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# K Mart Corp. v. Cartier, Inc.: Attention Gray Market Shoppers, the United States Supreme Court has Saved Your Bargain Prices

Timothy J. Tomlin
*University of the Pacific, McGeorge School of Law*

# *K Mart Corp. v. Cartier, Inc.*: Attention Gray Market Shoppers, The United States Supreme Court Has Saved Your Bargain Prices

In the past decade American companies are estimated to have lost billions of dollars in annual sales due to competition from "gray market" goods.[1] Sometimes called "diverted"[2] goods or "parallel imports,"[3] gray market goods bear genuine trademarks but are

1. Gerber and Bender, *The Grey Market, A Legal Enigma*, 59 N.Y. ST. B.J. 41, 42 (Jan. 1987) [hereinafter Gerber and Bender] ("In 1985 an estimated ten billion dollars worth of gray market goods entered the United States . . . ."); *See also* Steele, *Piracy and Gray Markets*, 10 HASTINGS COMM. & ENT. L.J. 1065, 1065 (1988) [hereinafter Steele] ("Parallel importation and gray market cases have been a controversial and rapidly evolving area of trademark law during the past ten years"); Donohue, *The Use of Copyright Law to Prevent the Importation of "Genuine Goods"* 11 N.C.J. INT'L L. & COM. REG. 181, (1986) [hereinafter Donohue] ("United States subsidiaries or affiliates of foreign corporations and U.S. companies with foreign subsidiaries find their domestic distribution networks increasingly threatened by the unauthorized importation of goods substantially similar to the goods they market.") *Id.* at 181; Mackintosh, *Grey Market Imports: Burgeoning Crisis or Emerging Policy*, 11 N.C.J. INT'L L. & COM. REG. 293 (1986) [hereinafter Mackintosh] ("The trade and economic problems presented by [gray market imports] have so affected U.S. industry that Congress officially urged the Reagan Administration to present a grey market policy statement by the end of 1985.") *Id.* at 293; *See also* Brief for Respondents Coalition to Preserve the Integrity of American Trademarks (COPIAT) at 3, n.2, K Mart Corp. v. Cartier, Inc., ___U.S.___, 108 S.Ct. 1811 (1988) [hereinafter Brief for Respondents] (available at THE TRANSNATIONAL LAWYER offices) (Counsel for the respondents asserted that "[t]he gray market bloomed in the early 1980's").

2. In the lower court decision of *K Mart Corp. v. Cartier, Inc.* the court referred to "diverted goods," "parallel goods" and "gray market goods" synonymously. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 598 F.Supp. 844, 846 (D.D.C. 1984), *rev'd* 790 F.2d 903 (D.C. Cir. 1986), *jurisdiction aff'd sub nom.* K Mart Corp. v. Cartier, Inc. ___U.S.___, 108 S.Ct 950 (March 7, 1988); *aff'd in part and rev'd in part* 108 S.Ct. 1811 (May 31, 1988).

3. "Parallel importations" are defined as goods bearing a U.S. trademark that are imported without "authorization" by foreign entities at the same time the U.S. trademark owner imports his goods. *See* Vivitar Corp. v. United States, 761 F.2d 1552, 1555 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986).

imported without the consent of the domestic owner of the trademark.[4] The loss of sales due to the competition from gray goods has created great incentive for business plaintiffs in the United States to test the legality of gray market importation. Consequently, the volume of litigation in this area has increased in recent years.[5]

All three branches of the United States Government have struggled with the problems that the gray market presents.[6] In 1985, at the urging of Congress, the Reagan Administration created an interagency working group to study the gray market and formulate a government policy.[7] The working group produced six options for a government policy position, but did not recommend one as being the most preferable.[8] Thus, the area of gray market imports has been one of legislative indecision.

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4. The United States Supreme Court defined a gray market good as a "foreign-made good, bearing a valid United States trademark, that is imported without the consent of the U.S. trademark holder." K Mart Corp v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1814 (1988); *See generally* Vivitar Corp. v. United States, 761 F.2d 1552, 1555 (Fed. Cir. 1985).

5. Gerber and Bender, *supra* note 1, at 42. ("In the last few years, an avalanche of gray market claims have been filed."). *See generally* Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985), *aff'g* 593 F.Supp. 420 (Ct. Int'l Trade 1984), *cert. denied*, 474 U.S. 1055 (1986); Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986), *aff'g* 627 F.Supp. 911 (E.D.N.Y 1985), *cert. denied*, ____U.S.____, 108 S.Ct. 2033 (1987); Lever Brothers Co. v. United States, 652 F.Supp. 403 (D.C. Cir. 1987); Original Appalachian Artworks, Inc. v. Granada Electronics, Inc., 816 F.2d 68 (2d Cir. 1987), *cert. denied*, ____U.S.____, 108 S Ct. 143 (1987); NEC Electronics V. Cal. Circuit Abco, 810 F.2d 1506 (9th Cir. 1987).

6. *See* Mackintosh, *supra* note 1, at 293. The numerous cases heard by the Judiciary are cited throughout this Note. Periodically bills supporting both sides of the issue are proposed in Congress. *See infra* note 335. The Executive branch, in addition to promulgating the Customs Service Regulations at issue in the *K Mart* case, rendered a policy decision concerning the gray market by disapproving a determination of the United States International Trade Commission regarding the trademark "Duracell." In the Matter of Certain Alkaline Batteries, 6 I.T.R.D. (BNA) 1849, *reprinted in* 225 U.S.P.Q. (BNA) 862 (disapproved pursuant to 19 U.S.C. §1337(g) (1982)), *appeal dismissed sub nom.* Duracell, Inc. v. United States Int'l Trade Comm'n, 778 F.2d 1578 (Fed. Cir. 1985) (President Reagan disapproved an International Trade Commission holding that Duracell Batteries manufactured in Belgium should be excluded from importation. The I.T.C. based its determination on the grounds that American consumers would confuse the Belgian-made batteries with ones made in the United States. The President disapproved the I.T.C. decision for policy reasons. He stated that it conflicted with longstanding agency interpretation which has been supported by the Administration. Further, a process of policy formulation was under way which might have been undermined by a change in policy prior to an ultimate decision.) *Id.*

7. Mackintosh, *supra* note 1, at 294 nn.2-4.

8. Mackintosh, *supra* note 1, at 293.

The following options were presented to the Cabinet Council on Commerce and Trade:

> i. Maintain the present policy of allowing grey market imports where the foreign and U.S. trademark owners are related and the foreign articles bear a recorded trademark authorized by a U.S. owner.
>
> ii. Allow grey market imports, but impose mandatory labeling to inform consumers that grey goods are neither authorized nor warranted by the U.S. trademark owner, and are not subject to the same warranty and service benefits as U.S. goods.

In the recent case of *K Mart Corp. v. Cartier, Inc.*[9] the United States Supreme Court had the opportunity to make a definitive statement regarding the status of gray market goods. The case is significant because it is the first time in decades that the Court has agreed to hear a gray market case.[10] In *K Mart Corp. v. Cartier Inc.*, the Court considered a facial challenge to specific provisions of the Customs Service Regulations[11] which permit the importation

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> iii. Amend § 337 of the Tariff Act of 1930 (19 U.S.C. § 1337 (1982)) to make it easier to challenge grey market imports before the U.S. International Trade Commission.
>
> iv. Continue to allow the entry of grey market imports that are identical to their domestic counterparts.
>
> v. Allow the entry of grey market imports only if the infringing trademark is removed or obliterated.
>
> vi. Prohibit grey market imports without the written consent of the U.S. trademark owner.

*Id.* at 293-4 n.4 (citing INSIDE U.S. TRADE, April 26, 1985, Annex).

9. On May 31, 1988 the long lived case of K Mart Corp. v. Cartier Inc., ___U.S. ___, 108 S.Ct. 1811 (1988) was finally decided by the United States Supreme Court. The court split five Justices to four in upholding one portion of the Customs Service Regulations at issue, and in a different configuration of Justices, split five to four in favor of invalidating another portion. Justices Kennedy, White, Brennan, Marshall and Stevens comprised the plurality which upheld one portion. A different plurality of Kennedy, Rehnquist, Blackmun, O'Connor and Scalia voted to invalidate the other portion. The plurality opinion of the Court was authored by Justice Kennedy, who was joined in part by Justice White. Justice Brennan, joined by Justices Marshall and Stevens, authored an opinion concurring in part and dissenting in part, in which Justice White joined in part. Justice Scalia authored another opinion concurring in part and dissenting in part, and was joined by Chief Justice Rehnquist, Justices O'Connor, and Blackmun. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 598 F.Supp. 844, 846 (D. D.C.1984), *rev'd* 790 F.2d 903 (D.C. Cir. 1986), *jurisdiction aff'd sub nom.* K Mart Corp. v. Cartier, Inc. ___U.S.___, 108 S.Ct. 950 (March 7, 1988); *aff'd in part and rev'd in part* ___U.S.___, 108 S.Ct. 1811 (May 31, 1988).

10. The last case to be heard by the U.S. Supreme Court concerning the gray market was A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923), *rev'g.* 275 F. 539 (2nd Cir. 1921). For a further discussion of *Katzel see infra* text accompanying notes 56-57; *see also* Note, *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.: The Cabbage Patch Doll Goes Gray?*, 1 TRANSN'L LAW. 339, 342 n.20 (1988) *referring to* Vivitar Corp. v. United States, 761 F.2d. 1552, 1561 (Fed. Cir. 1985).

11. The Custom Service Regulation, § 133.21, provides in pertinent 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 paragraph[]. . . (b) of this section do not apply to imported articles when:
>
>> (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;
>>
>> (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control . . .;
>>
>> (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner; . . . .

19 C.F.R. § 133.21(b) & (c) (1988).

of certain categories of gray market goods into the United States.[12] Plaintiffs alleged that the Customs Service Regulations were contrary to the express language and intent of the controlling federal statute, Section 526 of the Tariff Act,[13] the literal language of which appears to exclude all gray market goods from importation.[14] In a plurality decision, the Court struck down one portion of the Regulations as inconsistent with the statute.[15] However, the portion of the Regulations[16] which most concerned the plaintiffs was upheld by a majority of five members of the Court.[17] The practical result of the case was a continued frustration for United States trademark owners to compel the Customs Service to bar the importation of most gray market goods.[18] There are, however, many questions left unresolved by the *K Mart Corp. v. Cartier, Inc.* decision.

One question that was not answered in *K Mart Corp. v. Cartier, Inc.* involves the nature of the trademark rights acquired by a registrant in the United States. As one commentator phrases it, the United States Supreme Court has not satisfactorily answered the question of what "a trademark owner owns" in relation to the rights

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

13. The Genuine Goods Exclusion Act is codified at 19 U.S.C. § 1526 (1982).

14. Section 526 provides in pertinent part:

> [I]t 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 trade-mark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States. . . .

19 U.S.C. § 1526 (1982).

15. *K Mart Corp. v. Cartier, Inc.*, ___U.S.___, 108 S.Ct. 1811, 1819 (1988).

16. *See* Customs Service Regulations, *supra* note 11. The "common control" exception of the Customs Service Regulations is embodied in 19 C.F.R. § 133.21(c)(1) and (2).

17. *K Mart*, 108 S.Ct. at 1819; *see also* Brief for Respondents, *supra* note 1, at 4.

> [T]he United States trademark owners subjected to the inroads of the gray market are American companies, incorporated and domiciled in the United States. In some cases, . . . such as that of the named plaintiff Cartier, Inc., the American owner of the United States trademark is a partially or wholly owned subsidiary of a foreign company that owns the identical mark abroad. In many other cases, such as those of the United States automobile manufacturers, Duracell, Proctor & Gamble, and Eastman Kodak, the owner of the United States trademark is a United States producer. It either has plants abroad itself or has a foreign subsidiary that manufactures and distributes goods abroad with the same mark. . . .

*Id.* at 4. (In these examples of business relationships, the two companies are under "common control").

18. The "common control" exception was held to be valid in *K Mart Corp. v. Cartier, Inc.*, ___U.S.___, 108 S.Ct. 1811, 1819 (1988). This results in the continuation of the U.S. Customs Service practice which allows unimpeded importation of the large percentage of gray market goods which fall within this exception. *See infra* text accompanying notes 58 and 273-75.

he has to obtain a legal exclusion of gray market imports.[19] While the Court does resolve this issue for a certain class of trademark owners,[20] it leaves the issue open for others.[21] A second question insufficiently addressed in *K Mart Corp. v. Cartier, Inc.* involves the economic policy implications arising from the ability of some trademark owners to bar importation of gray market goods by invoking Section 526 of the Tariff Act. Such an ability to exclude competition from imports raises the question of what role antitrust policy goals should play in the implementation of Section 526.[22] Finally, the United States Supreme Court in *K Mart Corp. v. Cartier, Inc.* failed to address the effect of the decision on treaty obligations of the United States government.[23] International trade treaties often have "national treatment" clauses which require equal legal treatment for foreign companies as compared to domestic ones.[24] The U.S. Supreme Court's construction of Section 526 may facilitate discrimination against foreign business entities in violation of these "national treatment" clauses. By neglecting to address this issue in *K Mart Corp. v. Cartier, Inc.*, the Court has provided no guidance for United States trademark owners or gray market importers as to how this issue may be resolved in the future.[25]

There have been many articles in scholarly journals describing the legal history of gray market goods.[26] Attempting to avoid duplication, this Note will focus on questions raised by the decision of the United

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19. Palmeter, *Gray Market Imports: No Black and White Answer*, 22 J. WORLD TRADE 89, 89 (1988) [hereinafter Palmeter].

20. *See infra* text accompanying notes 235-41 and 291-95.

21. *See infra* text accompanying notes 264-90.

22. *See infra* text accompanying notes 296-332.

23. Justice Kennedy briefly mentions the issue of treaty obligations in his opinion. *K Mart*, 108 S.Ct. at 1833.

24. *See infra* text accompanying note 252.

25. *See infra* text accompanying notes 249-65.

26. *See generally* Donohue, *supra* note 1; Gerber and Bender, *supra* note 1; Mackintosh, *supra* note 1; Steele, *supra* note 1; Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 WASH. L. REV. 433 (1982); Palmeter, *supra* note 19; Kersner and 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 (1986) [hereinafter Kersner and Stein]; Gorelick and Little, 11 N.C.J. INT'L L. & COM. REG. 205, 211. (1986) [hereinafter Gorelick]; Note, *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.: The Cabbage Patch Doll Goes Gray?*, 1 TRANSN'L LAW. 339 (1988); Note, *Emerging Gray Market Balance: A Global Perspective on Solutions for the Nineties*, 10 HASTINGS COMM. & ENT. L.J. 1101 (1988); Note, *The Gray Market Controversy and the Court: An Analysis of Conflicting Court of Appeals Decisions on the Validity of Customs Regulations Permitting Unauthorized Third Party Importation of Trademarked Goods*, 18 SETON HALL L.R. 55 (1988); Note, *Vivitar Corp. v. United States: The Beginning of the End of the Gray Market* 35 AM. U.L. REV. 1207 (1986); Note *Vivitar Corp. v. United States: Protection Against Gray Market Goods Under 19 U.S.C. Section 1526*, 60 S. CAL L.REV. 179 (1986).

States Supreme Court in *K Mart Corp. v. Cartier, Inc.*. In deciding the case on the narrow legal issues of statutory interpretation, the Court has left to Congress and the Executive branch the duty of deciding the difficult policy issues[27] and creating legislation accordingly.[28] These issues are examined in Section III of this Note entitled Legal Ramifications. An analysis of the legal background to the *K Mart Corp. v. Cartier Inc.* decision (Section I) and of the decision itself (Section II) precedes discussion of the legal ramifications.

