

**GREY MARKET IMPORTS:  
BURGEONING CRISIS OR EMERGING POLICY**

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Reprinted from  
NORTH CAROLINA JOURNAL OF INTERNATIONAL LAW  
& COMMERCIAL REGULATION  
Volume 11, Spring 1986, Number 2  
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International Law and Commercial Regulation, Inc.

# Grey Market Imports: Burgeoning Crisis or Emerging Policy

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## I. Introduction

Grey market imports have received varying and often contradictory treatment from U.S. courts, the U.S. International Trade Commission ("ITC" or "Commission"), and the executive branch.<sup>1</sup> The trade and economic problems presented by these 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.<sup>2</sup> Although the Administration appointed an inter-agency working group<sup>3</sup> to formulate a comprehensive policy, the group only succeeded in underscoring the difficulty of the issues involved. The working group produced six different policy options, but was unable to recommend any single alternative to the Administration.<sup>4</sup> Judicial and administrative fora have been equally unsuccessful in providing

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<sup>1</sup> See *infra* notes 14-17 and accompanying text.

<sup>2</sup> S. REP. NO. 133, 99th Cong., 1st Sess. 7 (1985). In May 1984, the Working Group on Intellectual Property of the Cabinet Council on Commerce and Trade solicited information on grey market goods and their effect on U.S. industry. See 49 Fed. Reg. 21,453 (1984). Extended response time was announced in 49 Fed. Reg. 29,509 (1984). Over 1,000 responses were received. *INSIDE U.S. TRADE*, April 26, 1985, Annex. The responses indicate that grey market imports are a growing problem for many U.S. industries.

<sup>3</sup> The working group was composed of officials from the Office of Management and Budget, Council of Economic Advisors, U.S. Trade Representatives Office, Justice Department, and the Departments of Commerce, State, and Treasury. *INSIDE U.S. TRADE*, *supra* note 2.

<sup>4</sup> 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.

guidance for the development of a national grey market import policy because of the ambiguities in U.S. trademark and trade laws.

This article provides an introduction to the fundamental legal and policy issues that have produced these ambiguities and examines the roles that common law, as well as, statutory and administrative developments have played in the current debate. Because a viable grey market policy remains elusive, this article highlights the major areas of the controversy and problems confronting policy-makers.

The varying nature of grey market imports contributes to the difficulty of forming a grey market policy. Although grey market imports may be broadly defined as unauthorized imports bearing U.S. registered trademarks, they arise in a number of distinct commercial relationships. For example, a U.S. trademark owner, who manufactures his trademarked goods in the United States may license a foreign manufacturer or establish a foreign subsidiary to produce and sell goods under his trademark. This arrangement may specify that the foreign-made trademarked goods are to be sold exclusively abroad. If these goods are subsequently imported into the United States, they are grey market goods because the U.S. trademark owner did not authorize their importation. In this example, unauthorized imports compete with domestically produced goods; however, both bear identical trademarks.<sup>5</sup>

A second category of grey market imports, parallel imports, involves unauthorized imports that compete with unauthorized imports. This occurs when a U.S. trademark holder owns the trademark and exclusive importation rights to a foreign-made trademarked good. If a third party imports the same foreign-made trademarked items, that party circumvents the exclusive license held by the U.S. trademark owner, and the imports are part of the grey market.<sup>6</sup> A third group of grey market imports encompasses trademarked goods manufactured in the United States for export. These

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trademark owner, and are not subject to the same warranty and service benefits as U.S. goods.

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.

See INSIDE U.S. TRADE, *supra* note 2.

<sup>5</sup> See, e.g., *Certain Alkaline Batteries*, 225 U.S.P.Q. (BNA) 823, (Int'l Trade Comm'n 1984), *disapproved by President Reagan pursuant to 19 U.S.C. § 1337(g) (1982)*, 50 Fed. Reg. 1655, *reprinted in* 225 U.S.P.Q. (BNA) 862, *appeal dismissed sub nom.*, *Duracell, Inc. v. United States Int'l Trade Comm'n*, 778 F.2d 1578 (Fed. Cir. 1985) [hereinafter cited as *Duracell*].

<sup>6</sup> See, e.g., *Vivitar Corp. v. United States*, 593 F. Supp. 420 (Ct. Int'l Trade 1984), *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986).

goods may become grey market items if, once exported, they are imported into the United States without authorization of the U.S. trademark holder.<sup>7</sup>

While their form may change, all grey market goods share certain characteristics. Grey market goods can injure U.S. industries because they often are sold in the United States at a substantially lower price than the goods against which they compete. These cheaper imports, bearing trademarks identical to the authorized product, can capture a large portion of a market in a relatively short time. As a result, grey market goods can adversely affect domestic producers and industries that are dependent on U.S. manufacturing, as well as other American property interests.

