and should occur in an arena of free and fair trade and the International Trade Commission should not be a forum for harassment of competitors); Acting FTC Chairman Terry Calvani and President Reagan hold fast against protectionism, Time, Oct. 7, 1985, at 22.
94 There is little hard economic data suggesting that enforcing the antitrust laws in
favors unfettering the dynamic forces of commerce and technological change. Opponents of parallel imports fail to show that restraining trade is desirable or the least restrictive means to achieve innovation.

Tying restrictions are one of many examples of unjustified limitations. Tying sales serve no purpose beyond suppression of competition. Tying sales that attempt to extend market power from the copyright monopoly into other commerce are per se illegal. Because "[c]opyright laws confer no rights on copyright owners to fix prices among themselves or otherwise to violate the antitrust laws," the misuse of patents, trademarks, and copyrights can constitute an antitrust violation.

IV. Antitrust Violations

Worldwide division of markets is often illegal. These schemes are either horizontal, between competitors on the same level of distribution, or vertical, extending down or up the levels of distribution. Horizontal territorial limitations are restraints of trade with no purpose except to prevent competition, and are per se unlawful. Vertical restraints are prohibited in most circumstances.

A domestic manufacturer or distributor is not permitted to establish exclusive selling territories for authorized retail dealers un-
less a reasonable benefit to consumers justifies the restraint.\textsuperscript{102} Nor may a U.S. manufacturer of trademarked goods, seeking to establish a higher price in one part of the country than in another, institute trademark infringement actions to prevent sales by a dealer from the low-price market into a high-price market.\textsuperscript{103} An express division of markets among related corporate users of an internationally known trademark is scrutinized.\textsuperscript{104} That a market division was adopted to implement an international trademark licensing system is of no consequence, for a "trademark cannot be legally used as a device for a Sherman Act violation."\textsuperscript{105} The illegality is not removed by coupling it with intellectual property right restrictions. Similarly, a monopoly conferred on the use of a trademark or copyright may not be used to eliminate competition.\textsuperscript{106} In United States v. American Linen Supply Co.\textsuperscript{107} a patent holder prohibited its licensees from soliciting any customer who was being served by another licensee. Acknowledging that licenses could impose "reasonable restrictions" within the scope of the patent monopoly, the court ruled that restraints imposed for the benefit of the licensee, not the patentee, are measured by a standard of the antitrust laws, not the patent laws.\textsuperscript{108} While a licensor may, in some circumstances be permitted to impose a use restriction on the first sale, a number of courts have held that it cannot restrict the use on resale.\textsuperscript{109}

United States v. Guerlain, Inc.\textsuperscript{110} dealt most directly with the anticompetitive nature of prohibiting parallel imports. Guerlain concerned three consolidated antitrust actions brought by the United States under section 2 of the Sherman Antitrust Act.\textsuperscript{111} The defendants were accused of attempting to monopolize the importation into, and sale within, the United States of certain trademarked toilet.


\textsuperscript{105} Timken, 341 U.S. at 599.

\textsuperscript{106} See id. at 598.

\textsuperscript{107} 141 F. Supp. 105 (N.D. Ill. 1956).

\textsuperscript{108} See id. at 114.


\textsuperscript{111} Id. at 79.
goods. The court held that the defendants' exclusion of genuine goods imported by others who bought their goods from the defendants' French affiliates constituted a monopolistic violation of the Sherman Act. In *Guerlain* the domestic trademark-holding importer, which was closely related to the foreign manufacturer, attempted to monopolize the importation of the foreign manufacturer's goods into the United States. The case subsequently was dismissed based upon anticipated legislative action which never occurred. Thus, attempts to restrict sales unduly and to overextend intellectual property rights are subject to antitrust scrutiny.

"Authorized" dealers try to shut out "grey market goods" to maintain separation between markets, engage in geographic price discrimination, and exploit the demand in the U.S. market by obtaining higher profits than would be possible if there was open competition. The effect is to restrict supply and raise prices. Virtually all economic arguments for prohibiting parallel imports assume that it is wrong for "diverters" to undersell "authorized" dealers. The motive for prohibiting parallel imports, however, is to distinguish between those customers with strong demand who are charged more (U.S. citizens), and those considered to have a more elastic demand who are charged lower prices (everyone else), rather than to protect authorized dealers.

For example, assume one customer will pay thirty dollars, another twenty dollars, and a third ten dollars, for an item. If the manufacturer can discriminate, he will charge the highest amount each is willing to pay. If he cannot discriminate, he must determine a single profit maximizing price, twenty dollars. The higher price customer saves ten dollars at the expense of the manufacturer and the ten dollar purchaser who will no longer buy the product. Price discrimination does not exist without market power over the product, which does not exist without effective interbrand competition or collusive behavior. Price discrimination provides an opportunity for arbitrage: "diverters" buy in the low price territory and resell in the higher price territory. Foreign manufacturers then strive to prevent diversion.

