Spring 1986

Grey Market Imports: In or Out - Vivitar v. United States

G. Kenneth Stephens Jr.

Follow this and additional works at: http://scholarship.law.unc.edu/ncilj
Part of the Commercial Law Commons, and the International Law Commons

Recommended Citation
Available at: http://scholarship.law.unc.edu/ncilj/vol11/iss2/12

This Note is brought to you for free and open access by Carolina Law Scholarship Repository. It has been accepted for inclusion in North Carolina Journal of International Law and Commercial Regulation by an authorized editor of Carolina Law Scholarship Repository. For more information, please contact law_repository@unc.edu.
Grey Market Imports: In or Out?—

Vivitar v. United States

A new Mercedes Benz for twenty-five percent less than sticker price?! Read the advertisements in any prominent newspaper. Newspapers are replete with ads for such items as Rolex watches, luxury automobiles, and cameras at prices often well below normal retail. Such products are termed grey market goods—goods imported and sold frequently at greatly discounted prices because the manufacturers' authorized distribution chain is bypassed.\(^1\) Acquiring grey market goods is simple. The most direct method is to take a vacation to Germany, purchase the new Mercedes directly from the manufacturer or a German dealer, and then ship the car to the United States. Of course, emission devices are required before the car is legal for U.S. highways. Considering the cost of the trip, the cost of shipping the car to the United States, and the costs of Americanizing the car, the purchaser often spends less than he would if he purchased the Mercedes from a U.S. dealer.

A second method employed to bypass the authorized distribution system, and the subject of this note, is to purchase the car from warehouses based in the United States that have employees in Germany who buy the cars there and ship them to the United States. The warehouse then Americanizes the cars and sells them to U.S. consumers. The consumer gets a Mercedes and avoids the higher prices charged by authorized Mercedes dealerships.

The victims of the importation of grey market goods are the domestic distributors. Grey market imports have embroiled the United States in an international trade war, with the consumer reaping the benefits. Currently, the war is extremely fierce due in large part to

---

\(^1\) See Riley, 'Gray Market' Fight Isn't Black and White, Nat'l L.J., Oct. 28, 1985, at 1, col. 3. Grey market goods should be distinguished from black market goods. While grey market goods bear the genuine trademark and are thus genuine goods, black market goods are counterfeits. 15 U.S.C. § 1124 (1982) provides in relevant part that "no article of imported merchandise which shall copy or simulate . . . a trademark registered in accordance with the provisions of this chapter . . . shall be admitted to entry." In addition, 19 U.S.C. § 1526(b) (1982) provides for the seizure of such counterfeit goods by Customs officials. But see A. Bourjois & Co. v. Katz, 275 F. 539, 540, 543 (2d Cir. 1921), rev'd, 260 U.S. 689 (1923) (refusing to authorize the exclusion of imports bearing a trademark that accurately described the manufacturing source for the goods because "copy or simulate" refers to infringements, not genuine goods); Fred Gretsch Mfg. Co. v. Schoenig, 238 F. 780, 782 (2d Cir. 1916) (similar).
the high value of the dollar abroad. Some estimates place the value of grey market goods sold in the United States at $10 billion annually.

The potential for a grey market problem arises when a U.S. trademark owner authorizes foreign companies to apply the trademark to goods manufactured abroad. Often the foreign companies are authorized to market the trademarked goods within specified countries or, at a minimum, outside the United States. So long as the price of the goods in the United States is comparable to the price of the goods abroad, there is no incentive for grey market importation. When the price of the goods in the United States is substantially higher than the price abroad, which is often the case, grey marketers purchase the goods abroad, import and sell them to distributors, and thereby bypass the trademark owner's authorized chain of distribution. As the war rages, another battle front is the courtroom, where the question is whether the grey market is legal and whether it should be.

The view espoused by critics of the grey market is generally that grey marketers "free ride" illegally on trademark owners' investments in advertising, customer service, and development of recognizable and respected brand names. The grey marketers, on the other hand, contend their actions do nothing more than promote healthy intrabrand competition, thereby benefitting the competitive system and ultimately the consumer.