## I. Legal Background

### A. *The Gray Market*

As defined by the United States Supreme Court, the term "gray market" refers to a situation where a product manufactured in country "A," bearing a genuine trademark registered in country "B," is imported into country "B" without the consent of the trademark owner in country "B."[29] Commentators have suggested that the gray market "is created when an arbitrageur takes advantage of a price difference between two markets by buying in the market where prices are lower and selling in the market where prices are higher."[30] Goods produced and sold in country "A" for a low price may be imported into country "B," where its domestic market supports a relatively higher price for identically trademarked goods. If transportation costs and tariffs are less than the price difference

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27. *See* Mackintosh, *supra* note 1, at 296.
28. *See infra* text accompanying note 234.
29. *K Mart Corp. v. Cartier, Inc.*, ___U.S.___, 108 S.Ct. 1811, 1814 (1988) (Opinion of Justice Kennedy). Of course, a gray market situation may arise in any country, with the trademark owner of each country seeking protection under its own domestic laws from the unauthorized importation of its trademarked goods. *See generally* Takamatsu, *supra* note 26 at 440-52 (1982) (referring to the gray market in other countries); Kersten, *EEC Antitrust Policy on 'Grey Market' Exports and Imports Within the Common Market*, 16 Int'l Bus. Law. 134 (March 1988).
30. W. Goebel Porzellanfabrik v. Action Industries, 589 F. Supp. 763, 764 n.1 (S.D.N.Y. 1984). Arbitrage is defined as the simultaneous purchase in one market and sale in another of a security or commodity in hope of making a profit on price differences in the different markets. Black's Law Dictionary 95 (5th ed. 1979). If the gray market results solely from arbitrage, its future in the United States may be limited. "The gray market phenomenon arose rapidly in the United States during the early 1980's as the dollar appreciated strongly against most other currencies. With the decline of the dollar in the latter half of the decade, the gray market is likely to recede in the United States just as rapidly." The gray market will "shift to the markets of those countries whose currencies have appreciated," and thus continue to exist as a problem for the international trading system. Palmeter, *supra* note 19, at 92; *see also* Gerber and Bender, *supra* note 1, at 42.

between country "A" and country "B," the gray marketeer may compete effectively by underselling the goods of the trademark owner from country "B."

American companies claiming to be harmed by the gray market assert that the gray marketeers are really "free riding" on the promotion, marketing, and service costs that are paid for by the domestic trademark holder.[31] The gray market importers benefit from the goodwill generated from these services without contributing to their costs. The opponents of the gray market conclude that, were it not for the "free riding" that makes gray market importation profitable[32], the gray market would not exist.[33] Proponents of the gray market claim that the arguments of those who support the gray market are "no more than camouflage for efforts to gouge American consumers by requiring them to pay more than consumers abroad."[34]

As noted above, the most conspicuous advantage of the gray market is the lower prices for consumers.[35] However, gray market opponents list numerous disadvantages to the consumer resulting from the purchase of gray goods. Although they bear genuine trademarks, the gray goods are sometimes different from goods manufactured for the American market.[36] Product ingredients, safety features, and electronic frequency requirements often differ between one country and another.[37] Any incompatibility of gray market goods with American standards will result in a harm to the consumer, who may not be able to use the product safely, or at all.[38] Furthermore, gray

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31. These costs are incurred for product design, advertising, trade show exhibits, training programs, and service. Brief for Respondents, *supra* note 1 at 5-6; *see also*, Vivitar Corp. v. United States, 761 F.2d 1552, 1556 (Fed. Cir. 1985) *and* Osawa & Co. v. B & H Photo, 589 F.Supp. 1163, 1166 (S.D.N.Y. 1984).

32. Brief for Respondents, *supra* note 1, at 6. *See also* Gerber and Bender, *supra* note 1, at 42, stating that "In the United States, gray market goods frequently sell at prices 20%-30% less than essentially identical products sold through the authorized domestic distribution network."

33. Brief for Respondents, *supra* note 1, at 5-6. *Osawa*, 589 F.Supp. at 1166.

34. Gerber and Bender, *supra* note 1, at 42. (At the extreme, the ability of trademark owners to exert their monopoly power and sustain higher prices for their goods may be seen as a result of excessive protection provided to them by trademark law. This follows from the premise that if profits in the market are too high, the trademark protection must be too great. On the other hand, society may be willing to pay the costs in exchange for the benefits it reaps from trademarks).

35. *See* Fitzpatrick & Brunet, *Barring Importation of Gray Goods Under* §42 *of the Lanham Act*, and §526 *of the Tariff Act* in GRAY MARKETS AND PARALLEL IMPORTATION: PROTECTIONISM VS. FREE TRADE- PATENTS, COPYRIGHTS, TRADEMARKS, AND LITERARY PROPERTY: *Course Series Number 217*, 9 (1986) [hereinafter Fitzpatrick & Brunet].

36. Brief for Respondents, *supra* note 1, at 7-8.

37. Brief for Respondents, *supra* note 1, at 7-8.

38. *Id.* at 8.

market goods often fail to carry appropriate manufacturer's warranties that consumers associate with a certain product,[39] resulting in purchaser disappointment and harm to the goodwill of the United States trademark holder.[40]

Part of the reason that the legal issue of gray market importation has not yet been resolved in the United States is the relative merits of both sides of the dialogue. Real harms and benefits to consumers must be balanced in the process of formulating a gray market policy. In addition, a broader concern in a weighing of the merits of free trade versus protectionism will play a role in a legislative determination of the issue.[41]

### B. *Forms of the Gray Market*

There are a number of different forms of gray market importation, with each form having its own legal impact.[42] When considering the applicable law as it affects the gray market, these forms may fall within or without its scope. The question becomes whether the type of gray market importation at issue was intended to be covered by the relevant law. The distinction between the forms lies in the nature of the relationship between the trademark owner and the manufacturer (or distributor) of the product. The United States Supreme Court described three different categories of relationships in its analysis of *K Mart Corp. v. Cartier, Inc.*[43]

#### 1. *Case 1:*[44] U.S. Firm "Acquires Trademark" From Independent Foreign Firm

The Supreme Court declared the "prototypical"[45] victim of the gray market to be an American firm that "purchases from an independent foreign firm the rights to register and use the latter's trademark as a United States trademark and to sell its foreign-manufactured products here."[46] The problem in this scenario is the

39. *Id.*
40. Fitzpatrick & Brunet, *supra* note 35, at 11.
41. Steele, *supra* note 1, at 1073.
42. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1814 (1988).
43. *Id.* at 1814-15.
44. *Id.* at 1814.
45. For an example of the prototypical gray market case corresponding to the Court's *case 1* scenario *see* A. Bourjois & Co. v. Katzel, 275 F. 539 (2d Cir. 1921), *rev'd* 260 U.S. 689 (1923).
46. *K Mart*, 108 S.Ct. at 1814.

United States trademark owner's risk of losing its investment in the rights contemplated at the purchase of the trademark.[47] If the foreign firm which sold the right to use the trademark to the American firm could import goods with the identical trademark into the United States, those goods would create intrabrand competition with the American firm.[48] The unanticipated competition from the foreign firm's identically trademarked goods dilutes the American firm's expected profits from its investment in the trademark.[49] The American company is harmed in a similar manner if a third party purchases the trademarked goods abroad and imports them into the United States parallel to the American company's importation.[50]

2. *Case 2*: U.S. Trademark Owner "Affiliated" With a Firm That Manufactures The Goods Abroad

The most common gray market context, and the one in which most of the recent litigation has arisen, *Case 2*,[51] concerns a transnational affiliation of business entities. There are three subdivisions in the *Case 2* context. *Case 2a* involves a foreign parent company which incorporates a subsidiary in the United States to facilitate the distribution of its goods in the American market. Conversely, an American parent company may create a foreign subsidiary, *Case 2b*, or a foreign unincorporated division of its own, *Case 2c*, to manu-

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47. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1814 (1988).

48. *Id.*

49. *Id.* at 1815.

50. *Id.*

51. *See* Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 598 F.Supp. 844, 846 (D. D.C.1984), *rev'd* 790 F.2d 903 (D.C. Cir. 1986), *jurisdiction aff'd sub nom.* K Mart Corp. v. Cartier, Inc. ____U.S.____, 108 S.Ct 950 (March 7, 1988), *aff'd in part and rev'd in part* 108 S.Ct. 1811 (May 31, 1988) (Many COPIAT members were subsidiaries to foreign parents, *Case 2a*); Vivitar Corp. v. United States, 761 F.2d 1552, (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986) (American parent with a foreign subsidiary, *Case 2b*); Olympus Corp. v. United States, 792 F.2d 315, (2d Cir. 1986), *cert denied* ____ U.S., 108 S.Ct. 2033 (1988) (Foreign parent with American subsidiary, *Case 2a*); In the Matter of Certain Alkaline Batteries, 6 I.T.R.D. (BNA) 1849, *reprinted in* 225 U.S.P.Q. (BNA) 823 (1984, *disapproved by President Reagan*, 50 Fed. Reg. 1655, *reprinted in* 225 U.S.P.Q. (BNA) 862 (disapproved pursuant to 19 U.S.C. § 1337(g) (1982)), appeal *dismissed sub nom.* Duracell, Inc. v. United States Int'l Trade Comm'n, 778 F.2d 1578 (Fed. Cir. 1985) (American Parent with foreign subsidiary, *Case 2b*); NEC Electronics v. Cal Circuit Abco, 810 F.2d 1506, (9th Cir. 1987) (Foreign parent with American subsidiary, *Case 2a*); Parfums Stern, Inc. v. U.S. Customs Service, 575 Fed.Supp. 416, (S.D. Fla. 1983) (Foreign parent with American subsidiary, *Case 2a*); Disnenos Artisticos E Industriales, S.A. v. Work, 676 F.Supp. 1254 (E.D.N.Y. 1987) (Foreign parent with American subsidiary, *Case 2a*).

facture goods abroad for importation into the United States.[52] As in the *Case 1* scenario, the American firm can be injured by competition from gray market goods if the manufacturing entity, or more likely, a third party[53] imports the goods parallel[54] to the American firm.

3. *Case 3*: U.S. Owner "Authorizes the Use" of the Trademark to a Foreign Firm

The final gray market context is the converse of *Case 1*. In *Case 3*, the United States trademark holder sells (or authorizes the use of) the mark to a foreign company for foreign manufacture.[55] The critical factor here is that the American trademark owner has no link of control in common with the foreign user, other than the terms in their contract. If the purchasing company (or a third party) imports those goods into the United States, the goods will be in gray market competition with the American firm's goods.[56]

These distinctions are drawn because each variation has a characteristic which influences the analysis of the controlling statute, Section 526 of the Tariff Act. The analysis involves an application of the rules of statutory construction[57] to discover if the applicable portion

52. For a related situation *see* Vivitar Corp. v. United States, 761 F.2d 1552, 1556 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986). Vivitar was a U.S. corporation which contracted with a foreign company to manufacture its products. The foreign company did not "use" the mark, but attached it to the goods at the direction of Vivitar. Vivitar was the parent corporation to many subsidiaries in foreign countries which distributed the goods in their respective countries. Third parties purchased the goods and imported them into America where they competed with Vivitar on the U.S. market. (Because these goods were originally intended to be imported into the United States by the U.S. trademark owner, and the unauthorized importation takes place "parallel" to the intended importation, this situation is sometimes known as "parallel importation") Vivitar had sought a declaratory judgment that the Customs Service was required to exclude all gray market imports. The court held that the Customs Service was not required to exclude all gray market goods *sua sponte* and that the Customs Service Regulations were not invalid for failing to require such an exclusion. *Id.* at 1569-70.

53. Plaintiffs at the trial court level of *K Mart* were parents or licensors of foreign companies whose goods were ultimately sold to third parties who imported the goods into the United States. COPIAT v. United States, 598 F.Supp. 844, 846 (D.D.C. 1984).

54. "Parallel importation" is often used synonymously with the term "gray-market importation." Gray market goods are necessarily imported parallel to goods of the American trademark owner in *Cases 1* and *2*. In *Case 3*, there may not be, strictly speaking, parallel importation, because the gray market imported goods may be competing with the U.S. trademark owner's American manufactured goods. "Diverted goods" is another phrase used to describe this situation. *See supra* note 2.

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

56. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1815 (1988).

57. Statutory construction is defined as "[a] judicial function required when a statute is invoked and different interpretations are in contention." BLACK'S LAW DICTIONARY 1266 (5th ed. 1979). Unless otherwise indicated, this author will treat the terms "statutory construction" and "statutory interpretation" interchangeably.

of the Customs Service Regulations is within the scope of the statute. The Customs Service Regulations include provisions that correspond to two of the three case scenarios described above.[58] While plaintiffs in *K Mart Corp. v. Cartier, Inc.* are primarily concerned with *Case 2*, a judicial interpretation of the controlling law compels an opinion addressing all the situations in which the gray market arises.

### C. *The Controlling Statute and Implementing Regulations*

#### 1. *Section 526 of the Tariff Act of 1930*

The Genuine Goods Exclusion Act as codified in Section 526 of the Tariff Act, provides that "it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trade-mark owned by a citizen of . . . the United States and registered in the Patent Office . . . unless written consent of the owner of such trade-mark is produced at the time of making entry."[59] The United States Congress enacted Section 526 of the Tariff Act as a direct response to the holding in *A. Bourjois v. Katzel* by the Second Circuit Court of Appeals, that a trademark owner could not prevent the importation of gray market goods.[60] Shortly after the enactment of Section 526, the United States Supreme Court, aligning case law with Section 526, reversed the appellate court's decision in *A. Bourjois v. Katzel.*[61]

On its face, Section 526 appears to expressly prohibit the importation of all gray market goods without the consent of the American trademark owner.[62] However, certain portions of Section 526, specifically the phrases "owned by" and "merchandise of foreign manufacture," are susceptible to differing interpretations.[63] The potential ambiguities in these phrases are important in determining whether the Customs Service Regulations designed to implement Section 526 are within its scope.

58. *Case 2* corresponds with Customs Service Regulation § 133.21(c)(1) and (2) (i.e. the common control exception). *See* text *infra* accompanying notes 66-69. *Case 3* corresponds with § 133.21(c)(3), (i.e. the authorized use exception). *See* text *infra* accompanying notes 70-72.

59. Tariff Act of 1930 § 526, codified at 19 U.S.C. § 1526 (1982).

60. A. Bourjois v. Katzel, 275 F. 539, 543 (2nd Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

61. *Katzel*, 260 U.S. at 692.

62. *See supra* note 13 and accompanying text.

63. A discussion of the possible interpretations is contained in the Case Analysis section, *see infra* notes 183-203, 207-14 and accompanying text.

### 2. *The Customs Service Regulations: Section 133.21*

In 1972 the Customs Service adopted Section 133.21, a regulation that appears to reduce the broad coverage of Section 526 of the Tariff Act.[64] The regulation provides for two exceptions to the general prohibition against the importation of gray market goods.[65]

#### (a) *The Common Control Exception: Subsections 133.21(c)(1) & (2)*[66]

Initially, Section 133.21(b) of the Customs Service Regulations restates the proscription of Section 526 against the importation of gray goods.[67] However, under Section 133.21(c), exceptions are created for situations where: "(1) [b]oth the foreign and the U.S. trademark . . . are owned by the same person or business entity; (2) [t]he foreign and domestic trademark . . . are parent and subsidiary companies or are otherwise subject to common ownership or control . . . ."[68] Subsections (c)(1) and (c)(2) are collectively known as the "common control" exception.[69] The relationship described in these Subsections corresponds to the *Case 2* scenario described above.

#### (b) *The Authorized-Use Exception: Section 133.21 (c)(3)*[70]

Subsection (c)(3) of Section 133.21 is known as the "authorized-use" exception.[71] It provides an exception to the importation prohibition of Section 526 when: "(3) The articles of foreign manufacture bear a recorded trademark . . . applied under authorization of the U.S. owner."[72] The relationship described under this Subsection corresponds to the *Case 3* situation described above. To discover whether all of the exceptions contained in these regulations are

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64. *See* Kersner and Stein, *supra* note 19, at 253. Prior to the promulgation of § 133.21, the Customs Service had carried out a policy that corresponded to the exceptions contained in the present regulation. K Mart Corp. v. Cartier, Inc., 108 S.Ct. at 1828.

