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NEC Electronics v. CAL Circuit Abco: Continued Support for the Universality of Trademarks

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NEC Electronics v. CAL Circuit Abco: Continued
Support for the Universality of Trademarks

The world's largest free market, the United States, is flooded with an amazing array of domestic and foreign goods. Because of this, the use of trademarks to identify and differentiate products has become a cornerstone of marketing in this country.1 But the exact nature and functions of trademarks as well as the protections afforded to owners are often blurry.2 Nowhere is this more true than with grey market goods which are "goods manufactured abroad [and later brought into the United States] bearing legitimate foreign trademarks that are identical to American trademarks."3

Domestic trademark owners of foreign-produced goods oppose grey market imports. They claim that purchasers of grey market goods may be deprived of necessary warranties and product liability protection.4 Consumers may also receive inferior quality goods such as instruction manuals written in a foreign language.5 In addition, domestic trademark owners feel compelled to service goods they did not sell to avoid hurting the trademark's reputation. Finally, trademark owners believe the marketer in grey goods free-rides on the sales and promotional efforts of the mark holder.6

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1 See generally J. MURPHY, BRANDING: A KEY MARKETING TOOL (1987).
5 Id. at 11. See, e.g., Original Appalachian Artworks, Inc. v. Granada Elecs. Inc., 816 F.2d 68, 73 (2d Cir. 1987).
6 Fitzpatrick & Brunet, supra note 4, at 11-12.
Parallel importers ins the United States. NEC-USA is a wholly owned subsidiary of NEC and is primarily controlled by that parent corporation. NEC-USA manufactures some integrated circuits for sale in the United States but roughly ninety percent are imported from its parent company's foreign manufacturing sites. NEC-USA has been assigned the trademark "NEC" in this country by the parent company but NEC-Japan continues to market its products outside the United States under this mark.

CAL Circuit Abco buys these NEC-marked chips at low prices in foreign markets and imports them into this country. Abco resells the chips as genuine NEC components at substantially higher domestic prices in direct competition with NEC-USA. The parts are identical to those sold by NEC-USA.

NEC-USA sued CAL Circuit Abco for trademark infringement

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7 The term "parallel importers" is a shorthand term used to encompass all parties involved in the chain of commerce ultimately resulting in the domestic sale of genuine imported trademarked goods by independent companies. The term includes buyers, importers, wholesalers and retailers of such goods, when the goods have not been obtained directly from "authorized" United States dealers. The purchase, importation and sale of such goods is said to be "parallel" to the channels "authorized" by the international trademark owners.

8 Granada Elecs., 816 F.2d at 72.

9 Fitzpatrick & Brunet, supra note 4, at 12.

10 NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506 (9th Cir. 1987) (appeal pending).

11 Id. at 1507-08.

12 Id.
under sections 32 and 43 of the Lanham Act\(^\text{13}\) alleging that consumers were purchasing Abco’s products in the belief that the company was connected with, controlled by, or authorized by NEC-USA. Evidence was presented and the trial court found that some customers mistakenly thought their purchases from Abco were protected by NEC-USA warranties and servicing policies. Because NEC-USA showed damage to its reputation due to this confusion, the district court granted NEC-USA partial summary judgment and a preliminary injunction against further sales.\(^\text{14}\)

On appeal the Ninth Circuit ruled that a wholly owned U.S. subsidiary of a foreign corporation that sells certain goods in this country cannot sue under trademark law if another company buys the parent’s identical goods and then sells them here using the parent’s true mark.\(^\text{15}\) The appellate court reversed the lower court’s ruling, vacated the injunction, and remanded the case for further proceedings on the remaining claims.\(^\text{16}\)

The appellate court based its opinion on three legal theories: the universality principle, the trade identity theory, and the exhaustion doctrine.\(^\text{17}\) The universality principle states that “a trademark is valid if it correctly identifies the origin of the good to which it is...

\(^\text{13}\) Section 32 of the Lanham Act reads in part:
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 deceive; or
(b) reproduce, counterfeit, copy or colorably imitate a registered mark and apply such reproduction, counterfeit, copy or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive...