These conflicting arguments were presented to the Court of Appeals for the Federal Circuit in Vivitar Corp. v. United States. The owner of the "Vivitar" trademark initially filed an action in the Court of International Trade seeking a declaratory judgment that the Cus-

---

2 Riley, supra note 1, at 1, col. 3.
3 See id. at 1, col. 4. "[I]t may account this year for as many as 65,000 luxury cars, one out of every three cameras sold in this country and up to 20 percent of the sales volume of such nationwide discounters as K-Mart Corp." Id.
5 Varying market conditions, such as low labor costs abroad as compared to those in the United States, can result in a higher price for goods in the United States than that charged abroad.
6 See Vivitar, 761 F.2d at 1555.
7 Id.
8 Vivitar sought a declaratory judgment before the Court of International Trade based on 19 U.S.C. § 1526(a) (1982), which provides in relevant part:

The remaining sections of 19 U.S.C. § 1526 deal with: (b) seizure and forfeiture of the goods; (c) private remedies of trademark owners against persons dealing in wrongfully
Customs Service be required to exclude from entry all imports bearing the “Vivitar” trademark that entered without the written consent of the owner. Vivitar licensed foreign manufacturers to apply its trademark to specified photographic equipment. Vivitar’s wholly owned subsidiaries market these goods abroad but are not licensed to market or import the goods into the United States. Both parties agreed that parties unrelated to Vivitar imported goods manufactured abroad without the written consent of Vivitar.

The Customs Service, however, interprets 19 U.S.C. § 1526(a) pursuant to its regulations to deny trademark owners the right to demand exclusion of trademarked goods when the goods have been manufactured under the authorization of the trademark owner. Such interpretation unquestionably narrows the explicit scope of the statute. Due to the apparent conflict between section 1526(a) and the Customs Service regulations, the Court of International Trade determined the issue to turn on the proper construction of section 1526(a).

The Court of International Trade concluded Vivitar’s reading of section 1526(a) would result in a foreign manufacturer gaining competitive advantage over a U.S. manufacturer when both produced goods marketed worldwide. Because section 1526(a) explicitly applies to goods manufactured abroad, "the American manufacturer would not be able to employ § 1526(a) to restrict unauthorized imports of its goods sold by its overseas distributors." The court determined that Congress could not have intended such a result.

---

9 Vivitar, 593 F. Supp. at 422.
10 Id.
11 Id. at 423.
12 19 C.F.R. § 133.21 (1985) provides in relevant part:
   (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 and 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.
13 See Vivitar, 593 F. Supp. at 423.
14 Id. at 434.
15 See supra note 8.
16 Vivitar, 593 F. Supp. at 434. The advantage of the foreign manufacturer is easily achieved through the formation of a U.S. subsidiary that receives the trademark rights from the foreign parent. The U.S. division is then able to assert § 1526(a) and thus restrict unauthorized imports. See id.
17 Indeed, the court noted that in passing the Tariff Act of 1922, Pub. L. No. 67-318,
and accordingly held that regulations followed by the Customs Service were reasonable.\textsuperscript{18}

On appeal to the Federal Circuit,\textsuperscript{19} Vivitar renewed its challenge to the regulations employed by the Customs Service. Vivitar attempted to justify its authorized dealers' higher costs by explaining the expenses incurred in warranty services, advertising, and promotional activities.\textsuperscript{20} In addition, Vivitar alleged that discount houses, as grey market distributors, obtained a "free ride" from the costs of establishing customer loyalty and satisfaction, and that such under-mining of Vivitar's system would ultimately destroy the reputation and value of the Vivitar trademark.\textsuperscript{21} In short, Vivitar's position was that the Customs Service regulations were patently less protective of the interests of a U.S. trademark owner than the literal language of section 1526(a). Vivitar urged that the dispute be reconciled in favor of the statute and the regulations accordingly invalidated.\textsuperscript{22}

The court maneuvered deftly and skirted the issue of the validity of the regulations. After an exhaustive examination of the legislative history of section 1526(a), the Federal Circuit refused to allow the limitations in the regulations to be applied to section 1526.\textsuperscript{23} Though the Customs regulations would not limit the scope of section 1526, the court nonetheless did not invalidate the regulations but instead delineated their purpose.\textsuperscript{24}

The ruling required Vivitar to seek judicial remedies\textsuperscript{25} against grey marketers, and if successful, Vivitar was entitled to have the

\textsuperscript{18} The court relied heavily on the legislative history of § 1526 and thus refused to expand the reading of § 1526(a), stating that Congress apparently believed that trademark owners were protected by common law and the statutory law of unfair competition. \textit{Id.} at 433-36. \textit{See also infra} notes 31-32 and accompanying text.

In partially limiting protection against goods bearing genuine marks, Customs implements its belief in congressional intent to protect U.S. businesses against fraud by foreign assignors of trademarks. \textit{Atwood, Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs, 59 Trade-Mark Rep. 301, 305-06 (1969).} "Clearly if the American registered mark is owned or controlled by a foreign firm or an American firm under foreign ownership or control, that intent is not being carried out. That is why the Bureau does not interpret 1526(a) literally." \textit{Id.} at 306.

\textsuperscript{19} 761 F.2d at 1560-61, 1568-69.

\textsuperscript{20} \textit{Id.} at 1556.