65. The exceptions are contained in 19 C.F.R. § 133.21(c)(1)-(3) (1988).

66. 19 C.F.R. § 133.21(c)(1)-(2) (1988).

67. 19 C.F.R. § 133.21(b) (1988). Subsection (b) states: "*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." *Id.*

68. 19 C.F.R. § 133.21(c)(1)-(2) (1988).

69. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1816 (1988).

70. 19 C.F.R. § 133.21(c)(3) (1988).

71. *K Mart*, 108 S.Ct. at 1816.

72. 19 C.F.R. § 133.21(c)(3) (1988).

consistent with Section 526 of the Tariff Act, a court must apply rules of statutory construction.

D. *The Standard of Judicial Review for the Customs Service Interpretation of Section 526*

The first task of a court reviewing the issue of statutory construction is to determine whether Customs Service Regulations Section 133.21 is "consistent with the language of the statute."[73] If Congressional intent is unambiguously expressed in the phrasing of the statute, the court must give it effect.[74] Arguments that deference should be given to an agency interpretation, such as the Customs Service Regulations Section 133.21, will not be considered if Congressional intent is clearly expressed in the controlling statute.[75]

The standard courts apply to ascertain Congressional intent is often known as the "plain meaning" test.[76] A court looks to the statutory

73. *K Mart*, 108 S.Ct. at 1817, *citing* Board of Governors, FRS v. Dimension Financial Corp., 474 U.S. 361, 368 (1986); Chevron USA Inc. v. Natural Resource Defence Council, Inc., 467 U.S. 837, 842-843 (1984); *and* Mills Music, Inc. v. Snyder, 469 U.S. 153, 164 (1985). For a discussion of the differing judicial philosophies of the authors of the three opinions in *K Mart* with respect to statutory construction, *see* J.C. Kelso, *The Supreme Court's 1987-88 Term: Implications for the Transnational Practitioner*, 1 TRANSNAT'L LAW. 391, (1988).

> The three opinions in *K Mart* thus give us a good picture of three different approaches to statutory interpretation: (a) Kennedy subscribes to a strong version of the plain-meaning rule in which legislative history is not relevant ("at least in the first instance"); (b) Brennan (joined by Marshall, Stevens and probably White) uses the plain meaning as a starting point for analysis, but will usually resort to extrinsic materials in a search for congressional intent; and (c) Scalia (joined by Rehnquist, Blackmun and O'Connor) begins with the plain meaning, but, if the plain meaning is contrary to the interpretation offered by the government's lawyers or by the agency, will attach significant weight to that interpretation, even if it is contrary to the plain meaning.

*Id. See also* R.R. Kelso and C.K. Kelso, *Appeals in Federal Courts by Prosecuting Entities Other Than the United States: The Plain Meaning Rule Revisited*, 33 HASTINGS L.J. 187 (1981) (Discussing various approaches to statutory interpretation.); Palmeter, *supra* note 19, at 91-92.

> If Justice Kennedy's views may be characterized as a strict reading of a statute in order to give the agency charged with its enforcement wide deference, and if Justice Brennan's views may be characterized as sustaining an agency practice because it conforms to what appears to him to be congressional policy sensibly interpreted, Justice Scalia's views may be characterized as resonating to a theory of legislative Supremacy. Justice Scalia takes time to dispute Justice Brennan as to the legislative history of Section 526, but his argument really is on the 'plain words' of the statute. He scorns Justice Brennan's emphasis on the statute's 'purpose.' *Id.*

74. *K Mart*, 108 S.Ct. at 1817, *citing* Board of Governors, FRS v. Dimension Financial Corp., 474 U.S. 361, 368 (1986) (*quoting* Chevron USA Inc. v. Natural Resources Defence Council, Inc., 467 U.S. 837, 842-843 (1984)).

75. *K Mart*, 108 S.Ct. at 1817. *See also* Red Lion Broadcasting Co. v. F.C.C., 395 U.S. 367, 381-82 (1969).

76. *K Mart*, 108 S.Ct. at 1817. *See infra* text accompanying notes 136-138, discussing the approaches toward statutory construction used by the U.S. Supreme Court in determining the validity of Customs Service Regulation § 133.21(c)(1)-(3).

language at issue, along with the design of the entire statute to find its plain meaning.[77] When congressional intent is not readily discernable other traditional methods of statutory construction may be used.[78] If the regulation addresses an issue towards which the statute is silent or ambiguous, the court must decide whether the regulation is a "permissible construction of the statute."[79] Deference to the agency interpretation of the statute must be given if the regulation does not conflict with the plain language of the statute.[80]

Circuit Courts, applying these rules of statutory construction in other gray market cases, have arrived at different conclusions with respect to the challenged regulations.[81] The United States Supreme Court granted certiorari in *K Mart Corp. v. Cartier, Inc.* to resolve the disagreement among the Courts of Appeal.[82]

## II. THE CASE OF *K MART CORP. V. CARTIER, INC.*

The long-lived litigation of *K Mart Corp. v. Cartier, Inc.*[83] came to an end with the Supreme Court decision of May 31, 1988.[84] The primary issues raised at the different levels of the case center around jurisdiction and statutory interpretation of Section 526. These issues

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77. *K Mart*, 108 S.Ct. at 1817, *citing* Bethesda Hospital Assn. v. Bowen, 485 U.S.____, 108 S.Ct. 1255 (1988) *and* Offshore Logistics, Inc. v. Tallentire, 477 U.S. 207, 220-221 (1986).

78. *K Mart*, 108 S.Ct. at 1822 *citing* I.N.S. v. Cardoza-Fonseca, 480 U.S. 421, 446, (1987) (The court considered a longstanding agency interpretation as an indication of the legislative intent).

79. *K Mart Corp. v. Cartier, Inc.*, ____U.S.____, 108 S.Ct. 1811, 1817 (1988), *citing* Chevron v. Natural Resources Defence Council, 467 U.S. 837, 843 (1984) *and* Chemical Manufacturers Assn. v. Natural Resources Defence Council, Inc., 470 U.S. 116, 125 (1985).

80. *K Mart*, 108 S.Ct. at 1817, *citing* United States v. Boyle, 469 U.S. 241, 246 n.4, (1985).

81. *Compare* Vivitar Corp. v. United States, 761 F.2d 1552, 1557-1560 (Fed. Cir. 1985) *aff'g* 593 F.Supp. 420 (Ct. Int'l Trade 1984) *cert. denied*, 474 U.S. 1055 (1986) *and* Olympus Corp. v. United States, 792 F.2d 315, 317-319, (2nd Cir. 1986), *aff'g* 627 F.Supp. 911 (E.D.N.Y. 1985) *cert. denied* ____U.S.____, 108 S.Ct. 2033, *with* Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 598 F.Supp. 844 (D.D.C. 1984) *rev'd* 790 F.2d 903 (D.C.Cir. 1986).

82. *K Mart*, 108 S.Ct. at 1817.

83. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 598 F.Supp. 844 (D. D.C.1984), *rev'd* 790 F.2d 903 (D.C. Cir. 1986), *jurisdiction aff'd sub nom.* K Mart Corp. v. Cartier, Inc. ____U.S.____, 108 S.Ct 950 (March 7, 1988); *aff'd in part and rev'd in part* ____U.S.____, 108 S.Ct. 1811 (May 31, 1988). At the District Court and Court of Appeals levels, the case was named *Coalition to Preserve the Integrity of American Trademarks v. United States.* K Mart Corp. intervened on the side of the United States. Cartier Inc. is a member of COPIAT that sued individually.

84. Plaintiffs, Coalition to Preserve the Integrity of American Trademarks (COPIAT), brought suit on December 5, 1984 in the U.S. District Court, District of Columbia, and litigation was concluded in the Supreme Court some three and a half years later on May 31, 1988.

will be the focus in the following discussion of *K Mart Corp. v. Cartier, Inc.*

The Supreme Court considered in greater detail than the lower courts the varying circumstances in which the gray market situation could arise.[85] The Court also scrutinized the language of the Customs Service Regulations[86] to a greater degree. The Justices considered separately the "authorized-use" and "common control" exceptions embodied in the Customs Service Regulations, arriving at opposite conclusions with respect to the validity of each.[87] Affirming the Court of Appeals decision in part, the court struck down the "authorized-use" exception, codified under 19 C.F.R. Section 133.21(c)(3), finding it inconsistent with Section 526 of the Tariff Act.[88] Reversing the Court of Appeals in part, the Supreme Court declared valid the "common control" portion of the regulation, codified under 19 C.F.R. 133.21(c)(1)and (2).[89]

## A. *The Parties*

The Plaintiffs are an association of American manufacturing and distributing companies, The Coalition to Preserve the Integrity of American Trademarks (COPIAT), and two of its members.[90] Each of the members owns a trademark registered in the United States.[91]

85. *K Mart Corp. v. Cartier, Inc.*, ____U.S.____, 108 S.Ct. 1811, 1814-5 (1988).
86. 19 C.F.R. § 133.21(c)(1)-(3) (1988).
87. *K Mart*, 108 S.Ct. at 1819.
88. *Id.* at 1817.
89. *Id.* at 1819.
90. The two members of COPIAT who are also parties in their own right are: Cartier, Inc., and Charles of the Ritz Group, Ltd., Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 790 F.2d 903, 904 (D.C. Cir. 1986).
91. *COPIAT*, 598 F.Supp. 844, 846 (1984); *See also* Brief for Respondents, *supra* note 1 at addendum 10a-11a, (The Plaintiffs are The Coalition to Preserve the Integrity of American Trademarks, and two of its members: Cartier, Inc. and Charles of the Ritz Group, Ltd.) (The other members of COPIAT are: AC & R Advertising Inc.; Alfin Fragrances, Inc.; American Cyanamid Company/Jacqueline Cochran; American Watch Association; Auto-Time; Avon Products, Inc.; Baccarat, Inc.; Brown & Company, Inc.; Calvin Klein Cosmetics Corp.; Canon U.S.A., Inc.; Citizen Watch Company of America, Inc.; Colonia, Inc.; Compar, Inc.; Computer Retail Trade Association; Cosmair, Inc.; Dennis Time Co.; Dial Corporation/ Greyhound Corp.; Diodon, Inc.; Distilled Spirits Council of the U.S., Inc.; Duracell Inc.; Electronic Industries Association/Consumer Electronics Group, E. Leitz, Inc.; Elizabeth Arden, Inc.; Estee Lauder, Inc.; Giorgio, Inc.; Perfume Division, G-K-G Inc.; G.M.I. Photographic Inc.; Halston Fragrances, Inc.; Joseph E. Seagrams & Sons, Inc.; Maier & Berkele; Mimco; Minolta Corporation; Moet-Hennessy U.S. Corp.; National Association of Beverage Importers, Inc.; Nikon Inc.; North American Watch Corp.; NETCO; Omichron Corp.; P. Robertet, Inc.; Parfums Givenchy, Inc.; Parfums Stern, Inc.; Parfums Worth Corp.; Pentax Corporation; PepsiCo; PFW, Division of Hercules, Inc.; Photographic Manufacturers and Distributors Assoc., Inc.; Photographic Trade News; Polaris Optics; Proctor & Gamble Company; Revlon,

The trademarked products COPIAT members manufacture or distribute include fragrances and cosmetics, watches, tires, fine crystal, cameras, photographic equipment, binoculars, and electronic goods.[92] The trademark owners allege that they suffer damages as a result of the importation into the United States of gray market goods bearing the same trademark as their own products.[93]

The defendants are the Secretary of the Treasury,[94] the Commissioner of the United States Customs Service,[95] and the United States of America.[96] Plaintiffs sued the Government and its agencies in their capacity as the parties responsible for the execution and implementation of federal trademark and customs laws which are alleged to be misinterpreted in the agency regulations.[97]

K Mart Corporation and 47th Street Photo are intervenors whose interests are aligned with defendants in supporting the challenged regulations.[98] Both K Mart and 47th Street Photo are retailers which sell gray market goods[99] and benefit from the continued legality of their importation.[100]

### 1. *Plaintiffs' Causes of Action*

Plaintiffs brought suit for declaratory and injunctive relief in the United States District Court, District of Columbia.[101] They sought a

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Inc.; Richardson-Vicks, Inc.; Schneider Corp. of America; Seiko Time Corporation/Hattori Corporation of America; Sinar Bron, Inc.; Sony Corporation of America; Stanhill Enterprises, Inc.; Tessler & Co.; Texchron, Inc.; The Wilkes Group Inc.; Tokina Optical Corp.; Victor Hasselblad Inc.; Warner Cosmetics Inc.; Weil Ceramics & Glass, Inc.; and Whitbread North America, Inc.).

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

93. *Id.*

94. James A. Baker, III, former Secretary of the Treasury.

95. William von Raab, former Commissioner of Customs.

96. Coalition to Preserve the Integrity of American Trademarks (COPIAT), 598 F.Supp. 844, 846 (D.D.C. 1984).

97. Gorelick and Little, *supra* note 26, at 216. "The Customs Service . . . is the executive agency charged with the administration of section 526." *Id.*

98. The name of the case changed from *COPIAT v. United States* at the trial court and appellate levels to *K Mart Corp. v. Cartier, Inc.* in the United States Supreme Court "to reflect the fact that *K Mart* was the first party to file for a writ of certiorari" in the United States Supreme Court. Steele, *supra* note 1, at 1067, n.7.

99. *COPIAT*, 598 F.Supp. at 846-47.

100. The interest of these two parties in the matter is evidenced by their involvement as intervenors in other important gray market cases: Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986) (both K Mart and 47th Street Photo); Vivitar Corp. v. United States, 585 F.Supp. 1415 (Fed.Cir. 1985) (47th Street Photo only) In the Matter of Certain Alkaline Batteries, 6 I.T.R.D. (BNA) 1849 (K Mart only).

101. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 598 F.Supp. 844, 844 (D.D.C. 1984).

mandatory order from the Court directing the United States Customs Service to exclude gray market goods from importation into the United States.[102] Plaintiffs alleged that they were being denied the trademark protection provided by the Tariff Act Section 526[103] and the Lanham Trademark Act Section 42[104] by the enforcement of inconsistent Customs Service Regulations.[105] A challenge to the facial validity of the Customs Service Regulations is the substance of this suit. Plaintiffs requested the court to declare the regulations inconsistent with the Acts, to enjoin the continued enforcement of the regulations, and to order the enforcement of the Acts by their express terms.[106]

### 2. *Defendants' and Intervenors' Arguments*

Defendants initially challenged the lawsuit on jurisdictional grounds, alleging that the Court of International Trade has exclusive jurisdiction over claims under Section 526 of the Tariff Act.[107] It was also asserted that plaintiffs failed to state a claim under Section 42 of the Lanham Act[108] upon which relief could be granted.[109] Defendants and intervenors argued that the Customs Service Regulations are a valid interpretation of applicable trademark statutes and that gray market importation is beneficial to consumers.[110]

## B. *Issues*

### 1. *Jurisdiction*

The United States District Court for the District of Columbia disagreed with the decision of *Vivitar Corp. v. United States*,[111] holding that claims arising under Section 526 of the Tariff Act were

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102. *COPIAT*, 598 F.Supp. at 846.
103. Tariff Act of 1930, 19 U.S.C. §1526 (1982).
104. Lanham Trademark Act, § 42, 15 U.S.C. § 1124 (1982).
105. *COPIAT*, 598 F.Supp. at 846.
106. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 598 F.Supp. 844, 846 (D.D.C. 1984).
107. *COPIAT*, 598 F.Supp. at 847.
108. *Id.*
109. FED.R.CIV.P. 12(b)(6).
110. *COPIAT*, 598 F.Supp. at 850-851.
111. Vivitar Corp. v. United States, 585 F.Supp. 1415 (Ct. Int'l Trade 1984), *aff'd*, 761 F.2d 1552 (1985) (Holding that the Court of International Trade possessed exclusive jurisdiction over claims arising under §526 of the Tariff Act because 28 U.S.C. §1581(a)(i)(3) grants that court exclusive jurisdiction over international trade disputes.) *Id.* at 1555.

within the exclusive jurisdiction of the Court of International Trade.[112] The District of Columbia Circuit Court of Appeals affirmed the lower court's ruling that jurisdiction was not exclusive to the Court of International Trade.[113] The Supreme Court subsequently affirmed the holding that the jurisdiction of the CIT is not exclusive[114] and that the District Court has jurisdiction pursuant to the general "federal-question" provision[115] and provisions arising under Acts of Congress relating to trademarks.[116]

2. *Lanham Act Claim*[117]

The plaintiffs brought a cause of action based on Section 42 of

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112. *Id.*

113. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 790 F.2d 903, 906 (D.C.Cir. 1986).

114. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 950, 960 (1988). (After this jurisdictional decision the case was restored to the calendar for reargument on the merits).

115. The general federal-question provision is codified under 28 U.S.C. § 1331, which states: "The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States."

116. 28 U.S.C. § 1338(a) (Actions arising under statutes relating to trademarks)

"Patents, plant variety protection, copyrights, trade-marks, and unfair competition.

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to. . . trade-marks. . . ."

117. 15 U.S.C. § 1051 *et seq.* (1982). Plaintiffs in gray market cases, including those in *K Mart Corp. v. Cartier, Inc.* frequently invoke provisions of the Trade Mark Act of 1946 (known as the Lanham Act) to challenge the legality of gray market importation. The Lanham Act contains provisions for registration of trademarks and the rights and remedies available to trademark owners. Section 42 of the Lanham Act addresses protection against trademark infringement. Section 42 provides 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 at any custom house of the United States." (15 U.S.C. § 1124).

Parties have invoked the Lanham Act in spite of its literal language because of the early gray market case, A. Bourjois & Co. v. Katzel, 275 F. 539 (2d Cir. 1921). In that case the Second Circuit Court of Appeals held American trademark owners could not use trademark law to prevent gray market imports (*Katzel*, 275 F. at 543). Both Congress and the United States Supreme Court disagreed with the Second Circuit's holding. The Supreme Court based its decision to exclude the gray goods on Section 27 of the Trade Mark Act of 1905, the equivalent of today's Section 42 (*Katzel*, 260 U.S. at 691). Federal District Courts have distinguished the reliance of the Supreme Court in *Katzel* on Section 27, stating that the decision was based on equitable considerations rather than on the literal language of the Trademark Act (*see* Gorelick and Little, *supra* note 26, at 225). *See supra* text accompanying notes 67-68 (referring to *A. Bourjois & Co. v. Katzel*).

Opponents of the gray market attempt to invoke the protection of the Lanham Act because the alleged injury suffered by competition from gray market goods is arguably analogous to that suffered from counterfeit goods. However, gray market goods, by definition, bear "valid U.S. trademarks." (*K Mart*, 108 S.Ct. at 1814). Since Section 42 only addresses copied or simulated marks, gray market goods are not within the reach of the Lanham Act (*COPIAT*, 598 F.Supp. at 848). Federal District Courts have usually dismissed Section 42 causes of action in the gray market context (*COPIAT*, 598 F.Supp. at 848, *Olympus*, 627 F.Supp. at 917, *NEC*, 810 F.2d at 1510, Prestonettes, Inc. v. Coty, 264 U.S. 359, 368-9 (1924)). Although a Section 42 cause of action was pled at the trial court stage of *K Mart Corp. v. Cartier, Inc.*, it was dismissed for the reasons stated above and was not addressed by the U.S. Supreme Court (*see COPIAT*, 598 F.Supp. at 848).

the Lanham Act.[118] However, defendants' motion to dismiss for failure to state a cause of action under the Lanham Act was granted.[119] The District Court found that, absent certain limited circumstances,[120] Section 42 of the Lanham Act applies exclusively to items bearing counterfeit trademarks or trademarks that copy or simulate genuine trademarks.[121] The District Court stated that since Plaintiffs' trademarks at issue in the case are authentic, the Lanham Act *does not* apply.[122] Neither the Appellate Court nor the Supreme Court addressed the issue concerning the applicability of the Lanham Act.[123]

### 3. *Statutory Construction*[124]

#### (a) *District Court*

The primary issue of *K Mart Corp. v. Cartier, Inc.* concerns whether Customs Service Regulations allowing importation of certain gray market goods are consistent with the Tariff Act they are designed to implement.[125] The District Court found the Customs Service Regulations to be consistent with the Tariff Act and therefore valid.[126] The court stated that "the task for a court is not to interpret a statute as it thinks best, but rather the narrower inquiry into whether the agency's construction is 'sufficiently reasonable' to be accepted by the reviewing court."[127] The court further stated that "in order

118. *COPIAT*, 598 F.Supp. at 847.

119. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 598 F.Supp. 844, 848 (D.D.C. 1984).

120. *Id.* at 848, *referring to A. Bourjois v. Katzel*, 275 F. 539 (2d. Cir. 1921), *rev'd* 260 U.S. 689 (1923). The *Katzel* court held that § 42 of the Lanham Act allowed the gray-market victim in that case to prevent the importation of goods by a third party (the *case 1* situation).

121. *COPIAT*, 598 F.Supp. at 848.

122. *Id.*

123. *See* Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 790 F.2d 903, 907 (D.C. Cir. 1986) (Because the District of Columbia Circuit Court of Appeals held that the regulations are not consistent with Section 526, the court did not find it necessary to decide whether the regulations would be consistent with Section 42 of the Lanham Act. *See also K Mart Corp. v. Cartier, Inc.*, 108 S.Ct. 1811, 1817 n.3 (1988). The Court stated, "Respondents. . . asserted that the Customs Service regulation was inconsistent with § 42 of the Lanham Trade-Mark Act, 15 U.S.C. § 1124, which prohibits the importation of goods bearing marks that 'copy or simulate' U.S. trademarks. *That issue is not before us.*" *Id.* (emphasis added).

124. *See supra* notes 73-82 and accompanying text.

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

126. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 598 F.Supp. 844, 852 (D.D.C. 1984).

127. *COPIAT*, 598 F.Supp. at 851, *citing*, Federal Election Commission v. Democratic Senatorial Campaign, 454 U.S. 27, 39, (1981) (citing Zenith Radio Corporation v. United States, 437 U.S. 443, 450 (1978) and Train v. Natural Resources Defence Council, 421 U.S. 60, 75 (1975)).

to satisfy this standard, it is not necessary for a court to find that the agency's construction is the only reasonable one or even the reading the court would have reached if the question had initially arisen in a judicial proceeding."[128] The district court held that the Customs Service made a "sufficiently reasonable" interpretation of the statute, thus satisfying the proper standard of review.[129]

(b) *U.S. Court of Appeals*

The Court of Appeals rejected the District Court's finding that the Customs Service interpretation of Section 526 through its Regulations was "sufficiently reasonable."[130] Contrary to the lower court, it found that the Customs Service interpretation of the Regulations did not display the necessary "thoroughness, validity, and consistency to merit judicial acceptance."[131] The court also noted that, throughout the history of Section 133.21, poor reasoning has been offered in its defense.[132] It found scant support in the legislative history for the Customs Service interpretation.[133] The Court of Appeals held that the Customs Service Regulations were invalid because they did not constitute a reasonable interpretation of Section 526.[134]

The appellate judges found the Congressional intent clear with respect to Section 526 of the Tariff Act.[135] Under their interpretation the plaintiff/appellants' situation fit within the literal language of the statute and was protected by its provisions.[136] The Court stated that it could not be compelled to "choose between the 'plain meaning' of a statute and extrinsic indicia of intent: . . . the circumstances prompting the enactment of Section 526 and its legislative history persuade us that the statute embodies a purpose as sweeping as the terms its drafters employed."[137]

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128. *COPIAT*, 598 F.Supp. at 851.

129. *Id.* at 852. In upholding the Customs Service Regulations the District Court stated that the Customs Service interpretation of Section 526 was consistent with the Congressional intent behind that statute. "This construction is supported by the legislative history, judicial decisions, legislative acquiescence, and the long-standing consistent policy of the Customs Service." *Id.*

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

131. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 790 F.2d 903, 916 (D.C. Cir. 1986) *citing* Federal Election Comm'n v. Democratic Senatorial Campaign Comm., 454 U.S. 27, 37 (1981).

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

133. *Id.*

134. *Id.* at 908.

135. *Id.*

136. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 790 F.2d 903, 908 (D.C. Cir. 1986).

137. *Id.* The Court of Appeals looked to legislative history of the statute and contempo-

The Court of Appeals held that a literal interpretation of Section 526 was supported by the purpose of the law as expressed by members of Congress.[138] An extensive review of the Senate debate reinforced the Appellate Court's conclusion that Section 526 of the Tariff Act confers an "absolute, unqualified property right upon American companies that own registered trademarks."[139] A proposed amendment to Section 526 that did not become law indicated that Congress understood Section 526 to bar the importation of goods bearing an American company's trademark unless that company consented.[140] The Senate passed this amendment which was later rejected by the House of Representatives.[141] The Appellate Court reasoned that unless the Senate interpreted Section 526 to bar importation without the owner's consent, the amendment they had passed would have been "wholly ineffectual and purposeless."[142] The court concluded that Congress "in 1930—those favoring and opposing the amendment—believed that Section 526 applied to all situations literally within its terms."[143]

Therefore, the appellate court reversed the judgment of the District Court and remanded the case back to the District Court with orders to issue a declaratory judgment that the Customs Service Regulations were inconsistent with Section 526 and therefore unlawful.[144]

(c) *The Supreme Court*[145]

— Justice Kennedy[146]

A majority of six Justices agreed that the standard for review of agency regulations interpreting a federal statute should be the "plain

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raneous interpretations of the Customs Service regulation throughout the years of its existence to arrive at the conclusion that the regulation was contrary to Section 526 of the Tariff Act and "hence unlawful." *Id.* at 918.

138. *Id.* at 910.

139. *Id.*

140. *Id.* at 912-13. The proposed amendment would have caused the deletion of the clause that permitted the United States trademark owner to consent to the importation of goods bearing its trademark. Thus the amendment would have made the exclusion of gray market goods mandatory instead of discretionary. The amendment was intended to "protect American jobs by preventing U.S. based manufacturers from establishing foreign based plants." *Id.* at 912. The House rejected the amendment and it was abandoned in conference. "The failed amendment further demonstrates Congress' understanding that § 526 absolutely barred importation of goods bearing an American company's trademark without the company's consent." Id. at 912-913, *referring to* 72 Cong. Rec. 7870 (1930).

141. 72 Cong. Rec. 7870 (1930).

142. Coalition to Preserve the Integrity of American Trademarks (COPIAT), 790 F.2d 903, 913 (D.C. Cir. 1986).

143. *Id.* at 913.

144. *Id.* at 918.

145. The three Supreme Court opinions approached the issue of statutory construction

meaning" test as articulated by Justice Kennedy.[147] The majority held that "[i]f the statute in question is silent or ambiguous with respect to the specific issue" in question, the court must decide whether the construction of the statute by the agency is a permissible one.[148] If there is no conflict between the plain language of the statute and the agency's regulation, "the court must give deference to the agency's interpretation of the statute."[149]

Justice Kennedy's standard of review does not analyze the legislative history of Section 526 nor the statute's purpose.[150] In contrast, Justice Brennan scrutinized the legislative history and subsequent developments to attempt to overcome the ambiguities inherent in the statute. The differences in judicial philosophy of each Justice is evident at this initial stage of analysis and ultimately influences their conclusions.[151]

— Justice Scalia

Justice Scalia and those who joined in his opinion concurred with Justice Kennedy in regard to the standard of review.[152] However, one commentator has noted that, although both opinions give a strict reading to the statute, they have a different emphasis.[153] Justice Scalia states that there is only one instance in which the court should disregard the "plain application of the statute" and focus on its legislative purpose.[154] That instance occurs when a change in circumstances with respect to the subject matter of the statute is evident.

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differently. Justice Kennedy was joined by Chief Justice Rehnquist, and Justices Blackmun, O'Connor, and Scalia. K Mart Corp. v. Cartier, Inc., 108 S.Ct. 1811, 1814 and 1817 (1988). Justice Scalia authored his own opinion and was joined by the Chief Justice, Justices Blackmun, and O'Connor. *Id.* at 1931, 1834-35. The dissent on the issue of statutory construction was authored by Justice Brennan who was joined by Justices Marshall and Stevens. *Id.* at 1819, 1920-22. Justice White did not join any opinion on the issue of statutory construction.

146. Justice Kennedy authored the plurality opinion. *K Mart*, 108 S.Ct. at 1814.

147. *Id.* at 1817. Justice Kennedy states that, "[i]n ascertaining the plain meaning of the statute, the court must look to the particular statutory language at issue, as well as the language and design of the statute as a whole;" *citing* Bethesda Hospital Assn. v. Bowen, 108 S.Ct. 1255 (1988); *and* Offshore Logistics, Inc. v. Tallentire, 106 S.Ct. 2485, 2493-94 (1986).

148. *K Mart*, 108 S.Ct. at 1817.

149. *Id.*, *citing* United States v. Boyle, 469 U.S. 241, 246 (1985).

150. K Mart Corp. v. Cartier, Inc., ___U.S.___, 108 S.Ct. 1811, 1817 (1988). Justice Kennedy states: "[A]ny reference to legislative history . . . is in the first instance irrelevant." *Id.* at 1818, n.4.

151. *See supra* note 73.

152. Chief Justice Rehnquist, Justice Blackmun, and Justice O'Connor joined with Justice Scalia on the issue of statutory interpretation; *K Mart*, 108 S.Ct. at 1831.

153. Palmeter, *supra* note 19, at 91-92. *See also supra* note 62.

154. *K Mart*, 108 S.Ct. at 1835.

"It [must be] clear that the alleged changed circumstances[155] were unknown to, and unenvisioned by, the enacting legislature, and it [must be] clear that they cause the challenged application of the statute to exceed its original purpose."[156] Justice Scalia asserted that with respect to Section 526 neither of these conditions are satisfied.[157] Thus, he concludes that the rules of statutory interpretation only allow for a literal reading of Section 526, and the exceptions carved out by the Customs Service should not be upheld.[158]

— Justice Brennan[159]

Justice Brennan takes a far different approach to the method of statutory construction.[160] He considers the practical effects of the statute,[161] the Congressional intent,[162] and the equities involved,[163] as well as what weight should be given to a "longstanding agency interpretation."[164]

To determine the reasonableness of the Customs Service interpretation of Section 526, Justice Brennan begins with the proposition that the particular statutory language at issue must be examined,[165]

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155. Justice Scalia asserts that, "the prerogative of each currently elected Congress [is] to allow those laws which change has rendered nugatory to die an unobserved death if it no longer thinks their purposes worthwhile; and to allow those laws whose effects have been expanded by change to remain alive if it favors the new effects." K Mart Corp. v. Cartier, Inc., 108 S.Ct. 1811, 1834 (1988). By the term "changed circumstances" Justice Scalia is referring to a change of circumstances that would render the Congressional purpose of the statute inapplicable.

156. *K Mart*, 108 S.Ct. at 1835.

157. *Id.*

158. *Id.*

159. On the issue of statutory construction, Justice Brennan, joined by Justices Marshall and Stevens, dissents. *See id.* at 1821-22.