\(^\text{14}\) Abco, 810 F.2d at 1508.
\(^\text{15}\) Id. at 1508-09.
\(^\text{16}\) Id. at 1511.
\(^\text{17}\) Id. at 1509.
attached, regardless of where the good is sold.”18

The trade identity theory, a corollary to the universality principle, asserts that "trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product . . .”19 and, therefore, "[t]rademark law generally does not reach the sale of genuine goods bearing a true mark . . ."20 because "confusion [as to the origin or source of the good] ordinarily does not exist when a genuine article bearing a true mark is sold.”21

The exhaustion doctrine holds that "[o]nce a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark without incurring any trademark law liability.”22

The court believed that these principles alone would normally govern this case.23 First, it was uncontested that the chips distributed in the United States by Abco had true NEC trademarks which correctly identified their origin as required under the universality principle.24 Second, although consumers were confused about the warranties available with their purchases, they were not confused about the origin or maker of the products.25 Since this was the only form of confusion recognized under the trade identity theory, NEC could not sue under trademark law. Third, CAL Circuit Abco legitimately purchased the components from a middleman to whom NEC

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21 Id. More often than not the trade identity theory and the universality principle are lumped together wholly under the universality principle. See, e.g., Weil Ceramics & Glass, Inc. v. Dash, 618 F. Supp. 700, 705 (D.N.J. 1985):

[The universality principle] held that merchandise bearing a lawful foreign trademark could not be deemed an infringing product in another country. This would be true even when a person in the other country had the exclusive right to use the trademark and distribute the product in that country. Since the goods are genuine, the public would not be deceived as to their "source of origin," i.e., the manufacturer.

22 Abco, 810 F.2d at 1509. One commentator has stated:

The exhaustion doctrine prohibits a trademark holder from controlling branded goods after releasing them into the stream of commerce. The trademark holder’s control is deemed exhausted after the first sale of the goods. After the mark holder exhausts his control, secondary dealers may advertise and sell the merchandise in competition with the mark holder as long as they do not represent themselves as authorized agents.

24 Abco, 810 F.2d at 1509.
25 Id. at 1508.
had sold the goods. Thus, the exhaustion doctrine applied; NEC could not control what Abco did with the product anyway.

NEC had argued that a Supreme Court case, *A. Bourjois & Co. v. Katzel* created a legal theory called the territoriality principle which replaced the universality principle. The territoriality principle holds that "the protection which a trademark receives in a particular country depends upon the law of that country." The court believed that *Katzel* created an exception to the universality principle rather than an independent doctrine and distinguished *Katzel* from *Abco* in two ways. First, the plaintiff in *Katzel* made an arms-length, bargained for exchange in acquiring the rights to its trademark. The intent of this contract was clearly to prohibit the original manufacturer from selling the trademarked product in the United States in exchange for which the plaintiff gave consideration. Conversely, NEC-USA was simply an assignee of the NEC trademark, more of an alter-ego of the parent company than a separate entity.

Second, in *Katzel* the domestic trademark holder gained complete control over and responsibility for the quality of the product. The plaintiff could have sold a lesser product under the trademark instead of purchasing the defendant's product or the defendant could have begun making an inferior product overseas. In *Abco* on the other hand, NEC-USA's parent corporation retained control over the quality of the product offered in the United States. NEC was able to assure that all products that were produced were of substantially equal quality.

The court also noted that the Second Circuit had similarly limited *Katzel* to its specific fact pattern in a recent case, *Olympus Corp. v. United States*. Weil Ceramics & Glass, Inc. v. Dash, 618 F. Supp. 700, 705 (D.N.J. 1985). *Abco*, 810 F.2d at 1509-10. See also *Monte Carlo Shirt, Inc. v. Daewoo Int'l Corp.*, 707 F.2d 1054, 1058 (9th Cir. 1983).

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26 *Id.* at 1507-08.
28 NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506, 1509 (9th Cir. 1987).
29 According to [the territoriality] principle, the protection which a trademark receives in a particular country depends upon the law of that country . . . . The "territoriality principle" recognizes that a trademark has a separate legal existence in each country, and that a trademark does not specify the "source of origin" of the product. Rather, it symbolizes the good will of the domestic mark holder whose reputation backs the particular product in that territory. Thus, even if a trademark correctly identified the manufacturer of the goods, it would still be an infringing product if it deceived the public into believing that the domestic markholder's good will stood behind the product.
30 *Abco*, 810 F.2d at 1509-10. See *Monte Carlo Shirt, Inc. v. Daewoo Int'l Corp.*, 707 F.2d 1054, 1058 (9th Cir. 1983).
31 *Abco*, 810 F.2d at 1509.
32 *Id.* at 1507.
33 *Id.* at 1509.
34 *Id.* at 1508.
35 *Id.* at 1510.
With that, the court held that trademark law did not support the action which NEC brought. It noted, however, that NEC was not without recourse. "If, as NEC-USA alleges, Abco sales agents mislead their buyers about the availability of NEC-USA servicing, then Abco may be liable in contract or tort, but not in trademark."