\textsuperscript{21} \textit{Id.}

\textsuperscript{22} \textit{See id.} at 1556-57, 1561.

\textsuperscript{23} \textit{See id.} at 1569. The Customs regulations are without the authority to "affect the actual scope of a trademark owner's rights" under the statute. \textit{Id.}

\textsuperscript{24} The "regulations do no more than define Customs' role in initiating administrative enforcement of the statute." \textit{Id.} According to the court, because the regulations simply define Customs' role, "the regulations are not contrary to the statute in the sense that goods are being routinely excluded which should be admitted or vice versa" as Vivitar alleged. \textit{Id.} (emphasis in original).

\textsuperscript{25} \textit{See id.} at 1570. 19 U.S.C. § 1526(c) (1982) provides trademark owners with injunctive and damages remedies against persons dealing in merchandise described in § 1526(a).
goods excluded by Customs. Thus, except in circumstances of a clear violation of section 1526, Customs may refuse to exclude the imports until adjudication by the district courts under the private remedies provision of section 1526(c).

The Federal Circuit and the Court of International Trade, as noted, examined the legislative history in an attempt to determine congressional intent regarding the breadth of section 1526. Section 1526(a) was enacted in response to the decision of the Court of Appeals for the Second Circuit in *A. Bourjois and Co. v. Katzel*. In *Katzel* a French company manufactured face powder in France and sold it in the United States under its trademark "Java." The French company sold its entire U.S. operation and trademark to the plaintiff Bourjois. The defendant Katzel bought the powder directly from the manufacturer and sold it in the original French packaging. Bourjois brought suit claiming that Katzel's use of the "Java" trademark violated Bourjois' trademark rights.

Congressional disfavor was such that section 1526(a) was enacted for the explicit purpose of overruling *Katzel*. The legislative history, though sparse, notes clearly that the importation of merchandise bearing the same trademark as merchandise in the United States is unlawful without the consent of the owner of the U.S. trade-

---

26 Vivitar, 761 F.2d at 1570. The court noted it was unaware of any instance in which Customs refused to exclude imports after a judicial determination that exclusion was proper. See id. at 1569.

27 See id. at 1570. See also supra note 25.

28 275 F. 539 (2d Cir. 1921), rev'd, 260 U.S. 689 (1923). Suit was brought under 19 U.S.C. § 1526. See supra note 8 for the text of this provision.

29 260 U.S. at 690. The *Katzel* court did not address the issue of blocking importation, confining its discussion to trademark infringement. The question of exclusion under current 15 U.S.C. § 1124 was raised, however, in *A. Bourjois & Co. v. Aldrige*, 263 U.S. 675 (1923) (per curiam). Under facts closely paralleling those in *Katzel*, Bourjois sought relief against the Customs Service and the importer. The Supreme Court, on certification from the Second Circuit, followed *Katzel* and found infringement with respect to the genuine goods. In addition, the Court interpreted § 1124 to require Customs to exclude the infringing goods from entry. See id. at 689.

30 "There is no exclusive right to the use of a name or symbol or emblematic device except to denote the authenticity of the article with which it has become identified by association." 275 F. at 541 (quoting *Appollinaris and Co. v. Scherer*, 27 F. 18, 20 (S.D.N.Y. 1886)).

Underlying *Katzel* and other decisions is the "universality" principle. Under this doctrine, U.S. trademark owners holding contracts for the exclusive right to import are powerless against others who purchase goods genuinely marked abroad and imported to the United States for sale. See Fred Gretsch Mfg. Co. v. Schoening, 238 F. 780 (2d Cir. 1916); *Appollinaris Co. v. Scherer*, 27 F. 18 (S.D.N.Y. 1886). The universality principle provides that if a trademark is lawfully affixed to merchandise in one country, the merchandise carries the mark lawfully wherever the good goes, and cannot be deemed to infringe although transported to another country where the exclusive right to the mark is held by someone other than the owner of the merchandise. See Derenberg, *Territorial Scope and Situs of Trademarks and Goodwill*, 47 VA. L. REV. 733, 744 (1961).
The sponsors of section 1526 made clear that the purpose of the bill was to reverse *Katzel* and thus protect a U.S. trademark owner who had purchased the right to use the trademark in the United States from an independent foreign company.\(^3\)

Subsequent to the enactment of section 1526, the United States Supreme Court decided *Katzel*\(^3\) and accordingly reversed the Second Circuit. Though Katzel rightfully owned the face powder he purchased, the Court held that "[o]wnership of the goods does not carry the right to sell them . . . at all in a given place."\(^3\) The Court emphasized that the consuming public contemplates the goods as originating with plaintiff though not manufactured by it. Thus, the goods "could only be sold with the goodwill of the business that the plaintiff bought."\(^3\) According to the Court, because the face powder did not emanate from the plaintiff as contemplated by the public, Katzel's sales of the trademarked face powder infringed Bourjois' rights.