160. See Palmeter, *supra* note 19, at 91-92.

161. K Mart Corp. v. Cartier, Inc., ___U.S.___, 108 S.Ct. 1811, 1819 (1988).

162. *Id.* at 1823-27.

163. *Id.* at 1823, 1830.

164. *Id.* at 1827-8; *citing* Zenith Radio Corp. v. United States, 437 U.S. 443, 450 (1978); and NLRB v. Bell Aerospace Co., 416 U.S. 267, 275, (1974); *K Mart*, 108 S.Ct. at 1822, *citing* INS v. Cardoza-Fonseca, 480 U.S. 421 (1987). The weight to be given longstanding agency interpretation is one of the main points at which the judicial philosophies of the various Justices' clash. Justice Kennedy interprets the Act without resort to the Customs Service's past practices, solely looking to the statutory language itself. *See supra* note 73.

165. It is at this point that Justices Kennedy and especially Scalia end their analyses, relying solely on the language of the statute. *See* Palmeter *supra* note 19, at 91-92 and *supra* note 80. Justice Brennan seems to express his disapproval of Scalia's and Kennedy's approach by stating that when the haste of Congress in enacting 526 is taken into account, there is reason to "avoid a hypertechnical interpretation that would 'make trouble rather than allay it.'" *K Mart* at 1823, *citing* Fort Smith & Western R. Co. v. Mills, 253 U.S. 206, 208 (1920); *and* United States v. Bass, 404 U.S. 336, 344 (1971); Justice Brennan also seems to be announcing his disapproval of the other Justices' philosophy by quoting: "To hold otherwise is to wrench statutory words out of their legislative context and treat legislation as no more than a 'collection of English words' rather than 'a working instrument of government. . . .' " *K Mart*, 108 S.Ct. at 1829-30, *citing* United States v. Dotterweich, 320 U.S. 277, 280 (1943).

along with the "language and design of the statute as a whole."[166] To discover the design of the statute, he states that it must be understood in the context out of which it was created,[167] which includes the factual basis of *A. Bourjois & Co. v. Katzel.*[168] In a remarkably different posture from the approach of Justices Kennedy and Scalia, Justice Brennan cites a "familiar rule" that, even if the language of Section 526 clearly indicated its coverage, "a thing may be within the letter of the statute and yet not within the statute, because not within its spirit, nor within the intention of its makers."[169]

Justice Brennan's analysis begins with an examination of the language of the statute to show its protectionist nature.[170] He reasons that, since protectionism is the purpose of the statute, Congress could not intend that foreign manufacturers should be able to circumvent this intent by establishing a domestic subsidiary for the purpose of "owning" the United States trademark (a *Case 2a* scenario).[171] Justice Brennan suggests that much of the language of the statute would be pointless if foreign corporations could so easily get around the purpose of an Act intended for the benefit of American companies.[172]

After a discussion of the Senate Debates and Conference Reports, Justice Brennan arrives at the conclusion that the evidence clearly shows that the only goal Congress had in enacting Section 526 was to overrule *Katzel* on its facts.[173] Thus Congress was intending to exclude from the statute's protection trademark owners affiliated with foreign manufacturers (i.e., all *Case 2* variations).[174]

Finally, Brennan is in favor of giving deference to the longstanding agency interpretation of the statute.[175] He supports the proposition that since ambiguities exist in Section 526, the Customs Service

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166. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1820 (1988).
167. *Id.* at 1822.
168. A. Bourjois & Co. v. Katzel, 275 F. 539, (2nd Cir. 1921), *rev'd* 260 U.S. 689 (1923).
169. *K Mart*, 108 S.Ct. at 1821-22; *citing* Steelworkers v. Weber, 443 U.S. 193, 201 (1979) (*quoting* Holy Trinity Church v. United States, 143 U.S. 457, 459 (1892)).
170. *K Mart*, 108 S.Ct. at 1820.
171. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1821 (1988). Justice Brennan states that the barriers to importation embodied in § 526 "are fragile barriers indeed if a foreign manufacturer might bypass them by the simple device of incorporating a shell domestic subsidiary and transferring to it a single asset—the U.S. trademark. Such a reading of § 526 seems entirely at odds with the protectionist sentiment that inspired the provision." *Id.*
172. *Id.* at 1821.
173. *Id.* at 1824.
174. *Id.* at 1826.
175. *Id.* at 1827-1828, *citing*: Zenith Radio Corp. v. United States, 437 U.S. 443, 450 (1978); NLRB v. Bell Aerospace Co., 416 U.S. 267, 275 (1974).

interpretation should be accepted, at the very least, if it is a reasonable one.[176] Additionally, he considers the effect on the domestic retail industry which has developed in reliance on this longstanding Customs Service interpretation.[177]

### 4. *Application of the Rules of Statutory Construction*

Upon final review the United States Supreme Court strikes a balance between the holdings of the District Court and the Court of Appeals in *K Mart Corp. v. Cartier, Inc.*[178] By a narrow margin of five to four the Supreme Court upholds the "common control" exception[179] of the Customs Service Regulations.[180] This interpretation of the relevant law allows for the continued importation of most gray market goods (*Case 2*). By an equally narrow margin, the Court struck down the "authorized-use" exception of the Regulations.[181] Thus, gray market goods falling within the "authorized-use" scenario (*Case 3*) are excluded under Section 526 of the Tariff Act as directed in Customs Service Regulations Section 133.21(b).

#### (a) *The Common Control Exception*[182]

— Justice Kennedy

Justice Kennedy, joined by Justice White, holds that the phrase "owned by" contained in Section 526 of the Tariff Act is "ambiguous."[183] The ambiguity that Justice Kennedy perceives lies in the difficulty of determining who the "owner" of the United States trademark is when a foreign parent company establishes a subsidiary in the U.S. to register the trademark of the foreign parent with the

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176. K Mart Corp. v. Cartier, Inc., 108 S.Ct. 1811, 1826-27 (1988).
177. *Id.* at 1828, *citing* Zenith Radio Corp. v. United States, 437 U.S. 443, 457 (1978).
178. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 598 F.Supp. 844, 846 (D. D.C.1984), *rev'd* 790 F.2d 903 (D.C. Cir. 1986), *jurisdiction aff'd sub nom.* K Mart Corp. v. Cartier, Inc. ____U.S.____, 108 S.Ct 950 (March 7, 1988), *aff'd in part and rev'd in part* ____U.S.____, 108 S.Ct. 1811 (May 31, 1988).
179. 19 C.F.R. § 133.21(c)(1) and (2) (1988).
180. *K Mart*, 108 S.Ct. at 1814.
181. 19 C.F.R. § 133.21(c)(3) (1988).
182. 19 C.F.R. § 133.21(c)(1)-(2) (1988). *See supra* text accompanying notes 66-69.
183. *K Mart*, 108 S.Ct. at 1818. Section 526 states that ". . . it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise,. . . . bears a trademark *owned by* a citizen of. . . the United States, and registered in the Patent Office. . . ." 19 U.S.C. § 1526 (1982) (emphasis added). Justices Brennan, Marshall, and Stevens agreed with the result of allowing this part of the regulation to stand, but followed entirely different reasoning in arriving at this conclusion. *See also* sources cited *supra* note 80.

United States Patent Office (*Case 2a*).[184] The phrase "owned by" can be interpreted to mean that the foreign parent is the "owner" or that the domestic subsidiary is the "owner." Since Justice Kennedy found the phrase "owned by" to be ambiguous, it was held that the Customs Service is entitled to make a "reasonable" interpretation of the phrase under its own Regulations.[185]

To uphold the *Case 2b* and *2c* scenarios within the "common control" exception of the Customs Service Regulations, Justice Kennedy found an additional ambiguity in the phrase "merchandise of foreign manufacture" in Section 526.[186] He points out that this ambiguity parallels that of the "owned by" ambiguity, "which sustained [the] *Case 2a* [scenario]."[187] He notes that the phrase "merchandise of foreign manufacture" could cover, not only goods manufactured on foreign soil by a foreign company, but also goods manufactured in the U.S. by a foreign company or, even goods manufactured in a foreign country by an American company.[188] Thus, in further support of upholding the "common control" exception, Kennedy held that it was not unreasonable for the Customs Service to interpret the ambiguous phrase "merchandise of foreign manufacture" to mean that goods manufactured by a foreign subsidiary[189] or division[190] of a domestic company are not "goods of foreign manufacture."[191]

— Justice Brennan

Justice Brennan also upholds the "common control" exception embodied in the Customs Service Regulations.[192] In defining the "ownership" qualification in the language of the Tariff Act, Brennan's view is that the foreign parent company approximates the true

184. *K Mart*, 108 S.Ct. at 1818.
185. *Id.*
186. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1818 (1988). Section 526 states that ". . .it shall be unlawful to import into the United States any *merchandise of foreign manufacture* if such merchandise,. . . bears a trademark owned by a citizen of. . . the United States, and registered in the Patent Office. . ." 19 U.S.C. § 1526 (1982) (emphasis added).
187. *K Mart*, 108 S.Ct. at 1818.
188. *Id.*
189. Recall that when the American trademark owner has a foreign subsidiary which is the source of the gray market goods, this a *Case 2b* scenario. *See supra* text accompanying notes 51-54.
190. Recall that when the American trademark owner has a foreign manufacturing division which is the source of the gray market goods, this a *Case 2c* scenario.
191. *K Mart*, 108 S.Ct. at 1818.
192. *Id.* at 1820.

"owner" more accurately than does its American subsidiary (in the *Case 2a* scenario).[193] Thus, because of the ambiguity present in this language of the statute, Brennan agrees with Justice Kennedy that the Customs Service is free to give the phrase "owned by" its own reasonable interpretation.[194]

Justice Brennan's conclusion rests on the premise that, due to a change in circumstances, the original purpose behind Section 526 is too narrow to afford the trademark owner (in all three case scenarios) the full intended statutory protection.[195] He states that the legislature which promulgated Section 526 of the Tariff Act did not contemplate that a trademark owner might license or "assign the rights to use its trademark, along with business and goodwill, to an unrelated manufacturer in another territory."[196] Justice Brennan further asserts that if the legislature could have contemplated such a change in the view of trademark ownership, they would have "almost certainly . . . concluded that such a transaction would divest the licensor not only of the benefit of Section 526's importation prohibition, but of all trademark protection."[197] Thus, he concludes that the "common control" exception must be upheld in order to afford trademark owners the protection of Section 526 to "assign rights in a particular territory along with goodwill, [while] retaining ownership in another distinct territory."[198]

Furthermore, Justice Brennan would uphold the "common control" exception because of the ambiguity in the phrase "merchandise of foreign manufacture."[199] He stated that the "phrase could readily be interpreted to mean either 'merchandise manufactured in a foreign country' or 'merchandise manufactured by a foreigner.'"[200] He asserts that under the former interpretation, "the merchandise manufactured abroad in cases 2b and 2c would fall within [Section] 526's ban."[201] "Under the latter definition . . . the coverage is not as clear."[202] If

193. *Id.* at 1821. In support of this proposition, Justice Brennan cites *Cf.* Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752, 771 (1984). A parent and a wholly owned subsidiary "*always* have a unity of purpose or a common design." *Id.* (emphasis in original).

194. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1821 (1988).

195. *Id.* at 1829.

196. *Id.*

197. *Id.*

198. *Id.*, *citing* California Wine & Liquor Corp. v. William Zakon & Sons, Inc., 297 Mass. 373, 378, 8 N.E.2d 812, 814 (1937).

199. *K Mart*, 108 S.Ct. at 1821.

200. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1821 (1988).

201. *Id.*

202. *Id.*

"merchandise manufactured by a foreigner" is the criterion, Brennan would not deem a manufacturing division or a subsidiary of an American firm abroad "in any sense a foreigner."[203] Multinational companies based in the United States would be greatly affected depending on which interpretation is applied.[204] The combined votes of the Justices supporting the opinions of Justice Kennedy and Justice Brennan has the effect of upholding the validity of the "common control" exception of the Customs Service Regulations. Consequently, the Customs Service, in enforcing its regulations, is free to prohibit American companies "owned by" a foreign entity from invoking the protection of Section 526.[205]

— Justice Scalia

Justice Scalia, joined by Chief Justice Rehnquist and Justices Blackmun and O'Connor, asserts that the "common control" exception of the Customs Service Regulations is in "conflict with the clear language of Section 526(a)."[206] He agrees with the rest of the Court in finding that the phrase "owned by" in Section 526 of the Tariff Act "is ambiguous when applied to domestic subsidiaries of foreign corporations (*Case 2a*)."[207] However, Justice Scalia disagrees as to the significance of this ambiguity with respect to the discretion of the Customs Service in interpreting Section 526.[208] He states that "the authority to clarify an ambiguity in a statute is not the [same as the] authority to alter . . . its unambiguous applications, and Section 526 unambiguously encompasses most of the situations that the regulation purports to exclude."[209]

The "common control" exception of the Customs Service Regulations[210] allows the importation of gray goods "bearing a domestic trademark that have been manufactured abroad by the trademark owner (*Case 2c*), or by the trademark owner's subsidiary (*Case 2b*)."[211] In other words, such goods would not be subject to

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203. *Id.*
204. *See supra* text accompanying notes 257-262.
205. *K Mart*, 108 S.Ct. at 1820.
206. *Id.* at 1831.
207. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1831 (1988).
208. *Id.*
209. *Id.* In expressing his disagreement with Brennan's examination of the purposes of the statute articulated at the time of its enactment, Justice Scalia states that the reach of the statute should not be limited to the purposes contemplated at the time of its enactment, but goes beyond "to cover the same inequity in other contexts." *Id.* at 1836.
210. 19 C.F.R. § 133(c)(1) & (2) (1988).
211. *K Mart*, 108 S.Ct. at 1831.

the import prohibitions of Section 526.[212] Scalia asserts that no matter how one interprets the relationship between a parent corporation and its subsidiary with respect to ownership of their assets, it would be "impossible to conclude that . . . anyone other than [the] United States corporation" owns the trademark applied to their products.[213] However, since "the statutory requirement that the trademark be 'owned by' a U.S. citizen or corporation is unambiguous with respect to these two cases," Justice Scalia would not uphold the "common control" exception of Section 133.21(c)(1) & (2) of the Customs Service Regulations.[214]

(b) *The Authorized-Use Exception*[215]

— Justice Kennedy

A united majority of five Justices concurred in the opinion of Justice Kennedy agreeing that the "authorized-use" exception of the Customs Service Regulations should be struck down as inconsistent with Section 526 of the Tariff Act.[216] They hold that there is a direct conflict between the plain language of the Act and Section 133.21(c)(3) of the Regulations.[217] Due to this direct conflict, the Court maintains that the ambiguities in the phrases "owned by" and "of foreign manufacture" in Section 526 are irrelevant to the analysis of the "authorized-use" exception.[218] Were the court to allow the "authorized-use" exception to stand, a domestic trademark holder would have the power to prevent the importation of "goods made by an independent foreign manufacturer where the domestic trademark holder has authorized the foreign manufacturer to use the trademark."[219] Justice Kennedy states that no reasonable construction of Section 526 could exclude such goods from its scope.[220] Without any further discussion, the "authorized-use" subsection of the regulation was declared invalid.[221]

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212. *Id.*
213. K Mart Corp. v. Cartier, Inc., ___U.S.___, 108 S.Ct. 1811, 1831 (1988).
214. *Id.*
215. 19 C.F.R. 133.21(c)(3) (1988). *See supra* text accompanying notes 70-72.
216. *K Mart*, 108 S.Ct. at 1817, Opinion of Justice Kennedy joined by Chief Justice Rehnquist, and Justices Blackmun, O'Connor and Scalia. *Id.* at 1814.
217. *Id.* at 1819.
218. K Mart Corp. v. Cartier, Inc., ___U.S.___, 108 S.Ct. 1811, 1818 (1988).
219. *Id.*
220. *Id.* at 1818-19.
221. *Id.* at 1819.