There have been many suits brought under sections 32 and 43 of the Lanham Act. As one court stated, "the 'heart of a successful claim' is a showing of likelihood of confusion . . . ." The key disagreement is over the actionable types of confusion. Courts agree that if "an appreciable number of purchasers is likely to be misled as to the source or sponsorship of defendant's products," there is adequate cause to invoke the protection of trademark law.

Under a strict interpretation of the universality principle and trade identity theory, parallel imports cannot cause this type of confusion. A physically genuine good, by definition, is not a copy or imitation and cannot mislead as to source or supplier.


By no means are section 32 and 43 claims the only potential avenues for litigation. Others include claims under section 42 of the Lanham Act, copyright claims, contract claims, state laws, and federal regulations. Seidel, Common Law Trademark Infringement, Trademark Dilution, and Lanham Act Section 43(a): Can Gray Market Products Bearing Unregistered Trademarks Be Excluded From Importation?, in GRAY MARKETS AND PARALLEL IMPORTATION: PROTECTIONISM VS. FREE TRADE 51 (1986).

El Greco Leather Prods., 599 F. Supp. at 1300. See also Granada Elecs., 816 F.2d at 74 (Cardamone, J., concurring) ("the essential element of an action under § 32 of the Lanham Act . . . is a showing of the likelihood of consumer confusion as to source of origin").

Donohue, supra note 2, at 188-89.

El Greco Leather Prods., 599 F. Supp. at 1300.

See, e.g., NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506, 1509; Weil Ceramics, 618 F. Supp. at 705; Granada Elecs., 816 F.2d at 74 (Cardamone, J., concurring).


27 F. 18 (C.C.S.D.N.Y. 1886).
clusively under common law but the argument was extended to the Trademark Act of 1905 by the Supreme Court's decision in *Fred Gretsch Manufacturing Co. v. Schoening*.

In 1922, *A. Bourjois & Co. v. Katz* threw some doubt on the validity of this argument. In *Katz*, a foreign cosmetics manufacturer sold the American trademark of a face powder to a domestic company which then imported the powder, repackaged it, and sold it to the public under that trademark. Simultaneously, the original manufacturer proceeded to sell its powder to middlemen who brought the product into the United States and sold the goods in their original packages with the same trademark. The American company sued for trademark infringement and the Second Circuit, following prior case law, ruled that the plaintiff had no claim because the goods were genuine. The Supreme Court, in an opinion by Justice Holmes, reversed the lower court holding, concluding that the plaintiff was entitled to trademark protection.

The scope of this decision is unclear. A number of courts have interpreted this decision as creating the principle of territoriality replacing universality. The Ninth and Second Circuits as well as some commentators have maintained that *Katz* created a narrow exception to the universality rule. They argue that the Court spoke in terms of the equities of the specific fact pattern involved. Significantly, the Court did not use precedent or statutes to reach its conclusion. In addition, the Supreme Court consistently tried thereafter to distinguish cases involving genuine goods.

For example, in *Champion Spark Plug Co. v. Sanders* the Supreme Court called the *Katz* decision a case in which the defendant distributed goods "of one make under the trademark of another." In *Prestonettes, Inc. v. Coty*, the Court held that the French owner of a

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47 238 F. 780 (2d Cir. 1916).
48 275 F. 539 (2d Cir. 1921), rev'd, 260 U.S. 689 (1923).
50 *Katz*, 275 F. at 540.
53 See NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506, 1509-10 (9th Cir. 1987). See also Olympus Corp. v. United States, 792 F.2d 315, 321-22 (2d Cir.), cert. denied, — U.S. — (1986); Gorelick & Little, supra note 7, at 212.
54 *Abco*, 810 F.2d at 1510; *Olympus*, 792 F.2d at 321; Gorelick & Little, supra note 7, at 212.
55 Gorelick & Little, supra note 7, at 212.
56 *Abco*, 810 F.2d at 1509. See also Gorelick & Little, supra note 7, at 212-13.
57 331 U.S. 125 (1947).
58 Id. at 128 (citations omitted).
59 264 U.S. 359 (1924).
domestic trademark could not prohibit a U.S. firm from buying the products in Europe and selling them domestically. The repackaged goods had been clearly labelled to show that the seller was not connected with the French manufacturer. The Court stated that, unlike a Katzel situation, the new label would enable consumers to detect if the domestic product was inferior to the foreign product.  