Because grey market disputes frequently involve well known trademarks<sup>8</sup> held by large companies, vast amounts of capital and numerous domestic jobs could be lost to foreign manufacturers of grey market goods. In addition, international investment may decrease. U.S. firms might be less likely to expand internationally if goods they manufacture overseas may return to compete against them in the U.S. market.

The law governing grey market imports is inconsistent and in transition. The Lanham Act<sup>9</sup> and section 526 of the Tariff Act of 1930<sup>10</sup> provide statutory protections against trademark infringement. Although section 526 prohibits the unauthorized importation of goods bearing a U.S. trademark,<sup>11</sup> the effect of this statute on grey market imports has been circumscribed by Customs Regulation Section 133.21 (c)(1)-(3). This regulation provides an exception permitting unauthorized trademarked goods to enter the United States when the U.S. trademark owner and the foreign source of the goods are related companies or part of the same company.<sup>12</sup> The validity of this Customs' exception in relation to section 526 is at the heart of the legal debate over grey market imports.<sup>13</sup>

The fact that law and policy pertaining to grey market imports are simultaneously under review in three different fora exacerbates this trade problem. Some courts have given relief to U.S. trademark holders,<sup>14</sup> while others have allowed the grey market

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<sup>7</sup> See *Duracell*, 225 U.S.P.Q. at 824 n.2.

<sup>8</sup> Neuner, 120 N.Y.L.J. 1.

<sup>9</sup> 15 U.S.C. §§ 1114, 1124 (1982). The Lanham Act provides civil remedies for trademark infringement.

<sup>10</sup> 19 U.S.C. § 526 (1982).

<sup>11</sup> See *id.*

<sup>12</sup> See 19 C.F.R. § 133.21(c)(1)-(3) (1985).

<sup>13</sup> See *Ivitar*, 761 F.2d at 1569.

<sup>14</sup> See *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923) (*per curiam*); *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19 (S.D. Fla. 1985); *infra* notes 28-41, 46-61, 64-80 and accompanying text.

imports to continue.<sup>15</sup> The International Trade Commission excluded grey market goods in one case, only to have the President veto the Commission's action and admit the imports.<sup>16</sup> Furthermore, the executive branch has not been consistent in its approach. Judicial and administrative determinations have recently documented the Customs Bureau's inconsistency in dealing with this issue.<sup>17</sup>

The complexity of the policy issues involved further complicates matters. The current public policy debate must embrace such diverse issues as U.S. obligations under international trade agreements, domestic economic policy, the activities of multinational enterprises (MNE) and antitrust considerations, and the role of intellectual property rights in international trade.

The questions posed by grey market goods include a wide range of both legal and policy problems. In order to understand how these problems evolved, it is necessary to examine trademark law and its relationship to international trade.

## II. The Common Law Territoriality Doctrine

U.S. trademark protection and international trade have had an uneasy relationship. While U.S. trademark owners have lobbied for laws to protect domestic trademarks by excluding unauthorized imports, importers of trademarked items have insisted that a free flow of goods is vital to international trade and that trademark rights should not create trade barriers. The tension produced by these competing interests is reflected in U.S. common law and its application to statutory provisions. To understand the common law development in this area and its response to the grey market problem, the unique characteristics of trademarks must be more fully explored.

Trademarks, like patents and copyrights, are limited monopolies. However, unlike patent or copyright monopoly rights which are created by statute, the right to a trademark comes from prior appropriation and use in trade. As a result, although statutes may broaden common law trademark rights, these rights are determined largely by judicial interpretation.<sup>18</sup> Therefore, common law trademark protection has significantly influenced the application of statutory trademark provisions.

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<sup>15</sup> See *Ivitar*, 761 F.2d at 569-70; *Monte Carlo Shirt Co. Inc. v. Daewoo Int'l Am. Corp.*, 707 F.2d 1054 (9th Cir. 1983); *Coalition to Preserve the Integrity of Am. Trademarks v. United States*, 598 F. Supp. 844 (D.D.C. 1984), *rev'd*, 790 F.2d 903 (D.C. Cir. 1986); *infra* notes 21-27, and accompanying text.

<sup>16</sup> See *Duracell* 225 U.S.P.Q. at 823; *Duracell*, 225 U.S.P.Q. at 862.

<sup>17</sup> See *Ivitar*, 761 F.2d at 1568; Initial Determination of Judge Duvall in *Duracell*, Inv. No. 337-1A-165 (Int'l Trade Comm'n 1984).