— Justice Brennan

Justice Brennan, along with three others,[222] expressed belief that the "authorized-use" exception of Section 133.21(c)(3) is a reasonable interpretation of Section 526 of the Tariff Act.[223] He finds ambiguity in the application of Section 526 to a situation in which an American firm authorizes the use of its trademark to an independent foreign firm (*Case 3*).[224] Justice Brennan states that comprehension of the ambiguity in Section 526 "follows only from an understanding of trademark law that established itself long after the 1922 enactment and 1930 re-enactment of Section 526."[225]

The rights that a trademark owner was entitled to at the time of enactment of Section 526 are different from what a trademark owner is entitled to today.[226] "When [Section] 526 was before Congress [in 1922], the prevailing law held that a trademark's sole purpose was to identify for consumers the product's physical source or origin."[227] Under today's views, a trademark is also to serve the function of "identifying product quality for consumers."[228] "[I]t was not until well after [Section] 526's enactment that it became clear that a trademark owner could assign rights in a particular territory along with goodwill, while retaining ownership in another distinct territory."[229] Brennan states that, since the legislators who enacted Section 526 could not have contemplated such an expansion of trademark law, the Customs Service is free to interpret the statute in any way that is reasonable.[230] Thus, Justice Brennan concludes that the Customs Service interpretation of Section 526 was reasonable in excluding American companies who authorized the use of their trademark to

222. *Id.* (Joining Justice Brennan are Justices Marshall, Stevens and White).

223. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1831 (1988).

224. *Id.* at 1830.

225. *Id.* at 1828.

226. *Id.* at 1829.

227. *Id.* at 1828, *referring to* Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co., 113 F. 468, 475 (8th Cir. 1901). "Under this early 'source theory' of protection, trademark licensing was viewed as philosophically impossible, since licensing meant that the mark was being used by persons not associated with the real manufacturing 'source' in a strict, physical sense of the word." *Id.* at 1828, *citing* 1 J. McCarthy, Trademarks and Unfair Competition, § 18:13 at 826 (2d ed. 1984) (hereinafter McCarthy).

228. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1829 (1988) *citing* 1 McCarthy, at 827-829.

229. *K Mart*, 108 S.Ct. at 1829, *referring to* California Wine & Liquor Corp. v. William Zakon & Sons, Inc., 297 Mass. 373, 378; 8 N.E.2d 812, 814 (1937).

230. *K Mart*, 108 S.Ct. at 1821, "The language of §133.21(c)) can reasonably be read. . . as the Customs Service has [interpreted it]. . .".

a foreign manufacturer (*Case 3*) from the protection of Section 526.[231] The holder of the United States trademark in *Case 3* does not need the protection of Section 526 because that company can avoid competition from the imported gray goods by declining to license the use of its mark abroad.[232]

## III. Legal Ramifications

The plurality of *K Mart Corp. v. Cartier, Inc.* upheld the "common control" exception embodied in the Customs Service Regulations and found the "authorized-use" exception of those Regulations to be an unreasonable interpretation of Section 526.[233] In so doing, the U.S. Supreme Court left intact a major inroad for gray market goods entering the United States by upholding the "common control" exception, within which the *Case 2* scenario falls. Since the reach of Section 526 does not extend to prohibit the importation of all gray market goods, it is necessary to address the potential effect on the international business community and the continuing problems behind the gray market. The remainder of this note will expand on the issues raised in other areas of the law as well as issues that the Court failed to consider.

### A. *Effects on the Gray Market After K Mart Corp. v. Cartier, Inc.*

The authors of the three opinions in *K Mart Corp. v. Cartier, Inc.* avoided addressing the full effects that the plurality holding has on the various gray market scenarios, concentrating instead on strict application of principles of statutory interpretation. The Court's approach may stem from a recognition that the decision to permit or prohibit gray market importation properly belongs to the other branches of the government. To address the problems associated with the gray market, the Legislative and Executive branches can adopt a position somewhere between absolutely banning gray market imports or allowing free importation of gray goods. It is more likely, however, that any legislative or administrative reaction will occupy an intermediate position between these polar options. In selecting this posi-

231. *Id.* at 1831.

232. *Id.* at 1830. Justice Brennan states that "the holder of the U.S. trademark in case 3 can avoid competition simply by declining to license its use abroad or even (if contractually permitted) revoking an already-issued license." *Id.*

233. K Mart Corp. v. Cartier, Inc., ____U.S.____, 108 S.Ct. 1811, 1819 (1988).

tion, the Legislative and Executive branches must resolve many complex political and economic policy decisions.[234] The remaining portions of this note will consider the impact of *K Mart Corp. v. Cartier Inc.* on the various gray market case scenarios and the effect of the Court's holding on the international business, with an eye towards identifying the factors likely to be influential upon any policy decisions made by the Administration or Congress.

1. *Issues Under Case One: "The Prototypical Gray Market Victim"*

The "prototypical" gray market victim is the "domestic firm that purchases from an independent foreign firm the rights to register and use the [foreign firm's] trademark as a U.S. trademark and to sell its foreign-manufactured products. . . [in the United States]."[235] This is represented by the *Case 1* gray market scenario.[236] The owner of the 'new' domestic trademark contemplates that it will be an exclusive distributor of those trademarked goods in the United States with the ability to exclude unwanted competition.[237] However, if the foreign manufacturer of the goods (or a third party) imports and distributes goods bearing the same trademark, the American firm will be subjected to unexpected intrabrand competition.[238] The American firm will lose the market advantage that it acquired by purchasing the rights to register and use the independent foreign entity's trademark.[239] To alleviate this perceived unfairness in the *Case 1* scenario Congress enacted Section 526 of the Tariff Act.[240] Therefore, the Supreme Court in *K Mart Corp. v. Cartier Inc.* had no difficulty in unanimously agreeing that the Customs Service is within the law when it bars importation in *Case 1*.[241]

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234. Palmeter, *supra* note 19, at 42.

235. *K Mart*, 108 S.Ct. at 1814, 1820. *See* A. Bourjois v. Katzel, 275 F. 539 (2d Cir. 1921), *rev'd* 260 U.S. 689 (1923).

236. *K Mart*, 108 S.Ct. at 1820.

237. *See K Mart*, 108 S.Ct. at 1822-23.

238. *See generally* A. Bourjois & Co. v. Katzel, 275 F. 539 (2nd Cir. 1921).

239. K Mart Corp. v. Cartier, Inc., ___U.S.___, 108 S.Ct. 1811, 1822-23 (1988). Brennan states that "the U.S. trademark holder that . . . has purchased trademark rights at arms's length from an independent [foreign] manufacturer stands to lose the full benefit of its bargain because of gray-market interference." *Id.*

240. *Id.* at 1815. Justice Kennedy states that "In an immediate response to *Katzel*, Congress enacted § 526 of the Tariff Act. . ."; *see* A. Bourjois & Co. v. Katzel, 275 F. 539 (2d Cir. 1921), *rev'd* 260 U.S. 689 (1923).

241. *K Mart*, 108 S.Ct. at 1815, 1820 (J. Brennan concurring).

Section 526 affords to certain American trademark owners a great deal of power to shield themselves from foreign intrabrand competition.[242] By invoking the rights granted in Section 526, the United States markholder of the *Case 1* category can have the Customs Service prevent the importation of all goods bearing its trademark.[243] Consequently, for the prototypical *Case 1* victim, the United States Supreme Court in *K Mart Corp. v. Cartier, Inc.* has reaffirmed the American trademark owner's monopoly for distribution of trademarked goods in the United States.[244]

Justices Brennan and Scalia briefly allude to the international ramifications of the powerful exclusionary rights afforded to American companies under Section 526.[245] Justice Brennan remarks upon the protectionist impetus behind the enactment of Section 526, stating that "[t]he barriers that Congress erected seem calculated to serve no purpose other than to reserve exclusively to domestic, not foreign, interests the extraordinary protection that [Section] 526 provides."[246] Justice Scalia points out that the holding in *K Mart Corp. v. Cartier, Inc.* requires the Customs Service to discover the corporate identity of an importer of gray goods to determine whether the goods are "of foreign manufacture," as interpreted by the majority to include "goods manufactured by foreigners."[247] The holding in *K Mart Corp. v. Cartier, Inc.* interprets the Customs Service Regulations as treating goods manufactured by American companies in a foreign country more favorably than goods manufactured in the same foreign country by companies owned by parties in that country.[248] This is because goods manufactured by an American company in country "B" can be imported into the United States unhindered by a possibility of exclusion under Section 526. However, goods manufactured in country "B" by a company of country "B" will be subject to exclusion under Section 526, for example, if the goods bear a trademark the use of which was authorized by an American company. Under these circumstances the goods from country "B" may be excluded because

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242. K Mart Corp. v. Cartier, Inc., ___U.S.___, 108 S.Ct. 1811, 1819 (1988).
243. 19 U.S.C. § 1526(a). Remedies available under (b) and (c) include "seizure and forfeiture" of the offending merchandise, as well as injunctive relief and monetary damages.
244. *K Mart*, 108 S.Ct. at 1819. *See infra* text accompanying notes 303-339. (Section addressing antitrust issues).
245. *K Mart*, 108 S.Ct. at 1820 (Brennan J., concurring in part and dissenting in part); *Id.* at 1833 (Scalia J., concurring in part and dissenting in part).
246. *Id.* at 1820-21.
247. *Id.* at 1833.
248. K Mart Corp. v. Cartier, Inc., ___U.S.___, 108 S.Ct. 1811, 1833 (1988).

the authorized-use exception was invalidated under *K Mart Corp. v. Cartier, Inc.* If the American company was authorized to use a trademark originally belonging to a foreigner (*Case 1*), the American company will similarly be able to request the Customs Service to exclude gray market goods. This apparent discrimination against foreign owned companies is likely to conflict with terms in commercial treaties the United States has entered into with other nations.[249]

Justice Scalia cited as an example of such a conflict the Treaty of Friendship, Commerce and Navigation with the Federal Republic of Germany[250] (Treaty of Friendship) which contains a "national treatment" clause.[251] "National treatment" is defined as the obligation of a state to accord "to the nationals of another state treatment equivalent to that which the state accords to its own nationals."[252] The Treaty of Friendship expressly provides: "Nationals and companies of either Party shall be accorded national treatment and most-favored-nation treatment by the other Party with respect to all matters relating to importation and exportation."[253] As stated above, an American company operating on foreign soil may freely import its trademarked goods into the United States without threat of exclusion, while a foreign licensee of the trademark manufacturing on foreign soil may face a bar to importation due to Section 526. If such an importation bar occurs, the foreign licensee may have a complaint based on a violation of the treaty provisions. National treatment questions may also arise when a foreign-based multinational enterprise (MNE) establishes a subsidiary in the United States for the purpose of registering its trademark in the United States. If the subsidiary is viewed as an American company[254] there would naturally be no national treatment problem. However, if the subsidiary is viewed as "foreign" because of its relationship to the MNE, then it may have a complaint under the treaty provision if it is treated

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249. *Id.*

250. Treaty of Friendship, Commerce and Navigation with the Federal Republic of Germany, October 29, 1954, [1956] United States-Federal Republic of Germany, art. XIV, para. 2, 7 U.S.T. 1839, 1843, T.I.A.S. No. 3593 [hereinafter Treaty of Friendship].

251. Treaty of Friendship, 7 U.S.T., at 1855, art. XIV, para. 4. The treaty provides that "[n]ationals and companies of either Party shall be accorded national treatment and most-favored-nation treatment by the other Party with respect to all matters relating to importation and exportation." *Id.*

252. Restatement of Foreign Relations Law of the United States, Tentative Draft No. 4, § 801(2), (1983).

253. Treaty of Friendship at 1855, art. XIV, para. 4.

254. *See infra* text accompanying note 275.

differently than an "American" company with regards to rights under Section 526.

A "national treatment" clause is present in other international agreements to which the United States is a party in addition to the Treaty of Friendship. Notable examples include the General Agreement on Tariffs and Trade (GATT)[255] and the Paris Convention for the Protection of Industrial Property.[256] While GATT and the Treaty of Friendship directly address national treatment with respect to importation, the national treatment clause of the Paris Convention is focused upon intellectual property rights.[257] The compatibility of this type of treaty with the operation of Section 526 of the Tariff Act depends upon whether the rights provided under that Act are viewed as "intellectual property" rights[258], as opposed to merely "importation" rights. After all, Section 526 is not located within the Lanham Act, which governs trademark rights in the United States, but rather within the Tariff Act. The potential discriminatory nature of Section 526 derives from the fact that it was created to protect United States citizens exclusively.[259] On the other hand, the Lanham Act, in establishing trademark law in the United States, is not designed to protect only American citizens.[260]

However, Section 526 operates to bar trademarked goods *unless* consent to their importation is given by the American trademark

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255. General Agreement on Tariffs and Trade, Oct. 30, 1947, art. III, 55 U.N.T.S. 194, 206, T.I.A.S. 1700 [hereinafter GATT]. "Such discriminatory treatment is likely to result in complaints about the U.S. legislation in GATT." Remington, *Comments on K Mart v. Cartier: Gray Market Trade and EEC Law*, 22 J. WORLD TRADE 93, 101. [hereinafter Remington].

256. Paris Convention for the Protection of Industrial Property, July 14, 1967, art. 2, para. 1, 21 U.S.T. 1630, 1631, T.I.A.S. No. 6923 [hereinafter Paris Convention].

257. Paris Convention at 1631. Art. 2, paragraphs 1 and 2, provide:

> (1) Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereinafter grant, to nationals. . . . Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.
>
> (2) However, no requirement as to domicile or establishment in the country where the protection is claimed may be imposed upon nationals of countries of the Union for the enjoyment of any industrial property right.

*Id.*

258. The Paris Convention uses the phrase "industrial property" to encompass "patents,. . . industrial designs, trademarks, service marks. . . ." Paris Convention, art. 1, para. 2. For ease of reference in this portion of the Note, these rights are referred to as "intellectual property" rights.

259. *See* text of the Tariff Act, 19 U.S.C. § 1526, *and* K Mart Corp. v. Cartier, Inc., ___ U.S.___, 108 S.Ct. 1811, 1819 (1988).

260. *See* 15 U.S.C. § 1051, which contains no nationality requirements for trademark registration.

owner.[261] The right to enforcement of Section 526 is likely to be viewed as a trademark (or intellectual property) right that may only be enjoyed by American citizens. Thus, treaties pertaining to trademarks may entitle foreign owners to every trademark right afforded to American mark owners under the Lanham Act, yet the treaties may neglect to afford the foreign owners the "trademark right" contained in Section 526. This unequal treatment may violate the national treatment clauses of those treaties.

An additional troublesome issue arises in considering the relative weight to be given a treaty ratified by Congress and an act adopted by Congress. In other words, the issue is whether the Treaty of Friendship or the Tariff Act controls when some of their terms conflict. Both treaties and federal statutes are considered "the supreme law of the land."[262] As the two are equal, case law states that courts will always construe them so as to give effect to both, but if they are inconsistent, the most recent expression of the sovereign will controls.[263] However, a treaty "will not be deemed to have been abrogated or modified by a later statute unless such purpose on the part of Congress has been clearly expressed."[264]

The Tariff Act is the most recent expression of the sovereign will of the United States Government in relation to the Treaty of Friendship with the Federal Republic of Germany, the Treaty of Paris, and GATT.[265] It is doubtful, however, that Congress intended to abrogate the "national treatment" clauses within those treaties. Therefore, Section 526 of the Tariff Act may very well stand in conflict with the "more recent expressions of sovereign will" embodied in the national treatment clauses of those treaties.