Promoters of a broad interpretation of Katzel simply argue that a plain reading of the opinion should be used. The Court had clearly stated the issue it was deciding: "[t]here is no question that the defendant infringes the plaintiff's rights unless the fact that her boxes and powder are the genuine product of the French concern gives her a right to sell them in the present form." The Court then held that the trademark "was sold and could only be sold with the good will of the business that the plaintiff bought." Thus trademarks must be designed to protect plaintiff's investment in the good will of the business. The debate cooled over the subsequent years as fewer and fewer cases trickled into the courts, but revived again in the early 1980s.  

An important example is DEP Corp. v. Interstate Cigar Co. Unilever, a British corporation, had worldwide distribution rights for a brand of soap whose trademark was owned by another company. DEP obtained United States distribution rights from Unilever but subsequently found another company was selling the product here. DEP sued but the complaint was dismissed because DEP lacked standing. However, in a footnote the district court expressed as dictum the opinion that the action could not lay anyway because the goods were genuine.  

The Ninth Circuit picked up on this point in Monte Carlo Shirt, Inc. v. Daewoo Int'l Corp. In that case, Daewoo produced shirts bearing the Monte Carlo trademark under contract to Monte Carlo Shirt.

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62 Katzel, 260 U.S. at 692.
63 Cohen, supra note 60, at 176.
64 Fitzpatrick & Burnet, supra note 4, at 19.
65 Id. The resurgence of cases mirrored the increase in parallel imports. During the early 1980s the U.S. dollar enjoyed great strength relative to most major currencies. This resulted in increasingly favorable price differences between foreign markets and the domestic market.

Sales of grey market goods blossomed to an estimated $5.5-10 billion annually. Kersner & Stein, Judicial Construction of Section 526 and the Importation of Grey Market Goods: From Total Exclusion to Unimpeded Entry, 11 N.C.J. INT'L L. & COM. REG. 251, 251 (1986). Recently, the U.S. dollar has weakened and imports appear to be declining.
66 622 F.2d 621 (2d Cir. 1980).
67 Id. at 621-22.
68 Id. at 622 n.1.
69 707 F.2d 1054 (9th Cir. 1983).
When Monte Carlo rejected the shirts because of late delivery, Daewoo’s American subsidiary began selling the goods to retailers at a discount without Monte Carlo’s permission. Monte Carlo sued under common law trademark infringement but the district court dismissed the case. The appellate court affirmed this decision stating that because the goods were “planned and sponsored” by Monte Carlo, they were genuine and could not confuse buyers as to their origin.70

Finally, Diamond Supply Co. v. Prudential Paper Prods Co.71 extended this line of reasoning to the Lanham Act. There, the defendant manufactured private label note pads for the plaintiff, a wholesaler of office products. After a breakdown in the contractual relationship, the plaintiff began purchasing goods from another manufacturer and told the defendant it did not matter what the defendant did with the private label goods that were in the defendant’s inventory. The defendant sold the goods to other wholesalers, and plaintiff sued under section 43 of the Lanham Act.72 The court stated, “the essence of the . . . claim is whether there is any likelihood that the public will be misled or confused . . . . In the instant case, however, there is no possibility of confusion because the goods sold are not distinct but deceptively similar goods; rather they are genuine Diamond goods.”73 The court cited both Interstate Cigar and Monte Carlo Shirt as support.

In NEC Electronics v. CAL Circuit Abco, the Ninth Circuit used Interstate Cigar, Monte Carlo Shirt, and Diamond Supply as supporting precedent for its position on the universality principle and the trade identity theory.74 It is not clear that the Second Circuit, where Interstate Cigar and Diamond Supply were decided, would go quite so far.