The Supreme Court decision in *Katzel* arguably made the passage of section 1526 unnecessary.\(^3\) The Court of Appeals for the Second Circuit addressed the need for section 1526(a) as well as its breadth in *Sturges v. Clark D. Pease, Inc.*\(^3\) The plaintiff in *Sturges* sought to import for personal use\(^3\) a used car bearing the trademark "H-S." The U.S. trademark owner, Pease, refused to allow entry of the car. The court stated that the object of section 1526 "is to protect the owner of a foreign trade-mark from competition in respect to goods bearing the mark."\(^3\) Holding that the importation of the car infringed Pease's trademark, the court denied entry. The trademark owner's rights under section 1526(a) included the right to control

\(^{31}\) The Conference Report provides:

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 U.S., 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.

*H.R. REP. NO. 1223, 67th Cong., 2d Sess. 158 (1922).*

\(^{32}\) See 62 CONG. REC. 11,604-05 (1922). Senator Sutherland, a proponent of the bill, noted that § 1526(a) does nothing more than prevent the defrauding of U.S. citizens who have purchased trademarks from foreign businesses that violate the property rights of the purchasers of the trademarks by shipping over to the United States goods under those identical trademarks. *See id.* at 11,603.

\(^{33}\) 260 U.S. 689 (1923).

\(^{34}\) *Id.* at 692.

\(^{35}\) *Id.*

\(^{36}\) *See L'vistar*, 761 F.2d at 1565.

\(^{37}\) 48 F.2d 1035 (2d Cir. 1931).

\(^{38}\) *See id.* at 1036. Under the current version of § 1526, this case would likely be disposed of under § 1526(d)(1), which excepts from § 1526(a) and 15 U.S.C. § 1124, imported goods that accompany a "person arriving in the U.S. when such articles are for his personal use and not for sale."

\(^{39}\) *Sturges*, 48 F.2d at 1037. Judge Augustus Hand stated that allowing the importation of a car even for personal use might cause Pease to lose customers. *Id.*
imports of all goods bearing the trademark to which it owned U.S. rights. The court reasoned that the relationship of the U.S. markholder and the foreign manufacturer was of no relevance.\textsuperscript{40}

The Sturges decision was cited in \textit{Osawa and Co. v. B \\& H Photo}\textsuperscript{41} as authority for the territoriality principle, which provides that a trademark's proper legal function is not necessarily to specify the origin or manufacture

but rather to symbolize the domestic goodwill of the domestic markholder so that the consuming public may rely with an expectation of consistency on the domestic reputation earned for the mark by its owner and the owner of the mark may be confident that his goodwill and reputation will not be injured through use of the mark by others in domestic commerce.\textsuperscript{42}

Grounding its decision on the principle of territoriality, the court rejected the once-accepted principle of universality.\textsuperscript{43} The basis of the territoriality principle is the significance of the separate goodwill established by the trademark owner in each country of distribution.\textsuperscript{44} The court reasoned that the reputation attached to the trademark of a conscientious domestic distributor could be injured seriously if grey marketers were free to import and sell the merchandise under its trademark.\textsuperscript{45}

The dispute in \textit{Osawa} involved the "Mamiya" trademark, owned by the foreign manufacturer of Mamiya cameras. Plaintiff, a domestic company, owned the exclusive rights to the Mamiya mark in the United States as well as the exclusive distribution rights of Mamiya cameras in the United States. The action arose when defendant imported Mamiya cameras into the United States, thereby bypassing plaintiff's distribution network.\textsuperscript{46} The court enjoined others from independently importing and dealing in goods of the same manufac-

\textsuperscript{40} \textit{Id.}

\textsuperscript{41} 589 F. Supp. 1163 (S.D.N.Y. 1984). Osawa focused on the right of a trademark owner to enjoin the importation of goods bearing infringing trademarks under § 1124.

\textsuperscript{42} \textit{Id.} at 1171-72. The principle of territoriality established "that two marks, even if visually identical, regardless of who owns them, have independent legal existence based upon the fact that they are created by different legal sovereigns." Certain Alkaline Batteries, 225 U.S.P.Q. (BNA) 823, 849 (Int'l Trade Comm'n 1984) (views of Chairwoman Stern and Comm'r Rohr), disapproved by President Reagan pursuant to 19 U.S.C. § 1337(a) (1982), 50 Fed. Reg. 1655, reprinted in 225 U.S.P.Q. (BNA) 862, appeal dismissed sub nom. Duracell, Inc. v. United States Int'l Trade Comm'n, 778 F.2d 1578 (Fed. Cir. 1985) [hereinafter cited as Duracell].