Geographic price discrimination between national markets provides substantial economic rewards. If the government allows dis-

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112 Id.
113 Id. at 91.
114 Id. at 79.
115 See *Guerlain*, 357 U.S. at 915; see also COPIAT, 790 F.2d at 915 (citing H.R. 7234, 86th Cong., 1st Sess. (1959)).
crimation, marketing affiliates of foreign manufacturers accumulate monopoly profits. Firms interested in reducing inter-brand competition are induced to form foreign cartels to reap the collective rewards of discrimination.

Domination of mass merchandised consumer product lines by foreign manufacturers from the same country enhances the opportunities for cartels. *Zenith Radio Corp. v. Matsushita Electric Industrial Co.*, which has been pending for a decade and a half, charged most major Japanese television manufacturers with forming a cartel by agreeing to geographic price discrimination schemes and setting prices for the United States. The Third Circuit Court of Appeals reversed in part a trial court decision upholding the claim by two U.S. television manufacturers that defendants violated section 1 of the Sherman Act as well as the Wilson Tariff Act. The Supreme Court currently is considering whether there is more than sufficient evidence to exclude the possibility of independent action under the standard enunciated in *Monsanto v. Sprayright Service Corp.* The emphasis in *Zenith* is upon direct evidence of an actual conspiracy known as the Japanese Electronics Products Manufacturers Conspiracy. The case questioned whether a foreign government can permit retail price fixing schemes designed to operate in the United States.

Some opponents of grey market goods have found support in the U.S. Department of Justice Vertical Restraint Guidelines issued on January 23, 1986. These guidelines are criticized for being too lax on manufacturers and not reflecting trade regulation law. The guidelines focus upon manufacturer flexibility to the exclusion of retailer innovation and discourage intrabrand price competition. The U.S. Congress, among the most vehement critics of the guidelines, passed the Justice Department Appropriation Act of

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118 513 F. Supp. at 1120.
120 Zenith, 106 S. Ct. at 1362; see also Monsanto, 465 U.S. at 752 (the correct standard requires evidence that tends to exclude the possibility that the manufacturer and nonterminated distributors were acting independently).
121 Zenith, 513 F. Supp. at 1117. See also Improper Standard was Used to Revive Japanese TV Case, Supreme Court Rules, 50 Antitrust & Trade Reg. Rep. (BNA) 565 (1986).
122 Id.
124 House Judiciary Report, supra note 123 at 955.
125 See generally id. at 954-55.
a congressional resolution known as the Rudman/Metzembaum Bill in the Senate, and the Fish/Rodino Amendment in the House. This resolution specifically condemns the Vertical Restraint Guidelines as inaccurate expressions of federal antitrust law and congressional intent. While the subject is under debate, Congress will probably continue to support free and open competition for parallel imports. Moreover, even under the lax Justice Department guidelines, restraints prohibiting parallel imports are a substantial restraint of trade because they are likely to facilitate interbrand collusion or exclusion of rivals. The guidelines specifically note that suppliers may attempt to facilitate collusion among dealers if direct collusion among suppliers proves difficult and if the suppliers can share in the excess profits.

The primary or upstream market and the secondary or downstream market of parallel imports are the same when there is vertical integration of foreign manufacturers with U.S. marketing subsidiaries. This is the usual situation in the U.S. marketplace for mass merchandized consumer products; the “authorized” distributor is the marketing affiliate of the foreign producer. Antitrust laws are circumvented when the supplier-participants can agree outside the United States. The free rider claim is concomitantly inapplicable because the international enterprise reaps reward from all sales.

V. Product Control by Other Means

Agreements among foreign manufacturers and licensees restricting the transfer of products after first sales can achieve control over world markets. Privity of contract between the parties to a dispute may be an obstacle with such arrangements. The Uniform Commercial Code specifically provides that a purchaser, even one who has only voidable title to property, conveys good title and complete control over the product to a subsequent purchaser in the distribution chain. Contract restrictions also raise questions of the effect on U.S. markets and prices and the extraterritorial scope of U.S. antitrust laws governing cartels.

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128 See HOUSE JUDICIARY REPORT, supra note 123.