In El Greco Leather Prods. Co. v. Shoe World, Inc.75 the Second Circuit gave “source of origin” a more expansive definition. The plaintiff, a United States marketer of shoes, contracted to have its product manufactured in Brazil and stamped with the company trademark. At all times the plaintiff tried to maintain control over the quality of the product. When problems arose the plaintiff cancelled the order and the Brazilian company sold the trademarked product to the de-

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70 Id. at 1058.
73 Id. at 475.
74 NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506, 1509 (9th Cir. 1987). One commentator has suggested that viewing Monte Carlo Shirt as standing for the principle that "genuine goods cannot confuse" is too much of a broad brush interpretation. Proudfoot, Commonlaw Trademark Infringement, Trademark Dilution and Lanham Act Section 43(a), in GRAY MARKETS AND PARALLEL IMPORTATION: PROTECTIONISM VS. FREE TRADE 43 (1986).
75 806 F.2d 392 (2d Cir. 1986).
fendant American shoe retailer without the plaintiff’s permission. The plaintiff sued for trademark infringement but the defendant claimed that genuine goods could not confuse and cited Interstate Cigar and Monte Carlo Shirt. The district court ruled for the defendant but the appellate court reversed. The court stated, “one of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder’s trademark.” The court went on to chide the district court for “an unjustifiably narrow view of the protection afforded trademark holders by the Lanham Act.”

In an opinion handed down six weeks after Abco, Original Appalachian Artworks, Inc. v. Granada Elecs. Inc., the Second Circuit affirmed a permanent injunction against an importer of dolls. The dolls were manufactured in Spain under license from a domestic toy company for sale in a specific foreign territory. The major difference between the foreign and domestic dolls was the use of Spanish wording on much of the packaging and certain instruction materials. The plaintiff argued that this created substantial confusion as to the source of the product.

The defendant cited several cases including Interstate Cigar and Monte Carlo Shirt as controlling principle. There could be no confusion as to the source of origin because the defendant’s product bears a genuine trademark licensed by the plaintiff.

The court was not persuaded. “The present case is distinguishable from the above cases because... there is a very real difference in the product itself. It is this difference that creates the confusion over the source of the product and results in a loss of OAA’s... good will.” These rulings indicate that the Second Circuit still supports the universality principle but not the trade identity theory. It is difficult to tell, though, whether the Second Circuit would find the lack of warranties and service support for NEC chips a quality difference that creates confusion over the source of the product.

As stated earlier, all courts agree that confusion over the source of origin is protected by trademark law. The Ninth Circuit uses a strict literal interpretation of “source of origin.” The Second Circuit

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76 El Greco Leather Prods., 806 F.2d at 393-94 (2d Cir. 1986).
77 Id. at 395.
78 Id.
79 Id.
80 816 F.2d 68 (2d Cir. 1987). This was one of ten similar federal lawsuits brought by the plaintiff throughout the United States. See, e.g., Original Appalachian Artworks, Inc. v. Topps Chewing Gum, 642 F. Supp. 1031 (N.D. Ga. 1986); Original Appalachian Artworks, Inc. v. May Dep’t Stores, 640 F. Supp. 751 (N.D. Ill. 1986).
82 Id. at 72.
83 Id. at 73.
believes "source of origin" includes the right to control quality. But some courts have found sources of confusion significantly beyond those implied by the source of origin concept.84

The arguments for this position are summarized by Weil Ceramics & Glass, Inc. v. Dash.85 In Weil, a domestic porcelain importer that shared a common corporate parent with the foreign manufacturer from which it bought goods, sued another importer who purchased the same goods overseas from a middleman.86 The defendant argued that because the goods were genuine, there could not be confusion. The court disagreed, citing Katzel and the territoriality principle.87 The court further pointed out that the deletion of the "source of origin" requirement from section 32 of the Lanham Act made it clear that any form of confusion regarding the trademark affecting the company standing behind that mark is actionable.88 Thus, the court reasoned that if there was confusion as to some intangible aspect of the product such as quality or serviceability, even a genuine good could interfere with a trademark.89

There are at least two cases in which the Weil precedent was followed and a third in which it was implicitly approved. In Dial Corp. v. Encina Corp.,90 Dial, a United States soap manufacturer, filed claims under sections 32 and 43 of the Lanham Act against a company which imported foreign manufactured soap with an identical trademark. Dial asserted that the foreign soap maker was licensed by the domestic manufacturer to use the trademark, Dial, on a product that was intended to only be sold in a specific foreign territory. The foreign soap had a different chemical makeup, fragrance, and size. It also was not marked according to FDA regulations.91 The defendant argued that a domestic company that licenses the manufacture of its product and the use of its trademark overseas cannot prevent importation and sale of that product in the United States.92 On a motion to dismiss, the court ruled in favor of Dial stating, "[t]he territoriality principle has continued to form the doctrinal framework for sustaining claims . . ."93 and cited Weil.94

The same fact pattern arose in Dial Corp. v. Manghnani Inv.