2. *Issues Under Case Two: "The Common Control Exception"*

As mentioned by Justice Brennan, in the variations under *Case 2* there may be an element of direct control between a parent and subsidiary (or division) located abroad.[266] If this control existed, a

261. *See supra* note 14, for the text of Section 526.
262. NOWAK, CONSTITUTIONAL LAW, Section 6.8, at 206.
263. *Id., citing* Whitney v. Robertson, 124 U.S. 190 (1888).
264. NOWAK, *supra* note 250, at 206, *quoting* Cook v. United States, 288 U.S. 102, 120 (1933).
265. The Tariff Act was most recently amended in 1975, the Treaty of Friendship with the Federal Republic of Germany was ratified in 1956; the Paris Treaty in 1967; GATT in 1947. *See supra* notes 257, 262, 263.
266. *K Mart Corp. v. Cartier, Inc.*, 108 S.Ct. 1811, 1823 (1988).

trademark owner would have internal methods to prevent the parallel importation by its affiliate and perhaps by a third party.[267] Presumably, because the parent company has control over the subsidiary, it can prevent gray market importation by responding

> "with a panoply of options that are unavailable to the independent purchaser of a foreign trademark. [The parent and subsidiary] could, for example, jointly decide in their mutual best interests that the manufacturer (1) should not import directly to any domestic purchaser other than its affiliate; (2) should, if legal, impose a restriction against resale (or against resale in the United States) as a condition on its sales abroad to potential parallel importers; or (3) should curtail sales abroad entirely."[268]

Under this analysis, it is reasonable to assume that Congress could have intended the different treatment afforded in Section 526 to Multinational Enterprises (MNEs, which are *Case 2* companies) as opposed to companies that do not have transnational affiliations. The Customs Service Regulations will not extend the protections of Section 526 to "common control" companies because those companies have a self-policing capability which allows them to prevent the importation of gray goods within their relationship structure.

However, this presents a rather incomplete view of MNEs. It is not always correct to assume that, as between a number of affiliated firms in different countries, there is one parent that controls the operation of all its foreign subsidiaries.[269] The MNE can be understood in two ways. First, in the traditional view, the parent and subsidiary are considered separate and distinct legal entities. All transactions between the two firms are viewed as made at arms length. If this view were followed a subsidiary with a registered trademark in the United States is an American owner and citizen entitled to all the rights that status provides. In a second view, the MNE is considered as a "network of operations, services, or a global multiplant system connected through a common resource pool and a common strategy with all its component parts."[270] The structure may

267. *Id.*
268. *Id.*
269. *Compare* Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752, 771 (1984), holding that a parent and *wholly owned* subsidiary are one entity for purposes of antitrust law. But note that this does not address the situation in which the ownership or control between the entities is less than complete.
270. Yelpaala, *In Search of Effective Policies for Foreign Direct Investment: Alternatives to Tax Incentive Policies,* 7 Nw. J. Int'l L. & Bus. 208, 215 (1985) [hereinafter Yelpaala].

be polycentric rather than monocentric in nature.[271] A polycentric structure could make it impossible for an American company to command a foreign affiliate to take measures to prevent gray marketeers from obtaining goods bearing its trademark for importation into the United States. Similarly, common ownership will not always mean common control to the extent assumed by Justice Brennan in the analysis immediately above.

Whether or not MNEs have a monocentric control structure, their complex nature makes them difficult to reconcile with the intended scope of Section 526. Recall that Section 526 was intended to protect only American interests.[272] The language of the statute proscribes the importation of foreign manufactured merchandise "if such merchandise . . . bears a trade-mark owned by *a citizen of*, or by a corporation or association *created or organized within*, the United States . . . ."[273] (emphasis added) The characteristics of MNEs create difficulties in determining whether a company is American or not for purposes of Section 526. Although American subsidiaries are "organized within the United States," the problem is whether as de jure owner of the U.S. trademark, the subsidiary, as opposed to a foreign affiliate within its MNE system (possibly the de facto owner of the trademark), should be considered the trademark owner under Section 526.[274] Under the traditional view described above, the American subsidiary would be considered the owner of the mark without dispute. Under the other view described, the question is more difficult to resolve. According to the second view, "[t]he MNE enjoys tremendous flexibility in its operational decision process. Its decisions are neither bound nor seriously limited by considerations of . . . regional, national, or cultural allegiances."[275] Business entities operating on such a global perspective do not lend themselves easily to a characterization of being "foreign" or "domestic." The "nationality" of an MNE could be determined upon such criteria as its place of incorporation, the citizenship of the majority of its equity

271. *Id.* at 215. For purposes of this Note "Polycentric" is defined as having many centers of control, as distinguished from "monocentric" where there is only one center of control.
272. *K Mart*, 108 S.Ct. at 1820.
273. 19 U.S.C. § 1526 (1982) (emphasis added).
274. The United States Supreme Court has recognized that a parent company and its *wholly owned* subsidiary are a single entity for purposes of antitrust law. *See supra* note 276. Whether this reasoning could be extended to fields of law such as trademark ownership, and how it effects a relationship of less than complete ownership of the subsidiary by the parent, has not been decided.
275. Yelpaala, *supra* note 270, at 214.

owners, the citizenship of the majority of its officers, the location of its headquarters or majority of its offices, or even the locations of its primary manufacturing plants or the largest market it supplies. Perhaps none of these criteria would successfully determine whether a company is American or not for purposes of Section 526.

The statutory distinctions of Section 526 are also difficult to define when determining which entity of a MNE "owns" the trademark registered in the United States. The question becomes whether an American company which is part of a MNE is really "American" for purposes of Section 526, when it is a member of an MNE which may be primarily owned by foreign interests or partially controlled by a non-American company. As discussed above, the flexible structure of MNE organization may render the question unanswerable. The solution to trademark ownership suggested by the United States Patent and Trademark Office, and noted by Justice Brennan in *K Mart Corp. v. Cartier, Inc.* may be the wisest when dealing with MNEs.[276] The position taken is that trademark ownership among parent and subsidiary corporations "is largely a matter to be decided between the parties themselves."[277] While this allows the MNE members to decide for themselves how best to take advantage of differences in trademark laws in various countries, it takes the burden away from the Customs Service of having to determine the nationality of MNE members.

As a result of the holding in *K Mart Corp. v. Cartier, Inc.*, goods produced abroad under an "authorized-use" arrangement (*Case 3*) may now be barred by the Customs Service from importation into the United States pursuant to Section 526. Goods manufactured within foreign borders pursuant to a *Case 1* relationship are also susceptible to exclusion under Section 526. Goods produced by an affiliated firm under common control with an American company (*Case 2*) will be allowed entry into the United States by the Customs Service by operation of the common control exception. However, one of the questions the United States Supreme Court did not answer in *K Mart Corp. v. Cartier, Inc.* was whether a plaintiff within a *Case 2* scenario who wishes to exclude gray market goods could still invoke Section 526 in spite of the United States Supreme Court upholding the validity of the common control exception. This possibility was directly addressed by the Federal Circuit Court of Appeals

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276. K Mart Corp. v. Cartier, Inc. 108 S.Ct. 1811, 1821 (1988).
277. 1 McCarthy, *supra* note 216, at 748.

in *Vivitar Corp. v. United States.*[278] That court held that the "Customs regulations cannot affect the actual scope of a trademark owner's rights vis-a-vis an importer under the statute."[279] "Regardless of whether Customs excludes or does not exclude particular imports, the courts must independently determine whether the importation is or is not precluded by the statute."[280] The *Vivitar* court held that a trademark owner is entitled to "pursue private remedies against the importer, and, if successful, to have such grey market goods excluded."[281] In contrast, the language of some of the *K Mart* opinions seem to imply that the Customs Service Regulations are the sole recourse for an American trademark owner to exclude gray market goods. For example, Justice Brennan writes, "[t]he Customs Service's common-control exception denudes the trademark holder of [Section] 526's protection in each of the [common control] cases."[282] Justice Scalia also appears to be under the assumption that, if goods are not excluded under the Customs Service Regulations, there is no other remedy for the American trademark owner. He states that "the majority's suggested interpretation [of Section 526] . . . would have the effect of eliminating [Section] 526's protection for some trademark holders in case 1. . ."[283] On the other hand, in a separate opinion addressing the jurisdictional issues in *K Mart Corp. v. Cartier, Inc.*, Justice Brennan wrote that the Customs Service regulation at issue is a "mechanism by which a private party might, at its own option, enlist the Government's aid in restricting the quantity of imports in order to enforce a private right."[284] This statement suggests a recognition that a private party may choose an alternative option to the Customs Service regulation in enforcing its private right. Such an alternative may be for the American trademark owner to obtain an injunction under Section 526 ordering the Customs Service to exclude gray market goods when the remedy provided by the Customs Service Regulations is inadequate to provide such relief.[285]

278. Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985) *cert. denied,* 474 U.S. 1055 (1986).
279. *Id.*, 761 F.2d at 1569.
280. *Id.*
281. *Id.*
282. *K Mart*, 108 S.Ct. at 1820.
283. *Id.* at 1832.
284. K Mart Corp. v. Cartier, Inc., ___U.S.___, 108 S.Ct. 950, 957 (1988).
285. The Customs Service Regulations, as a Government Agency's rules, do not have the force of law. Thus the requirement that to obtain equitable relief one must show an inadequate remedy at law does not apply to the Customs Service Regulations, which are not a remedy at law. *See* Vivitar Corp. v. United States, 761 F.2d 1552, 1569 (Fed. Cir. 1985).

The issue decided by the Supreme Court in *K Mart Corp. v. Cartier, Inc.* was the narrow one of whether the Customs Service Regulation was a permissible construction of Section 526. In order to decide this issue, the court had to construe the scope of Section 526. However, to decide that issue it was not necessary to determine the entire range of Section 526's applications beyond the Customs Service Regulations. If this is true, any language in the case indicating that the Customs Service Regulations are the sole remedy available to trademark owners under 526 may be dicta. Certainly, the case did not expressly overrule the holding of *Vivitar*.[286]

If the *Vivitar* holding remains viable after *K Mart Corp. v. Cartier, Inc.*, the result for MNEs may be that they may still obtain the exclusionary benefits of Section 526. However, the approach taken by opponents of the common control exception by attacking the Customs Service Regulations suggests that they recognized the regulations to be a large obstacle. If *K Mart Corp. v. Cartier, Inc.* does implicitly overrule the *Vivitar* holding of an additional approach to exclude gray goods, then MNE's may have another reason to object to their treatment under the Customs Service Regulations.

If American companies falling within the "common control" exception are now unable to legally exclude gray market goods to protect themselves from the intrabrand competition, they may be encouraged to license unaffiliated manufacturers in foreign countries when accessing foreign markets and discouraged from establishing subsidiaries abroad. This could cause those companies to lose the advantage of economic efficiencies that a foreign location may provide.

In addition to the possible chilling of foreign investment, the upholding of the "common control" exception, coupled with the striking down of the "authorized-use" exception, may create other problems for MNEs. The "common control" exception may discriminate against MNEs by facilitating intrabrand competition from third party gray market importers. American firms which acquire the right to register a trademark from an independent foreign company (*Case I*) can successfully request that the United States Customs Service block gray market imports under the Customs Service Regulations.[287]

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286. The *Vivitar* case was cited in the *K Mart Corp. v. Cartier, Inc.* decision only to illustrate that the Circuit Courts were in disagreement on the validity of Customs Service Regulations Section 133.21(c) with respect to Section 526 of the Tariff Act. *K Mart*, 108 S.Ct. at 1817.

287. *See infra* text accompanying notes 240-41.

Similarly, the ruling in *K Mart Corp. v. Cartier, Inc.* by striking down the "authorized-use" exception, allows domestic firms which authorize an independent foreign company to use the domestic firm's trademark abroad (*Case 3*), to request the Customs Service to exclude gray market imports.[288] After *K Mart Corp. v. Cartier, Inc.*, however, an American parent or subsidiary that is part of a MNE is foreclosed from this option (at least with respect to invoking the Customs Service Regulations) and would be forced to compete against gray market imports if relief could not otherwise be obtained in a Section 526 action.

A possible result of such discrimination may be to force MNE's to access American and foreign markets through an independent distributor. Such a situation could significantly affect international investment patterns. Domestic and foreign parent companies are precluded from achieving the same monopoly position in the United States available to United States trademark owners who are unaffiliated with their foreign distributors. Thus, a foreign trademark owner considering investment in the United States to form a manufacturing or distributing subsidiary (or division) might refrain from making such an investment because gray market importers will reduce his potential market share.[289] Conversely, an American parent owning a U.S. trademark might refrain from establishing subsidiaries abroad for fear of losing its market position in the United States.

Strict enforcement of the "common control" exception may go as far as to discourage even minority ownership by American MNEs in foreign-based operations. The "common control" exception allows the importation of gray market goods based on the existence of "a parent-subsidiary relationship or other form of common control."[290] If interpreted broadly, this provision might apply to a firm in which the parent possesses a minority ownership share and yet significantly influences the management of the foreign distributor.

By discouraging a MNE from exploiting trademark-based monopolies in several countries a policy of decentralization of economic power could result. The MNE could be compelled to achieve trademark-monopoly profits through licensing or franchising agreements with independent firms. This precludes establishment of intercon-

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288. K Mart Corp. v. Cartier, Inc., ___U.S.___, 108 S.Ct. 1811, 1819 (1988).

289. "Most COPIAT members are wholly-owned, or at least effectively controlled, by the foreign companies which manufacture the trademarked goods and are largely responsible for the trademark's goodwill in the United States." Steele, *supra* note 1, at 1066. Thus, the members of COPIAT are among those that would complain of this discrimination.

290. 19 C.F.R. § 133.21(c)(2) (1988).

nected enterprises exploiting different national markets pursuant to a parent corporation that acts as a centralized decision-making authority. This potential impetus towards decentralization, if realized, would occur without an express statement from Congress of its intention to achieve such a result. Clearly, the impact of such an unintended policy on investment in the United States and other countries should be included in any comprehensive analysis of the gray market.

### 3. *Issues Under Case Three: "The Authorized-Use Exception"*

In *Case 3*, the American company "authorizes" an independent foreign entity to use its United States trademark.[291] Usually the mark holder sells the use of the trademark to the foreign manufacturer and restricts its use to a particular foreign location.[292] Such a restrictive distribution scheme will usually prohibit the foreign manufacturer from importing the trademarked goods into the United States.[293] Nevertheless, if the foreign manufacturer or a third party imports the goods into the United States intrabrand competition from the gray market will result.[294] To avoid this problem the American trademark holder may now invoke the protection of Section 526 of the Tariff Act to prohibit the importation of the foreign manufactured goods. Where previously the "authorized use" exception permitted importation of this form of gray goods, the *K Mart Corp. v. Cartier, Inc.* decision removes this barrier to exclusion of gray imports.[295]

## B. *Antitrust Law*

As Justice Brennan noted in *K Mart Corp. v. Cartier Inc.*, Section 526 grants "extraordinary protection" to certain trademark owners.[296]

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

292. *Id.* (*See Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68 (2d Cir. 1987), *cert. denied*, 108 S.Ct. 143 (1987) (In *Granada* a United States corporation licensed the use of the "CABBAGE PATCH KIDS" trademark to an independent Spanish entity, restricting its use to a limited area.); *see also* Note, *Original Appalachian Artworks, Inc. V. Granada Electronics, Inc.*: The Cabbage Patch Doll Goes Gray?, 1 TRANSNAT'L LAW. 339 (1988).

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

294. *Id.*

295. Because the source of the goods is dispositive and not the party importing them, even third parties who attempt to import gray goods under the *Case 3* type of relationship can be prevented from doing so after the *K Mart* holding. A person wishing to engage in parallel importation will be forced to distinguish between goods manufactured by a *Case 1* or *3* company, as opposed to goods manufactured by a *Case 2* company.

296. *K Mart*, 108 S.Ct. at 1819 (Justice Brennan, concurring in part and dissenting in part).