<sup>18</sup> 4A R.CALLMANN, THE LAW OF UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES § 25.03 (4th ed. 1983).

The scope of protection offered by a trademark differs from patents or copyrights. A trademark is "only indicative of rights acquired by use and provides for procedural benefits, not monopoly rights as in a grant of a patent."<sup>19</sup> Trademarks are also intrinsically tied to the business they represent. They are objective symbols of the goodwill established by the trademark owner.<sup>20</sup>

*A. The Universality and Territoriality Principles: Early Judicial Treatment of Grey Market Imports*

For U.S. courts, the primary difficulty with grey market imports arises from imported goods that are genuine. Genuine goods bear the actual trademark, not a copied or simulated trademark. Leading cases in this area demonstrate the problems courts have had in dealing with genuine goods and allegations of trademark infringement.

*Appollinaris Co. v. Scherer*<sup>21</sup> illustrates both the dilemma faced by the courts and the degree to which common law has almost reversed itself in this field. This case arose when an English company that owned the U.S. trademark and exclusive U.S. import rights of imported Hungarian mineral water discovered that another company was importing the mineral water into the United States. The British plaintiff sued under U.S. trademark laws to stop the imports. The Circuit Court for the Southern District of New York (later to become the Second Circuit) concluded that the other importer could import the water under the same trademark.<sup>22</sup> The court reasoned that trademark protection could not be invoked in this case because the imported water was genuine, not a copy or counterfeit.<sup>23</sup> The court held that because a trademark protects the public by "vouch[ing] for the genuineness of the thing" trademark law offers no relief unless a trademark were being used to falsely denote the origin of a good.<sup>24</sup> The court also held that the U.S. trademark owner neither had nor could have obtained "a territorial title" to the imported item because trademark rights, unlike patent grants, may not be subdivided into legally cognizable territorial divisions.<sup>25</sup>

The court's analysis demonstrates the universality principle which states that a trademark is valid if it correctly identifies the ori-

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<sup>19</sup> *Goodyear Tire and Rubber Co. v. A.J. Indus. Corp.*, 165 U.S.P.Q. (BNA) 665, 668 (T.M.T.A.B. 1970); *see also* *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97-98 (1918) (trademark does not confer monopoly in proper sense but protects goodwill by distinguishing one manufacturer's goods from another's).

<sup>20</sup> *See* *American Steel Foundries v. Robertson*, 269 U.S. 372 (1926); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412 (1916); 1 J. McCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 2:7 (2d ed. 1984).

<sup>21</sup> 27 F. 18 (C.C.S.D.N.Y. 1886).

<sup>22</sup> *See id.* at 20.

<sup>23</sup> *See id.*

<sup>24</sup> *Id.* at 21.

<sup>25</sup> *Id.*

gin of the good to which it is attached, regardless of where the good is sold. In this manner, the universality doctrine gives extraterritorial effect to foreign trademarks that correctly denote the origin of the goods.

Approximately thirty years later, the Second Circuit reiterated the universality principle in another genuine goods dispute, *Fred Gretsch Manufacturing Co. v. Schoening*.<sup>26</sup> *Schoening* differed from *Appollinaris* because Congress had enacted a new trademark law in 1905 which prohibited the importation of copies or simulations of U.S. trademarks.<sup>27</sup>

In *Schoening* an owner of a U.S. trademark for a foreign-made good unsuccessfully attempted to assert exclusive trademark rights, thereby preventing another importer from bringing the goods into the United States. The court held that applying the statute did not change the rule in *Appollinaris*. The court reasoned that the statute did not reach genuine items and under the universality approach genuine goods were not copies or simulations that could infringe U.S. trademarks. Therefore, the court permitted the unauthorized genuine goods to enter the United States.<sup>28</sup>

The universality approach adopted in *Appollinaris* and *Schoening* frustrated the expectations of U.S. companies holding exclusive trademark rights, and proved to be short lived. Perhaps protectionist sentiment, or a new sense of fairness, pervaded judicial thinking and caused the change. Whatever the underlying motive, the Supreme Court repudiated the universality principle in *A. Bourjois & Co. v. Katzel*.<sup>29</sup> This case involved a U.S. company that bought the right to the U.S. trademark of a French firm from the French company.<sup>30</sup> That company subsequently claimed exclusive U.S. import rights and distributed the French product in the U.S. market.<sup>31</sup> Later, a second importer purchased goods bearing the French trademark registered to the original U.S. importer from the French manufacturer, and imported them into the United States. The U.S. company alleged that the genuine items infringed its trademark and sought an injunction to restrain the infringement.<sup>32</sup>

The District Court for the Southern District of New York found that the U.S. owner of the U.S. trademark had developed a U.S. market and a concomitant goodwill for the French goods.<sup>33</sup> The trade-

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<sup>26</sup> 238 F. 780 (2d Cir. 1916).