129 Vertical Restraint Guidelines, supra note 123 at 6; see also C. Collier, supra note 116.


In a transaction for noncounterfeit goods, where the buyer and seller each receive the consideration for which they bargained, the transaction is usually closed. Recently, however, aggressive sellers and purchasers have made allegations of civil and criminal fraud commonplace.\textsuperscript{132} In the wake of Sedima v. Imex Co.,\textsuperscript{133} RICO violation claims will be more prevalent.\textsuperscript{134} Despite the fact that diversion of goods is not unlawful, in one of several recent federal indictments an appellate court upheld a conviction where a purchaser had represented itself as a charitable organization.\textsuperscript{135} This case contradicts the longstanding decision in United States v. Boxer,\textsuperscript{136} in which defendants devised a scheme to "defraud" pharmaceutical manufacturers by falsely representing that the purchases were for subsequent resale to foreign hospitals.\textsuperscript{137} Potential criminal liability, even if distinguishable or remote, chills competition through "diversion." Congress must clarify its intent to encourage the open competition promoted by parallel imports.

Most remaining issues raised by opponents of the "grey market" appear designed to cloud rather than enlighten the debate. The issue of manufacturers’ warranties is an example. Most grey market goods are mass merchandised products which have the warranty of the distributor with conditions equal to or greater than the comparable manufacturer warranty. To date, New York is the only state that has enacted specific legislation governing the subject. The New York

\textsuperscript{133} 105 S. Ct. 3275 (1985) (court held that defendant in private action need not be previously convicted of a predicate act or a RICO violation and that a "racketeering injury" need not be established by plaintiff as opposed to an injury from predicated acts themselves).
\textsuperscript{135} See Weinstein, 762 F.2d at 1529.
\textsuperscript{137} Judge Ryan, dismissing the complaint, held:

[These] drug companies placed or attempted to place upon the merchandise they had sold these defendants for delivery and for use in a foreign country, restrictions upon what would happen or what should happen or could happen to these products or pharmaceuticals. . . . The antitrust laws provide that once you have sold merchandise to a purchaser you cannot further restrict the market in which that merchandise is sold or is to be sold . . . . [T]he complaint here is that the property which was intended to be used and sold in a foreign country was brought back into this country and marketed here in violation of what they claim was the agreement they had with these people, and that thereby these drug companies were defrauded and deprived of their property rights, and therefore the mails were used with intent to defraud and for the purpose of defrauding them, and that these defendants are guilty of a violation of the fraudulent use of the mail statutes. [T]he activities of the defendants, as charged by the indictment, with respect to the use of the drug products manufactured in the United States, do not and could not constitute a fraud . . . . The fraud charged in the indictment must fall when considered in the context of the antitrust laws of the United States.

\textit{Id.} at 863-65.
law provides for disclosure that there is no manufacturer's warranty unless a retailer, distributor, importer or other financially responsible person provides such a warranty. Congress easily could enact similar legislation.

One solution for foreign manufacturers who perceive "problems" from the "grey market" is to use different marks for overseas and domestic markets to designate intended separate markets. Foreign manufacturers alone control what marks they affix to their products. The benefits of "globalized" markets depend upon the efficient allocation of resources without geographic price discrimination by sellers. Particularly when U.S. citizens are intended victims, it is appropriate for Congress to reaffirm its intent to prevent price discrimination.

VI. Conclusion

Three decades ago Congressman Emmanuel Cellar introduced a bill in Congress to codify Guerlain, but it was never enacted. Whether to admit parallel imports is a political decision that rests upon considerations of international trade and competition in domestic markets. Though the Administration has held fast against protectionist trade barriers, protectionism is not an issue when "grey market goods" are manufactured overseas.

Foreign manufacturers, their wholly-owned U.S. marketing subsidiaries, and their high-margin "authorized" or "captive" retailers continue to suggest that the merchandise imported "without authority" is shoddy, illegitimate, or tainted. These claims are without merit. The evidence shows a scheme to charge U.S. consumers higher prices than are charged the rest of the world. Congress, however, has not provided for the total exclusion of parallel imports. The potential for harassment, "strike suits," and duplicating and conflicting judicial decisions in various jurisdictions underlines the need for Congress to reaffirm the statutory framework that permits parallel imports under all the laws of the United States.


139 See COPIAT, 790 F.2d at 915 (citing H.R. 7234, 86th Cong., 1st Sess. (1959)); see also supra note 115 and accompanying text. H.R. Res. No. 3776, 99th Cong., 1st Sess. 1 (1985), now pending, would "protect patent, trademark, and copyright owners" from importation of grey market goods. Id. at 1. It authorizes $1,000 damages for fraud by mark owners and $50,000 damages for trademark infringement. Id. at 30, 31. Opposition to the bill is anticipated because it appears to lump a process patent issue together with the parallel import issue.