The protection provided by Section 526 involves the ability to exclude potential competition from gray market goods. This exclusion may facilitate the anticompetitive practices of price discrimination and market protection.[297] Since the purpose of antitrust law is to promote competition,[298] such an exclusionary practice brings up antitrust issues.[299] American trademark owners who fall within the *Case 1* characterization and invoke Section 526 risk running afoul of the antitrust laws. After *K Mart Corp. v. Cartier, Inc.*, United States trademark owners who "authorize" the use of their marks to independent foreign companies in order to enforce the importation prohibitions of Section 526 run the same risk. Since the Court in *K Mart Corp. v. Cartier, Inc.* did not explicitly overrule the holding in *Vivitar Corp. v. United States*, even companies falling within the *Case 2* scenarios that wish to invoke the protection of Section 526 run the risk of violating the antitrust laws.

American antitrust law is codified in the Sherman Act.[300] Section 1 of the Sherman Act (Sherman 1) proscribes "[e]very contract, combination,. . . or conspiracy, in restraint of trade. . . ."[301] An American trademark holder, in attempting to prevent competition from gray goods, is not acting in "contract, combination or conspiracy"[302] when he unilaterally attempts to exclude gray market imports under Section 526. Consequently, a trademark owner will not be in violation of Sherman 1 unless he acts in concert with a another for the purpose of restraining trade,[303] or colludes with an

297. Mackintosh, *supra* note 1, at 309. The *Osawa* court suggested that "The promulgation of the [Customs Service] regulations represented an effort on the part of Customs to implement its perception of antitrust policy" with respect to the gray market. *Osawa & Co. v. B & H Photo*, 589 F.Supp. 1163, 1177 (S.D.N.Y. 1984), *referring to* Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 TRADEMARK REP. 301 (1969).

298. "In passing the antitrust laws 'Congress was dealing with competition, which it sought to protect, and monopoly, which it sought to prevent.'" AREEDA & TURNER, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION, 7 (1978) *quoting* Standard Oil Co. v. F.T.C., 340 U.S. 231, 249 (1951).

299. *See generally* Gorelick and Little, *supra* note 26, at 227-30; Kelly, *An Overview of the Influx of Grey Market Goods Into the United States*, 11 N.C.J. INT'L L. & COM. REG. 231, 244-48 (1986); Mackintosh, *supra* note 1, at 309-312; Takamatsu, *supra* note 26, at 437-38.

300. 15 U.S.C. §§ 1-7 (1982).

301. 15 U.S.C. § 1 (1982).

302. *Id.*

303. This is an example of a horizontal restraint of trade. Horizontal arrangements are defined as agreements among competitors. T. VAKERICS, ANTITRUST BASICS 1-14 (Law Journal Seminars-Press No. 3, 1987). [hereinafter VAKERICS] The United States Supreme Court has held that a wholly owned subsidiary cannot "conspire" with its parent within the meaning of the antitrust laws because they are the same entity. Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752 (1984).

independent company on a vertical distribution chain.[304] The situations in which an American trademark owner could violate Sherman 1 include: a "horizontal" agreement to attempt to stop gray market importation into the United States between the American company which is an exclusive distributor in the United States of the trademarked item and other exclusive distributors in foreign countries;[305] or, a "vertical" agreement between a foreign manufacturer and the American trademark owner authorizing the use of the mark to the foreign company in return for which the foreign company will sell to the American company exclusively in the United States and use its best efforts to prevent the entry of gray market goods into the United States.[306] In both of these situations, the use of Section 526 to exclude gray market goods by the American company is not an element of an antitrust violation. The violation lies in the *agreement* to commit anticompetitive acts, and not in the acts themselves.

An exercise of rights under Section 526 is more likely to give rise to a Sherman Act Section 2 violation.[307] "Every person who shall monopolize, or attempt to monopolize . . . trade" is liable under Section 2 of the Sherman Act (Sherman 2).[308] This provision of the antitrust laws is concerned with unilateral acts, such as the invocation by one party of Section 526 to protect itself from competition. Indeed, there is a possibility that Section 526 conflicts with the Sherman Act.[309] At the least, antitrust law provides an affirmative defense for a gray market importer who is threatened with exclusion because of a Section 526 action.[310] It must be kept in mind, however, that a trademark owner has a type of monopoly right inherent in his mark. A successful invocation of Section 526 excludes only goods bearing a genuine trademark, not goods that bear a different trademark but are functionally identical and capable of creating competition. Under modern antitrust trends, reduced intrabrand competition

304. This is an example of a vertical restraint of trade. Vertical restraints are defined as the ability of a manufacturer to control the practices of independent wholesalers and retailers who resell the products of a manufacturer. VAKERICS, *supra* note 303, at 7-1. *See*, Kersten, Hans-Christian, *EEC Antitrust Policy on 'Grey Market' Exports and Imports Within the Common Market*, 16 INT'L BUS. LAW. 134, 139 (March 1988).

305. D. Bender and R. Davis, *Gray Market Goods and the Antitrust Laws*, in GRAY MARKETS AND PARALLEL IMPORTS: PROTECTIONISM VS. FREE TRADE, PATENTS COPYRIGHTS, TRADEMARKS AND LITERARY PROPERTY: *Course Series Number 217*, 303 (1986).

306. *Id.*

307. *See id.* at 304.

308. Sherman Act, 15 U.S.C. § 2 (1982).

309. Bender and Davis, *supra* note 305, at 317.

310. *Id.* at 326.

which would result from the exclusion of goods bearing an identical trademark is not necessarily viewed as undesirable.[311] Reduced *intra*-brand competition may often help to increase *inter*brand competition.[312] The argument is that the goals of antitrust law would be better accomplished by increasing *inter*brand competition.[313] A Sherman 2 violation is only likely to be found under narrow circumstances where it could be proven that "the overall net effect of excluding grey market imports would be anticompetitive."[314]

Antitrust claims have been raised in several early gray market cases,[315] but none appear determinative of the current state of antitrust law as applied to the gray market. In *United States v. Guerlain Inc*,[316] U.S. Justice Department attorneys argued that an American distributor, by invoking Section 526, was in violation of Sherman 2 for an "attempt to monopolize" the importation of trademarked toilet products.[317] The District Court for the Southern District of New York held that the exclusion of gray market goods by the American company "for excluding competition and controlling price levels [was] a monopolization and an attempt to monopolize . . ." in violation of Sherman 2.[318] Although the government attorneys were victorious in their claim, they later requested that the case be dismissed on the grounds that the case involved issues that were best handled by the legislative branch.[319] This was because government

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311. *Id.* at 306-307. *See* Continental TV Inc. v. GTE Sylvania, Inc., 433 U.S. 36, 51-55 (1977).

312. *Intra*brand competition between trademarked goods refers to competition between goods bearing the same mark. In contrast, *inter*brand competition results when goods bearing different trademarks compete. The existence of *inter*brand competition prevents price-gouging by retailers because their competitors will undersell them to attract customers. "The ability of a firm or group of firms to [practice anticompetitive acts] depends upon their customers' ability to obtain equivalent products or acceptable substitutes from other suppliers or to forego the product entirely." AREEDA AND HOVENKAMP, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION, 392 (1988 supp.) The trademark owner would not be able to exploit his trademark monopoly and set his prices higher than the domestic market would ordinarily bear for his goods because consumers would simply purchase a competitor's equivalent good.

313. *See generally* Continental TV Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977).

314. Bender and Davis, *supra* note 305, at 326. Stating that the analysis to discover whether the conduct was anticompetitive would probably be based on the Sylvania case.

315. United States v. Guerlain, Inc., 155 F. Supp. 77 (S.D.N.Y. 1957), *prob. jurisd. noted sub nom.* Lanvin, Perfumes, Inc. v. United States, 355 U.S. 951, *cert. denied,* 357 U.S. 924 (1958); Parfums Stern v. United States Customs Service, 575 F.Supp. 416 (S.D. Fla. 1983); Osawa & Co. v. B & H Photo, 589 F.Supp. 1163 (S.D.N.Y. 1984).

316. United States v. Guerlain, Inc., 155 F. Supp. 77, 79 (S.D.N.Y. 1957).

317. *Id.* at 79.

318. *Id.* at 91.

319. Mackintosh, *supra* note 1, at 310.

agencies were in disagreement as to how to interpret Section 526 in light of the antitrust laws.[320]

In *Parfums Stern v. United States Customs Service*,[321] the District Court for the Southern District of Florida held that plaintiff, a subsidiary of a United States MNE, violated Sherman 2 by attempting to invoke Section 526 to prevent gray market competition from its own manufacturing sources.[322] The court concluded that Sherman 2 "did not permit exclusion of gray market goods imported by plaintiff's international affiliates and refused to enjoin importation of these goods."[323] The finding that defendant attempted to monopolize imports was similar to the holding of the trial court in *Guerlain*.[324] Both *Parfums Stern* and *Guerlain* involved U.S. companies who attempted to exclude competition from foreign manufacturers that were under common control with the American companies.[325] Since the United States Supreme Court in *K Mart Corp. v. Cartier, Inc.* held the "common control" exception valid, these types of companies may have a more difficult time convincing the Customs Service to exclude gray market goods, regardless of antitrust considerations. The question of whether a private cause of action exists under Section 526, apart from the Supreme Court's construction of that statute with respect to the Customs Service Regulations in *K Mart Corp. v. Cartier, Inc.*, remains to be answered.[326]

Most recently, the District Court for the Southern District of New York in *Osawa & Co. v. B & H Photo* rejected defendant's arguments that an injunction excluding gray market goods would violate antitrust proscriptions against price discrimination,[327] or monopolization.[328] The *Osawa* court found that defendant had violated a Customs Service exclusion order grounded on Section 526.[329] Defendant claimed that price differences between the markowner's goods and the gray goods was a result of price discrimination in violation of antitrust laws.[330] This claim was rejected for lack of proof and because plaintiff

320. *See* Kersner and Stein, *supra* note 26, at 270-71.
321. *Parfums Stern*, 575 F.Supp. at 416.
322. Mackintosh, *supra* note 1 at 311.
323. *Id.*
324. *Guerlain*, 575 F.Supp. at 420.
325. *See Parfums Stern*, 575 F.Supp. at 418; *and Guerlain* 155 F.Supp. at 79.
326. *See supra* text accompanying notes 278-85.
327. Osawa & Co. v. B & H Photo, 589 F.Supp. 1163, 1164 (S.D.N.Y. 1984).
328. *Id.* at 1178.
329. *Id.* at 1165.
330. *Id.* at 1166.

offered legitimate reasons for the price differences.[331] The *Osawa* court engaged in a general discussion of antitrust principles to conclude that the attempt to exclude gray market goods would not, on its own, be violative of antitrust law.[332] Analysis of the foregoing cases indicates that American courts will continue to reject antitrust claims when raised against companies that invoke Section 526 to halt the importation of gray goods.

## Conclusion

As one commentator has written, in any discussion of the merits of gray market importation "[t]he equities of the respective [policy] positions are delicately balanced . . ."[333] Obviously, the trademark owner's property rights should be protected. This must include a measure of protection against loss of goodwill due to the "unauthorized" importation of goods which do not meet appropriate specifications for the domestic market (*e.g.* electrical current requirements or product operation instructions printed in a foreign language). On the other hand, when a trademark owner relinquishes the exclusive right to the use of the mark and allows another to use it, he has the ability to condition that use on the maintenance of the mark's quality. He should not be allowed to complain later that some products bearing his mark are of lesser quality than others, and thus should be sold in segregated markets. But if the products were simply designed for the requirements of a different market, the mark owner is damaged by importation of the different goods and should be given an adequate remedy. The American mark owner also has a genuine argument that it is unfair for gray market goods to "free ride" on the promotional and other expenses of the domestic trademark owner.

The United States Government is compelled to make difficult political and economic policy decisions in deciding the issues of the gray market. The ramifications of a protectionist trade policy with respect to the reaction of international trading partners may be considerable. Economic effects, not only with respect to international free trade, but also with respect to the interests of domestic consumers must be considered. Any price reductions resulting from gray market competition with "authorized" goods are a boon to American con-

331. *Id.* at 1166.
332. Osawa & Co. v. B & H Photo, 589 F.Supp. 1163, 1176-78 (S.D.N.Y. 1984).
333. Gerber & Bender, *supra* note 1, at 42.

sumers. In *K Mart Corp. v. Cartier Inc.* the United States Supreme Court avoided addressing the complex policy issues presented and based its decision to allow the continued importation of gray market goods unhindered by the Customs Service on the narrow issue of statutory construction.

Until the Executive and Legislative branches decide upon a much needed policy direction, *K Mart Corp. v. Cartier, Inc.* represents the latest indication on the status of the gray market in the United States. The decision will not be the final word on the subject. Acting in their own economic interest, American trademark owners affected by the gray market have lobbied,[334] and will continue to lobby, for a change in the law as a means to protect their profits and the goodwill associated with their trademarks.[335]

In view of the fact that the present posture of American law with respect to the gray market may conflict with international treaty obligations, and that "[v]irtually every economically significant foreign jurisdiction permits parallel importation,"[336] pressure from the

334. Lobbying is defined as "[a]ll attempts including personal solicitation to induce legislators to vote in a certain way or to introduce legislation." BLACK'S LAW DICTIONARY 854 (5th ed. 1979).

335. Senator Orrin Hatch (R-Utah) has introduced two bills that would make illegal the importation of gray market goods: a pre-*K Mart* decision bill, introduced in September of 1987, (S. 1671, 100th Cong., 1st Sess. (1987)) and an October of 1988 bill tailored to supersede the Supreme Court's ruling in *K Mart* allowing the importation of certain gray market goods (S. 2903, 100th Cong., 2d Sess. (1988)). *See Legislation to Amend Lanham Act Would Ban All Gray Market Imports* 36 P.T.C.J. 708 (BNA Oct. 20, 1988). Bills supporting the Customs Service policy of allowing the importation of certain gray market goods were also introduced prior to the *K Mart* decision: (S. 1079, 100th Cong., 1st Sess. (1987) and H.R. 4803, 100th Cong., 2d Sess. (1988)). Before either of these bills could be acted upon by Congress, the Supreme Court decided *K Mart. See also* K Mart Corp. v. Cartier, Inc., 108 S.Ct. 1811, 1819 (1988) *citing*, Eisler, *Gray-Market Mayhem: It's Makers vs. Importers in Lobbying Onslaught*, Legal Times, Nov. 17, 1986, p. 1, col. 1.

336. Gorelick and Little, *supra* note 26, at 227. *See generally* Takamatsu, *supra* note 26, at 442-43. The European Economic Community and Japan provide examples of how nations in diverse parts of the world handle the gray market (or parallel importation). The policy of the EEC has been to provide protection for those in the business of parallel importation as a means to integrate national markets and facilitate the "Common Market" of European states. For this reason, the EEC's policy goals toward the gray market are different than those of the United States. Remington, *supra* note 255, at 101; *see also*, Recent Development, *1988 Review of the European Court of Justice*, 2 TRANSNAT'L LAW. 185 (1989).

Japan also permits parallel importation. "In a 1970 decision involving 'Parker' pens, the *Osaka* District Court ruled that the Japanese trademark owner of 'Parker' products could not bar others from importing genuine 'Parker' pens into Japan because parallel importation *encourages free competition and improves prices and services.*" Gorelick and Little, *supra* note 19, at 227 (emphasis added). Executive agencies of the Japanese government have also expressed a policy of favoring parallel importation. *Id.* at 227. A 1972 Customs Duties Act regulation authorized importation of "genuine trademarked goods if the domestic owner either holds the foreign trademark or should be considered the same entity as the foreign trademark owner." (*Id. citing* Takamatsu, *supra* note 26, at 442-43.) Japan's Fair Trade Commission expressed its support for parallel importation by issuing guidelines which stated that hindrance of parallel importation would be an unfair business practice. (Takamatsu, *supra* note 26, at 442).

international community may also influence the eventual policy direction chosen by the United States Government.

*Timothy J. Tomlin*