\textsuperscript{43} Osawa, 589 F. Supp. at 1171-74.

\textsuperscript{44} See id. at 1173.

\textsuperscript{45} See id.

\textsuperscript{46} See id. at 1165. In Bell \\& Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063 (E.D.N.Y. 1982), \textit{vacated and remanded}, 719 F.2d 42 (2d Cir. 1983), the plaintiff initially sought an injunction against importers and dealers of goods allegedly infringing plaintiff's exclusive trademark rights. The lower court granted plaintiff a preliminary injunction after a finding of trademark infringement and a likelihood of confusion. \textit{See id.} at 1079. The Court of Appeals for the Second Circuit vacated the injunction because plaintiff showed insufficient evidence of a likelihood of irreparable harm. \textit{See id.;} 719 F.2d at 45-46.
turer. Plaintiff had shown the requisite irreparable harm by the inherent customer confusion and deception\(^{47}\) that occurred when consumers purchased a grey market camera not covered by plaintiff's warranties, and the camera subsequently malfunctioned.\(^{48}\) Thus, based on plaintiff's development of substantial goodwill emanating from the goods themselves by such activities as its warranty service and advertising, the plaintiff was entitled to a preliminary injunction.\(^{49}\)

The principle of territoriality in \textit{Osawa} was the basis for the determination of the United States International Trade Commission (the Commission) in \textit{Certain Alkaline Batteries (Duracell)}\(^{50}\). Duracell was a manufacturer of alkaline batteries in the United States. The corporation owning Duracell also wholly-owned a subsidiary in Belgium. Duracell Belgium was authorized to manufacture batteries in Belgium but prohibited from selling the batteries in the United States.\(^{51}\) U.S. retailers soon discovered that they could purchase Belgian Duracells at approximately one-half the price of domestic Duracells, while selling the batteries at the same retail price.\(^{52}\) Duracell based its complaint on section 1337,\(^{53}\) which declares unfair methods of competition and unfair importation of goods to be unlawful when such acts have the effect or tendency of substantially injuring a domestic industry. The issue before the Commission was whether there was a section 1337 violation when "merchandise produced by a foreign company affiliated with the U.S. complainant and bearing" an identical trademark to the U.S. trademark was imported and sold without the consent of the complainant.\(^{54}\)

The Commission characterized the above fact situation as the grey marketers "reaping where they have not sown."\(^{55}\) Underselling


(1) Any person who shall, without the consent of the registrant—
(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive...

shall be liable in a civil action . . .

\(^{48}\) See \textit{Osawa}, 589 F. Supp. at 1167. The purchaser contacted plaintiff, who finds itself in a predicament. Refusing to perform the warranty service on the grey market camera would result in a dissatisfied customer, damaging the Mamiya reputation and thereby decreasing the value of the Mamiya trademark. Performing the warranty services, on the other hand, imposes undeserved expenses on plaintiff because it received no revenue from the initial sale of the grey market camera. See supra text accompanying note 42.

\(^{49}\) See \textit{Osawa}, 589 F. Supp. at 1174.

\(^{50}\) 225 U.S.P.Q. at 823.

\(^{51}\) See id. at 825.

\(^{52}\) See id. at 826.


\(^{54}\) \textit{Duracell}, 225 U.S.P.Q. at 826.

\(^{55}\) Id. at 831.
Duracell at the wholesale level deprived Duracell USA of its profits, which represent nothing more than the benefits of costly established goodwill. The only manner in which goodwill and profits could be appropriated wrongly is for the consumer to be deceived into thinking that he is getting what he actually bargained for. The importer argued that there was no possibility of consumer confusion because the batteries were "genuine." The Commission, in a novel approach, determined that even though the foreign-made batteries were genuine, upon importation and sale in the United States, the batteries became copies promoting consumer confusion in violation of 15 U.S.C. § 1114. The consumer is not confused with regard to the genuineness of the battery but as to the consumer's "reasonable expectation" regarding the production, distribution, and warranty of the batteries. Thus, the Commission determined that exclusion of the Belgian Duracell batteries was warranted. Section 1337, however, allows the President sixty days within which to approve or disapprove the Commission's order of exclusion. President Reagan subsequently overturned the order granted in favor of Duracell.

In overturning the exclusion order in Duracell, the President cited the recent case of Coalition to Preserve the Integrity of American Trademarks v. United States. Plaintiffs brought an action for declaratory and injunctive relief alleging that the Customs regulations were inconsistent with 19 U.S.C. § 1526. The court held the regulations valid on the basis of the legislative history of section 1526 and

---

56 See id. Duracell established goodwill through extensive advertising and its long-standing reputation for producing quality batteries. The Commission stated that the "function of the trademark law is to protect a trademark owner's investment in goodwill because it is considered unfair to allow one to appropriate goodwill and profits which a competitor has built up by quality and advertising in a trade symbol." Id. at 829.