<sup>27</sup> Trademark Act of 1905, ch. 592, § 27, 33 Stat. 730 (1905).

<sup>28</sup> See *Schoening*, 238 F. at 780-82.

<sup>29</sup> 260 U.S. 689 (1923).

<sup>30</sup> See *id.* at 690.

<sup>31</sup> See *id.* at 690-91. The same arrangement was at issue in *Schoening*, 238 F. at 780-81, and *Appollinaris*, 27 F. at 19-20.

<sup>32</sup> See *Katzel*, 260 U.S. at 691.

<sup>33</sup> See *id.*, 274 F. 856, 857 (S.D.N.Y. 1920), *rev'd*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1928).

mark owner thus had established a domestic goodwill in the French product that was conceptually separate from the French goods manufactured in France and distributed elsewhere in the world.<sup>34</sup> Asserting the territoriality principle, the court reasoned that a trademark "is genuine as a matter of law only if defendant [the other importer] has the right to sell *where* plaintiff [the U.S. trademark owner] is the exclusive owner of the trademark."<sup>35</sup> The court granted a preliminary injunction because the U.S. trademark owner had purchased rights to the U.S. trademark from the foreign firm and expended a great deal of money in developing goodwill for the trademark in the U.S. market.<sup>36</sup> In addition, the court reasoned that a contrary finding could have a negative impact on other similarly situated business interests by allowing a foreign firm to sell its U.S. trademark rights to a U.S. concern and subsequently compete with that company under the same trademark.<sup>37</sup>

On appeal, the Second Circuit reversed. Reiterating its *Appolinaris* and *Schoening* reasoning, the court held that the goods imported by the second importer did not infringe the domestic trademark because the goods were genuine goods covered by the trademark. "Genuine," as interpreted by the court, meant that the goods originated from the same manufacturer.<sup>38</sup> According to the universality principle's logic, there could be no infringement in a case involving a genuine good because such good by definition cannot be a copy or a simulation, nor can it cause confusion to consumers about the source of the good.

The Supreme Court agreed with the district court's analysis. Affirming the territoriality principle's validity, the Court reasoned that the second importer's ownership of the goods did not give it the right to sell them under a specific trademark.<sup>39</sup> Two major points were emphasized by the Court. First, the U.S. trademark was plaintiff's exclusive trademark<sup>40</sup> because the U.S. company had purchased exclusive trademark rights from the French firm.<sup>41</sup> Second, because

<sup>34</sup> 274 F. at 857-59.

<sup>35</sup> *Id.* at 859-60 (emphasis added).

<sup>36</sup> *See id.* at 859 (citing *Hanover Star Milling*, 240 U.S. at 403).

<sup>37</sup> *See id.* at 859. *Katzel* was not brought under the trademark provisions of the 1905 Act, which was applied in *Schoening*. Instead, *Katzel* turned on the rights of private parties to determine, as a matter of law, the validity of a given trademark. The court found that the domestic company's U.S. trademark was valid, and that the identical trademark that the French firm applied to genuine goods was invalid in the United States. *Id.* at 860.

<sup>38</sup> *See id.*, 275 F. 539, 543 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923). The court contrasted the territorial protections offered by patents with the different protections given by trademarks. Trademarks denote the origin of the goods and cannot be used to limit the sale of genuine goods. *Id.*, 275 F. at 543. By implication, trademarks do not provide territorial protection.

<sup>39</sup> *See id.*, 260 U.S. at 692.

<sup>40</sup> *See id.* at 691-92.

<sup>41</sup> *See id.* at 690.

the U.S. public perceived the goods as originating from the plaintiff, the French goods were sold in the United States by virtue of the goodwill the plaintiff created, and the trademark "stake[d] the reputation of the plaintiff upon the character of the goods."<sup>42</sup> Therefore, the Court sustained the preliminary injunction against trademark infringement.<sup>43</sup>

Under *Katzel*, the territoriality principle provides that, because a trademark is the creation of each country's laws, no nation's trademark laws can be applied extraterritorially to create "universal" or "global" trademarks.<sup>44</sup> The territoriality concept clearly applies when genuine articles are imported into a nation where another party owns the exclusive trademark rights to that foreign product. However, the scope of this protection and its applicability to U.S. trade law is uncertain. Under *Katzel* trademarked goods may be excluded from importation if the U.S. trademark owner has purchased exclusive rights to the trademark from the foreign manufacturer, is independent from the foreign manufacturer, and has developed its own goodwill in the U.S. market.<sup>45</sup>

A U.S. district court has stated that *Katzel* is limited to the following narrow range of facts: "[when] an American purchaser of domestic trademark rights [is] totally independent from the foreign manufacturer and bec[o]me[s] the complete master of the trademark in the United States for the reason that the public recognized the American purchaser as the sole source of goods in the United States."<sup>46</sup> It is, therefore, difficult to apply the *Katzel* principle to broader fact patterns. For example, its application is unclear in disputes involving MNE which may own both the U.S. and foreign trademark rights, authorize manufacture abroad, and then attempt to keep the foreign made goods out of the U.S. market.<sup>47</sup> The difficulty of applying *Katzel* is reflected in current applications of the law to grey market imports.