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86 Id. at 702-03.
87 Id. at 704-06.
88 Id. at 706.
89 Id.
91 Id. at 952.
92 Id. at 954.
93 Id.
94 Id.
On a motion for partial summary judgment, the court found that the issue was whether there was "any likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled or indeed simply confused, as to the source of the goods in question." The court believed that, among other things, the quality of the defendant's product and the sophistication of the buyers, were determinative factors. The court explicitly disagreed with the defendant's contention that genuine goods cannot create confusion and cited Weil.

Finally, in Original Appalachian Artworks, Inc. v. Granada Elecs. Inc., a concurring opinion was written which implicitly endorsed the Weil perspective. The opinion agreed that trademarks identify source of origin, but asserted that the court should go further, stating, "[m]any commentators however recognize that trademark law also serves to guarantee the quality of the trademarked product."

This is what NEC argued before the Ninth Circuit. NEC did not deny that the physical goods were identical from the two distributors. Rather the quality of product servicing led to actionable confusion. Thus, NEC-USA would have overcome the likelihood of confusion hurdle under the Weil analysis.

But even when the territoriality principle is applied to parallel imports, authorized distributors are not guaranteed a victory. If there is confusion over some other aspect of the product, there is still a question whether the plaintiff has depleted its rights of enforcement under the exhaustion doctrine. This issue has only been addressed a few times. Parallel importers argue that the exhaustion doctrine "seem[s] to suggest that once the original mark owner had lost control of the marked goods by releasing them into commerce, his assignee in a foreign country could not logically own rights superior to those of the assignor. The right of control seems exhausted." That is, there can be no confusion where identical good will has been passed on by the original foreign producer through both channels of distribution.

Courts seem to agree that "the exhaustion doctrine does not ap-
ply to genuine goods which have been altered."\textsuperscript{106} Even with unaltered goods, one opinion is that the exhaustion doctrine does not apply in the international context.\textsuperscript{107} Another opinion is that "the exhaustion doctrine applies when the United States mark holder is related to the foreign mark holder and/or manufacturer."\textsuperscript{108} However, if the plaintiff shows that although it has legal ties to the parent corporation, it has developed independent good will in the trademark, the exhaustion doctrine will not apply.\textsuperscript{109} Proof of independent good will has included selection of retail outlets, inspection or quality control over products,\textsuperscript{110} warranty service, rebates, educational activities, and advertising.\textsuperscript{111}

The Abco court mentioned the exhaustion doctrine as a controlling principle in the case,\textsuperscript{112} but did not develop the argument further. With the conflicting rulings in this area, it is not clear whether NEC-USA developed enough independent good will to satisfy the exhaustion doctrine.

The key public policy issue underlying the grey market is protectionism versus free trade. The universality principle promotes free trade by all suppliers of a brand at the expense of incentive to the mark holder to develop the mark in the first place.\textsuperscript{113} The territoriality principle is protectionist in that it promotes and protects the mark holder’s good will against lower-overhead, foreign suppliers.\textsuperscript{114} This encourages the mark holder to develop brand recognition of its differentiated products, but may also permit price discrimination between geographic markets.\textsuperscript{115}

Neither absolute universality nor absolute territoriality is desirable or prescribed by case law. Universality recognizes the Katzel exception that gives territorial control to independent local mark holders. Territoriality requires mark holders to develop independent good will to earn protection of the mark. The question is what formulation of these rules will create an appropriate legal and economic policy somewhere between absolute free trade and absolute protectionism.

The different approaches under sections 32 and 43 of the Lanham Act, although potentially reconcilable, have started to move in

\begin{footnotes}
\footnotetext[106]{Granada Elecs., 816 F.2d at 76 (Cardamone, J. concurring).}
\footnotetext[107]{Id.}
\footnotetext[108]{Weil Ceramics, at 711-12.}
\footnotetext[109]{Id.}
\footnotetext[110]{Id.}
\footnotetext[112]{NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506, 1509 (9th Cir. 1987).}
\footnotetext[114]{See Cohen, supra note 60, at 179.}
\footnotetext[115]{Kelly, supra note 113, at 231.}
\end{footnotes}
seriously divergent directions. This is making a coherent policy more difficult to achieve than ever.

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