57 See id. at 833-34. But see id. at 851 (views of Chairwoman Stern and Comm'r Rohr that logically a thing cannot copy itself).

58 See supra note 47. See also El Greco Leather Prods. Co. v. Shoe World Inc., 599 F. Supp. 1380, 1390 (E.D.N.Y. 1984) (Lanham Act requires a "showing of likelihood of confusion, that is, whether an appreciable number of purchasers is likely to be misled as to the source or sponsorship of defendant's products"). Id.

59 See Duracell, 225 U.S.P.Q. at 834. The Commission distinguished Monte Carlo Shirt, Inc. v. Daewoo Int'l (Am.) Corp., 707 F.2d 1054, 1056-58 (9th Cir. 1983), in which the court found no infringement when the buyers got precisely what they bargained for. The Commission determined that the purchasers of Belgium Duracell batteries were not getting what they bargained for because there was no warranty coverage by Duracell USA, as purchaser unquestionably assumed. See Duracell, 225 U.S.P.Q. at 834-35.

60 The Commission refused to consider the relationship between Duracell USA and Duracell Belgium, noting that § 1337 requires only injury to a domestic industry. See Duracell, 225 U.S.P.Q. at 838. But cf. 19 C.F.R. § 133.21(c)(1)-(c)(2) (1985) (denying exclusion of grey market imports where the foreign and U.S. trademark holder are commonly owned). See supra note 12 for text of regulations.


the consistent application and interpretation of the regulations by the Customs Service.\textsuperscript{64} The \textit{Katzel} decision was distinguished by the fact that the \textit{Coalition} dispute did not involve the scenario in which the same party owning trademark rights in the United States and abroad authorized the application of the trademark on foreign-made goods and then sought to enjoin the importation of those original goods.\textsuperscript{65}

In addition to upholding the validity of the Customs regulations, the court held that absent a \textit{Katzel} situation—in which a foreign manufacturer sells exclusive trademark rights in the U.S. and then establishes another distributor to compete with the U.S. markholder—15 U.S.C. § 1124 applies only to "merchandise bearing counterfeit or spurious trademarks that 'copy or simulate' genuine trademarks."\textsuperscript{66} Thus, "genuine" goods manufactured under the authorization of the U.S. markholder will not be considered infringing and entry into the United States will be allowed.

Closely related to \textit{Coalition} is the decision in \textit{Parfums Stern, Inc. v. United States Customs Service.}\textsuperscript{67} The court in \textit{Parfums} found that plaintiff, the owner of a U.S. trademark for Oscar de la Renta perfume, was the backbone in what appeared "to be a single international enterprise operating through an amoeba-like structure" to distribute the perfume worldwide.\textsuperscript{68} In fact, some of the enterprise's foreign distributors apparently sold products to other entities for import into the United States.\textsuperscript{69} Though plaintiff had established goodwill in its business, the court denied relief because the plaintiff was seeking protection for actions it caused through its own foreign manufacturing and distribution sources.\textsuperscript{70}

Though the court allowed importation of the grey market perfume in \textit{Parfums}, the same court granted a permanent injunction against the grey market importation in \textit{Selchow & Righter Co. v. Goldex Corp.}\textsuperscript{71} Selchow & Righter, the exclusive licensee of Trivial Pursuit throughout the United States, had the right to exclude from importation the genuine goods originating from the foreign licensor.\textsuperscript{72} The court found \textit{Katzel} controlling and stated expressly that \textit{Katzel} had no application to the \textit{Parfums} situation.\textsuperscript{73}

Subsequent to the Federal Circuit's decision in \textit{Vivitar, Weil Ce-
ramics and Glass, Inc. v. Dash was decided.\textsuperscript{74} Weil imported and distributed fine giftware. In 1966 Weil was granted the exclusive U.S. use of the “Lladro” trademark by the Spanish manufacturer of the giftware. Plaintiff’s complaint concerned defendant's distribution and sale of goods bearing the “Lladro” trademark in the United States without Weil's permission. The court cited \textit{Katzel} and dismissed defendant's argument that “genuine” goods cannot cause consumer confusion.\textsuperscript{75}

The court in \textit{Weil} cited with approval the \textit{Vivitar} decision concerning the Customs regulation. In dictum the court stated that because Lladro and Weil are subject to common ownership, due to Customs regulations, genuine Lladro goods would not be subject to exclusion regardless of whether Weil had a case for trademark infringement.\textsuperscript{76} The \textit{Weil} court, just as the \textit{Vivitar} court, concluded that the aggrieved distributor had available a private remedy under section 1526(c) whereby the trademark owner could seek to have a judicial determination of infringement and to have the goods excluded.