### B. Current Applications of the Law to Grey Market Imports

Two recent federal cases, *Bell & Howell: Mamiya Co. v. Masel Sup-*

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<sup>42</sup> *Id.* at 692.

<sup>43</sup> *See id.* Subsequently, the Court reaffirmed the territoriality principle in *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), a per curiam decision involving facts nearly identical to those in *Katzel*. *Katzel*, however, dealt with trademark validity while the issue in *Aldridge* was whether the U.S. trademark holder could prevent the importation of genuine goods into the United States. The Court held that goods found to be infringing under the *Katzel* standard could be excluded from the U.S. market.

<sup>44</sup> *See Coalition*, 598 F. Supp. at 848.

<sup>45</sup> This result underscores a fundamental purpose of a trademark, which is to symbolize the local goodwill created by the local business. *See Duracell*, 225 U.S.P.Q. at 827.

<sup>46</sup> *Coalition*, 598 F. Supp. at 848.

<sup>47</sup> *See id.* at 851.

ply Co.<sup>48</sup> and *Osawa & Co. v. B & H Photo*<sup>49</sup> demonstrate how the territoriality principle has been applied to facts similar to *Katzel*. Both cases, like *Katzel*, involved a U.S. trademark owner employing the territoriality principle in claiming that even genuine goods can infringe a U.S. trademark.<sup>50</sup>

In *Bell & Howell* plaintiff sought to enjoin another enterprise from importing genuine "Mamiya" cameras into the United States, claiming infringement of its exclusive trademark and distribution right to "Mamiya" products.<sup>51</sup> The District Court for the Eastern District of New York granted a preliminary injunction after applying the territoriality principle.<sup>52</sup> The court held that plaintiff had established goodwill for Mamiya goods in the U.S. market and that there was a substantial likelihood of consumer confusion between the authorized and grey market cameras.<sup>53</sup>

The Second Circuit vacated the preliminary injunction, holding that the lower court had abused its discretion.<sup>54</sup> Because the court determined that plaintiff failed to sustain its burden of proving irreparable injury, it did not reach the merits of plaintiff's claim.<sup>55</sup>

In *Osawa* this same plaintiff, under new ownership, filed suit in the District Court for the Southern District of New York, claiming that the grey market "Mamiya" imports infringed its exclusive trademark and caused irreparable injury.<sup>56</sup> The *Osawa* court found that plaintiff had developed separate goodwill for the "Mamiya" goods in the United States and granted a preliminary injunction, citing *Katzel* as demonstrating plaintiff's likelihood of success on the merits of its trademark claim.<sup>57</sup>

The court refuted the universality doctrine, noting that it fails to reflect that trademark rights are not founded on the notion of a transnational marketplace<sup>58</sup> with an international rubric of trademark issuance and protection. Because the universality doctrine incorrectly gave trademarks a legal force outside their country of

<sup>48</sup> 548 F. Supp. 1063 (E.D.N.Y. 1982), *vacated and remanded*, 719 F.2d 42 (2d Cir. 1983).

<sup>49</sup> 589 F. Supp. 1163 (S.D.N.Y. 1984).

<sup>50</sup> See *Osawa*, 589 F. Supp. at 1066; *Bell & Howell*, 548 F. Supp. at 1171.

<sup>51</sup> See *Bell & Howell*, 548 F. Supp. at 1064-65. In a twist of the *Katzel* facts, Bell & Howell owned 50% of the Japanese manufacturer of Mamiya cameras. See *id.* at 1069. Plaintiff invoked both the Lanham Act, 15 U.S.C. §§ 1114, 1124 (1982), which provides civil remedies for trademark infringement, and the Tariff Act of 1930, 19 U.S.C. § 526 (1982), which appears to supplement the Lanham Act. See *infra* notes 9-10 and accompanying text.

<sup>52</sup> See *Bell & Howell*, 548 F. Supp. at 1063.

<sup>53</sup> See *id.* at 1079.

<sup>54</sup> See *id.*, 719 F.2d at 46.

<sup>55</sup> See *id.* at 45-46.

<sup>56</sup> See *Osawa*, 589 F. Supp. at 1165.

<sup>57</sup> See *id.* at 1171. Preliminary relief was granted under § 526 of the Tariff Act and for trademark infringement. See *id.*

<sup>58</sup> See *id.* at 1172.

origin, the court concluded it had to be discarded.<sup>59</sup> In applying the territoriality principle, the court noted that the Supreme Court has endorsed the concept of territoriality of trademark rights in decisions other than *Katzel*.<sup>60</sup> The court also cited international agreements supporting the territoriality principle, including the Paris Convention for the Protection of Industrial Property<sup>61</sup> and the General Inter-American Convention for Trademark and Commercial Protection<sup>62</sup> and held that a trademark may have a separate legal basis, as well as a different commercial significance, in each country depending on the goodwill developed in the specific nation.<sup>63</sup>

Although the above cases narrowly applied the territoriality principle to specific statutory provisions aimed at infringing imports, they did not address the apparent conflict between section 526 of the Tariff Act and Customs Regulation 133.21. Section 526 of the Tariff Act prohibits importation of goods bearing a U.S. trademark without the trademark owner's consent.<sup>64</sup> In contrast to this statute's language, Customs Regulation section 133.21 prevents U.S. trademark holders from excluding unauthorized imports bearing U.S. registered marks if the goods emanate from a related company.<sup>65</sup> In *Vivitar Corp. v. United States* the Court of International Trade (CIT) and the Court of Appeals for the Federal Circuit (CAFC) examined

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<sup>59</sup> See *id.* at 1175.

<sup>60</sup> For example, this concept has been endorsed in cases which base territoriality on the sovereignty of nations. *Id.* at 1172 (citing *Ingenohl v. Walter E. Olsen & Co.*, 273 U.S. 541, 544 (1927)). The Court found support in the doctrine that trademark rights arise from using a mark in a "particular geographic market" rather than a global one. See *id.*; see also *United Drug*, 248 U.S. at 98; *Hanover Star Milling*, 240 U.S. at 415-16.

<sup>61</sup> Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, 21 U.S.T. 1629, T.I.A.S. No. 6923. Article 6(3) provides: "A mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of origin." *Id.*

<sup>62</sup> General Inter-American Convention for Trade Mark and Commercial Protection, Feb. 20, 1929, 46 Stat. 2907, T.S. No. 833, art. 11; see *Duracell*, 225 U.S.P.Q. at 828.

<sup>63</sup> See *Osawa*, 589 F. Supp. at 1173. The court found further support in a 1962 amendment to § 32 of the Lanham Act, which repealed the requirement that a plaintiff show confusion as to "source of origin" of the goods. See *id.* at 1173.

<sup>64</sup> Section 526 provides:

[I]t 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, or by a corporation or association created or organized within, the United States . . . unless written consent of the owner of such trademark is produced at the time of making entry.

19 U.S.C. § 526 (1982).

<sup>65</sup> 19 C.F.R. § 133.21(a), (c)(1)-(3) provides:

a) Articles of foreign or domestic manufacture bearing a mark or name or simulating a recorded trademark or trade name shall be denied entry . . . (c) The restrictions set forth in paragraph (a) . . . 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 control . . . ; (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner.

the apparent conflict between the plain language of section 526 and the Customs Regulation.<sup>66</sup> In this case, a corporate owner of the U.S. VIVITAR trademark sought a declaratory judgment that the U.S. Customs Service must exclude all unauthorized imports of VIVITAR trademarked goods. Wholly-owned subsidiaries of plaintiff were marketing VIVITAR goods overseas, but were not licensed to sell the goods in the United States.<sup>67</sup> Controversy arose when a third party, unrelated to the plaintiff corporation, began importing VIVITAR equipment without plaintiff's consent,<sup>68</sup> and plaintiff sued to clarify the legal effects of regulation 133.21 in light of section 526. Under a literal reading of section 526, the unauthorized imports could not enter the United States. Applying the exceptions to section 526 as found in section 133.21, however, the unauthorized imports could be admitted because the VIVITAR trademark was applied to articles of foreign manufacture under authorization of the U.S. trademark owner.<sup>69</sup>

The CIT determined that Congress enacted section 526 in response to the Second Circuit's holding in *Katzel*, and limited the scope of the section to the facts of that case.<sup>70</sup> After an exhaustive examination of the legislative history, the CIT concluded that section 526 was inapplicable when the U.S. trademark holder was related to the foreign manufacturing company, and that section 133.21 was consistent with congressional intent.<sup>71</sup> Noting that Congress had debated amending section 526 to prohibit importation of all goods bearing a U.S. registered trademark,<sup>72</sup> the CIT determined that Congress had specifically considered expanding the protection of section 526, but refused to do so. As a result, the court surmised that Congress had intended to limit section 526 to facts similar to *Katzel*.<sup>73</sup> Further proof of intent not to expand the scope of section 526 was inferred from the fact that Congress amended the statute in 1978 without broadening the section to offer protection to U.S. trademark holders related to the foreign manufacturer of the goods.<sup>74</sup> The CIT concluded that Congress considered section 32(1) of the Lanham

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<sup>66</sup> See *Vivitar*, 593 F. Supp. at 425.