Though section 1526(c) creates a private remedy against unauthorized importers and distributors, the adequacy of such remedy may be questioned. Essentially, the U.S. trademark holder is forced either to sue the distributors of the grey market merchandise, resulting in nothing more than treating the symptoms of the problem, or police the borders in hopes of discovering the importer (the supplier). The impossibility of preventing the entry of grey market goods without the aid of Customs is readily apparent.

The court in \textit{Vivitar} noted, however, that the Customs regulations may not affect the actual scope of the trademark owner’s rights.\textsuperscript{77} In addition, “[t]he regulations do no more than define Customs’ role in initiating administrative enforcement of the statute,”\textsuperscript{78} the sole effective remedy. The court provided Customs with the option to refuse exclusion except in the most egregious situations.\textsuperscript{79} As a practical matter, therefore, though the regulations are not expressly the limits of section 1526(a), Customs may continue to treat them as such by refusing to exclude goods subject to the exception in the regulations, basing that decision on the language in \textit{Vivitar} that “protection under the statute is unclear or depends upon resolution

\textsuperscript{74} 618 F. Supp. 700 (D.N.J. 1985).
\textsuperscript{75} See id. at 704-06. Weil sued for trademark infringement. The court concluded that for Weil to maintain an action for infringement, it had to show separate, factually distinct U.S. goodwill in the trademarked products, \textit{id.} at 711, and the defendant’s goods were likely to confuse the consuming public. \textit{id.} at 713.
\textsuperscript{76} See \textit{id.} at 747.
\textsuperscript{77} See \textit{Vivitar}, 761 F.2d at 1569.
\textsuperscript{78} \textit{Id.}
\textsuperscript{79} \textit{Id.} at 1570.
of complex factual situations."\(^{80}\)

Although section 1526(a) was enacted in response to Katzel, that section does not apply solely to the narrowest version of Katzel-type facts.\(^{81}\) Because the regulations narrow the scope of section 1526(a), the court in Osawa questioned, albeit in dicta, whether Customs exceeded its authority.\(^{82}\) The court noted that section 1526(a) "broadly and unqualifiedly" declares unlawful any goods of foreign manufacture bearing a trademark owned by a U.S. citizen or business.\(^{83}\) The U.S. trademark owner's relationship with a foreign trademark holder was conspicuously absent.\(^{84}\)

The district court in Vivitar stated that applying section 1526(a) when a foreign importer is related to the U.S. trademark owner could lead to a competitive advantage of a foreign manufacturer over a U.S. manufacturer.\(^{85}\) Because section 1526(a) applies to goods manufactured abroad, the foreign manufacturer could form a U.S. subsidiary to which all the U.S. trademark rights could be transferred.\(^{86}\) The U.S. subsidiary would then employ section 1526(a) to restrict unauthorized imports of the foreign manufacturer's goods. The competitive response by the domestic trademark owner would require moving its manufacturing operation abroad so it could likewise restrict the importation of its goods.\(^{87}\)

The court's reasoning was fallacious in one of two ways: either (1) it overlooked the fact that trademark rights preclude one from infringing another trademark thereby preventing the foreign manufacturer in the example from granting two U.S. trademark rights or (2) the court reasoned that somehow the domestic manufacturer would be harmed by having goods it exported to its foreign distributors reimported to the United States.\(^{88}\)

One problem suggested by the district court in Vivitar is the manner of applying the territoriality principle when goods are manufactured in the United States and abroad under identical trade-

---

\(^{80}\) Id.

\(^{81}\) See Osawa, 589 F. Supp. at 1175.

\(^{82}\) See id. at 1177. It should be noted that the court expressly stated that deciding the validity of the regulations was not necessary for the adjudication of the Osawa dispute. See id.

\(^{83}\) See id.

\(^{84}\) See id. The Osawa court reasoned that the regulations were promulgated as a result of antitrust concerns. Although antitrust problems could arise, ample remedies under the Sherman Act existed. See id. at 1178.

\(^{85}\) See Vivitar, 593 F. Supp. at 434. On appeal, the Second Circuit did not address this portion of the district court's opinion.

\(^{86}\) Id.

\(^{87}\) Id.

\(^{88}\) It is a sad state of affairs if a U.S. manufacturer could be undersold in the United States by its own foreign distributors. If that is the case, the United States deserves to be disadvantaged.
The territoriality principle provides that the legal function of a trademark is not necessarily to specify the origin of manufacture but rather to protect the goodwill established by a markholder. Ignoring the further problem of international goodwill, exclusion is likely warranted when the U.S. markholder has established separate goodwill in the product in the United States. In addition, a literal reading of section 1526(a) would provide for exclusion because the imported goods are of foreign manufacture. Because *Vivitar* did not apply section 1526(a) literally, however, the result is uncertain.

The public policy arguments concerning the entry or exclusion of grey market goods are well established and refined by the competing interests. The major policy reason for allowing the entry of grey market goods is the promotion of competition, ultimately benefitting the consumer with lower prices. The corollary to the competitive argument is that refusing entry to grey market goods encourages the U.S. trademark holder to engage in monopolistic price discrimination. Price discrimination would be possible only, however, in instances when the trademark holder had no domestic competitors. For example, Canon USA, the exclusive trademark holder of the “Canon” trademark, is not monopolizing the camera market because of the presence of Nikon, Kodak, and others. In addition, assuming monopolization is possible, there are significant antitrust statutes to attack a monopolistic condition.

A persuasive argument for allowing entry of grey market goods, though apparently never addressed by the courts, is the effect on U.S. industry and capital structure when the goods are denied entry. Assuming for example, the absence of the Customs regulations that allow entry to grey market goods where the foreign manufacturer and the U.S. markholder are related, a shoe company, “Flash,” sets up manufacturing operations in the Philippines. Flash Company transfers the exclusive U.S. use of the “Flash” trademark to a U.S. subsidiary. Flash Company pays the Filipino workers five dollars a day to make its shoes which sell for forty dollars in the United States. Flash is able to avoid higher domestic labor costs while taking advantage of higher shoe prices due in no small part to its trademark and the exclusion of any and all “Flash” shoes under section 1526(a). Thus, section 1526, which as noted was enacted in part to protect U.S. industry, is turned on its head, resulting in Flash having its cake and eating it too.

How is Flash able to charge forty dollars for a pair of shoes? Either Flash has a monopoly on sports shoes in the United States or

---

90 See supra text accompanying note 42.
91 See generally Duracell, supra note 42. The markholder could charge a higher price in the United States where he has more market power.
Flash has developed goodwill in its shoes (and therefore its trademark) through a quality product, extensive advertising, and/or other customer relations. Trademarks may be regarded by many consumers as guarantees of quality, thereby justifying a higher price on a trademark item. Granting entry to grey market goods arguably allows the grey marketer to benefit because of the goodwill established by the domestic trademark holder. The logical conclusion of this argument may be a decrease in investment in industries that rely on the reputation of their trademarks.

Considering that purchasers of grey market merchandise get the genuine goods, the quality of grey market goods should equal the quality of goods purchased through the markholder’s distribution network. In addition, grey market distributors maintain they advertise their products and establish goodwill in their businesses.

The problem of customer service arises following the sale of a grey market good. As the court noted in Osawa, the average consumer will not understand that his camera is not covered by a warranty of the authorized U.S. distributor, as is the case with grey market goods. The domestic markholder contends that this confusion created by the lack of warranties presents two alternatives, neither of which is attractive: (1) perform the warranty service on the grey market good to maintain goodwill in the trademark or (2) refuse to perform the services after an explanation to the consumer.

Though it is undeniable that domestic markholders have a strong argument regarding warranties, it is highly questionable whether this situation demands the drastic measure of exclusion. The domestic markholder deserves protection from action the effect of which infringes on costly established goodwill. On the other hand, the trademark should not allow the holder carte blanche to exploit consumers in a monopolistic fashion. The grey marketers could perform a valuable check on this system to ensure the consuming public is not gouged. An additional check is needed, however, to prevent the grey marketers from exploiting the efforts of the domestic markholder. Due to the persuasive competing arguments concerning exclusion, a compromise is needed falling between unencumbered entry and total exclusion.

One such compromise would require the outer wrapper of a grey market good to identify itself as such and expressly disclaim any connection to the domestic markholder. Such a disclaimer would have to be clear and unambiguous so that the average consumer would appreciate that the grey market good has no connection with the domestic markholder. Along with protecting the domestic

---

92 Note that 15 U.S.C. § 1124 bars entry to goods that copy or simulate.
markholder, consumers should realize that grey market goods should sell at prices well below that of the warrantied, legitimate goods.

Such consumer knowledge should prevent Duracell-type occurrences, in which the grey market batteries were sold at the same price as the warrantied batteries. Simply put, consumers foregoing the privilege of warrantied goods will expect something in return, namely a price offset. Whether such a compromise will remedy the grey market problem remains to be seen. A standardized scheme for Customs and the courts to follow is demanded. Congress should legislate regarding grey market imports before the courts are flooded with litigation and markholders and grey marketers have no inkling as to their rights and/or obligations.

—G. KENNETH STEPHENS, JR.