<sup>67</sup> See *id.* at 422-23.

<sup>68</sup> See *id.*

<sup>69</sup> See *id.* at 423; see also 19 U.S.C. § 526 (1982); 19 C.F.R. § 133.21(c)(3) (1985).

<sup>70</sup> See *Vivitar*, 593 F. Supp. at 426 (citing *Coty, Inc. v. LeBlume Import Co.*, 292 F. 264, 269 (S.D.N.Y. 1923), *aff'd*, 293 F. 344 (2d Cir. 1923)). Shortly after § 526 was enacted, the Supreme Court reversed the Second Circuit in *Katzel*. See *Vivitar*, 593 F. Supp. at 428. Cf. *Osawa*, 589 F. Supp. at 1175 (dicta supporting statutory language).

<sup>71</sup> See *Vivitar*, 593 F. Supp. at 425-28, 432-33.

<sup>72</sup> The amendment purportedly was intended to compel U.S. producers to manufacture domestically. See *id.* at 428 & n.12 (citing 71 CONG. REC. 3871 (1929)).

<sup>73</sup> See *Vivitar*, 593 F. Supp. at 428 & n.12, 435.

<sup>74</sup> Customs Procedure Reform and Simplification Act of 1976, Pub. L. No. 95-410, 92 Stat. 888, 903 (1978) (codified as amended at 19 U.S.C. § 1526(a), (d), (e) (1982)). For a discussion of the amendments see *Vivitar*, 593 F. Supp. at 433.

Act and U.S. common law adequate protection from unfair competition.<sup>75</sup>

On appeal, the CAFC affirmed the CIT holding on narrower grounds.<sup>76</sup> The court framed the issue as whether the American VIVITAR trademark holder could force Customs to exclude unauthorized imports of VIVITAR products as a matter of statutory right.<sup>77</sup> Examination of the legislative history of section 526 and relevant cases led the court to conclude that section 133.21's limitations could not be read into section 526<sup>78</sup> because Congress neither limited section 526 in the manner of the Customs regulation, nor gave Customs legislative authority to affect the scope of section 526.<sup>79</sup> Therefore, the court held that section 133.21 does not limit a trademark holder's rights under the statute, but "define[s] Customs' role in initiating administrative enforcement of the statute."<sup>80</sup> The court concluded that Vivitar and similarly situated plaintiffs can seek judicial remedies such as injunctions against unauthorized imports or damages, but cannot compel automatic exclusion of unauthorized grey market goods.<sup>81</sup> In short, section 133.21 was held to be a reasonable exercise of Customs' authority, and specific grey market disputes were deemed best left to case-by-case judicial resolution.<sup>82</sup>

In *Coalition to Preserve the Integrity of American Trademarks v. United States*, Customs' interpretation of section 526 and Customs regulation 133.21 were again challenged in the District Court for the District of Columbia.<sup>83</sup> Plaintiff, a coalition of trademark owners, sought to exclude genuine grey market goods under section 42 of the Lanham Act<sup>84</sup> and section 526 of the 1930 Tariff Act. In analyzing the *Katzel* decision, the court determined that its exclusion of genuine imports was warranted only when U.S. trademark owners' rights are totally independent from the foreign manufacturer, and the U.S. trademark owner has become "the complete master of the trademark in the U.S. [because] the public recognize[s] the American purchaser as the sole source of goods in the U.S."<sup>85</sup> The court concluded that *Katzel* was decided on its equities because the Supreme Court considered it unfair to allow a foreign manufacturer to sell exclusive U.S. rights to the plaintiff and subsequently establish a

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<sup>75</sup> See *Vivitar*, 593 F. Supp. at 453.

<sup>76</sup> See *id.*, 761 F.2d at 1569.

<sup>77</sup> See *id.* at 1556.

<sup>78</sup> See *id.* at 1561-65. Moreover, Customs' reading of § 526 has been inconsistent. The *Vivitar* court noted that the Customs Service had taken a contrary position in *Bell & Howell*, 548 F. Supp. at 1063. See *Vivitar*, 761 F.2d at 1568.

<sup>79</sup> See *Vivitar*, 761 F.2d at 1569.

<sup>80</sup> *Id.*

<sup>81</sup> See *id.* at 1569-70.

<sup>82</sup> See *id.* at 1555.

<sup>83</sup> See *Coalition*, 598 F. Supp. at 884.

<sup>84</sup> See *id.* at 846; see also *supra* note 9.

<sup>85</sup> *Coalition*, 598 F. Supp. at 848.

competing U.S. distributor.<sup>86</sup> Therefore, the court held that section 42 of the Lanham Act only applies when goods copy or simulate genuine marks and that genuine goods do not copy or simulate absent a *Katzel*-type situation.<sup>87</sup> Goods manufactured abroad by subsidiaries of the U.S. companies under a trademark registered in the United States, thus are not Lanham Act copies or simulations under *Coalition* and may be imported without the U.S. trademark holder's consent.

C. *The U.S. International Trade Commission: The Duracell Case*

The Duracell case, *In Re Certain Alkaline Batteries*, represents the first attempt by a U.S. MNE to protect its U.S. market by employing the territoriality principle, sections 32(1) and 42 of the Lanham Act, and section 526 of the Tariff Act to demonstrate a violation of section 337 of the Tariff Act. Section 337, administered by the U.S. ITC, prohibits unfair importation acts, including trademark, patent, and copyright infringement, which may substantially injure domestic industry.<sup>88</sup>

Duracell brought suit under section 337<sup>89</sup> after other U.S. companies began importing batteries produced by its wholly-owned Belgian<sup>90</sup> subsidiary without authorization.<sup>91</sup> The administrative law

<sup>86</sup> See *id.*

<sup>87</sup> See *id.* at 848. The court found that § 42 of the Lanham Act applied to genuine goods only in *Katzel*-type situations, implying that goods manufactured by these parties' foreign subsidiaries are not counterfeits despite the territoriality principle. This undermines the International Trade Commission's analysis in *Duracell*. See *infra* notes 86-101 and accompanying text. See also *El Greco Leather Prods. v. Shoe World, Inc.*, 599 F. Supp. 1380 (E.D.N.Y. 1984) (retailer's sale of shoes purchased from authorized foreign manufacturer did not infringe). Cf. *Monte Carlo Shirts*, 707 F.2d at 1054 (defendant manufacturer did not infringe plaintiff's trademark when it sold to retailer "genuine" shirts for which plaintiff had contracted, but later rejected because of late delivery).

<sup>88</sup> See 19 U.S.C. § 1337 (1982). Cases, called investigations, first are heard by an administrative law judge (ALJ), who issues an Initial Determination. The Commissioners then review or adopt the ALJ's determination. If the ITC finds that all the statutory criteria have been met, it can issue an order excluding the imports from the U.S. market. Under § 1337, the President may disapprove such an exclusion order within 60 days. *Id.* § 1337(g)(2); see also 19 C.F.R. § 210.1-210.71 (1985).

<sup>89</sup> Duracell's pursuit of a § 337 remedy rather than a civil action in federal court was reasonable because the requisite elements of a § 337 violation existed. Territoriality-principle analysis indicated that there was an unfair act of trademark infringement; an efficiently operated domestic industry was injured and there was a high level of imports. Under § 337(g) the President can disapprove a Commission determination, as happened in *Duracell*. Presidential disapprovals are based on often unpredictable policy grounds. See 19 U.S.C. § 1337(g). A civil suit for damages or an injunction would not have offered as complete a remedy as ITC action. Unlike civil action, an ITC exclusion order would cover all imports, including those brought in by importers who were not parties to the litigation. Duracell thus could avoid filing multiple suits. See *In re Orion Co.*, 21 U.S.P.Q. (BNA) 563, 571 (Ct. of Customs and Pat. Appeals 1934).

<sup>90</sup> Duracell, Inc., a Delaware corporation, heads Duracell's corporate structure. Duracell U.S.A. is an unincorporated division of Duracell, Inc. Duracell Belgium, N.V. Duracell, S.A., is a wholly owned subsidiary of Duracell, International, which is in turn a subsidiary of Duracell, Inc., the U.S. corporation. Duracell International owns the Belgian registration of the Duracell trademark. See *Duracell*, 225 U.S.P.Q. at 825.

judge (ALJ) made his initial determination (ID) in July 1984, finding that the Belgian Duracell importers had engaged in unfair importation, as proscribed in section 337, by violating sections 32(1) and 42 of the Lanham Act.<sup>92</sup> In determining that defendants had violated the territoriality principle incorporated in section 42, the ALJ held that Duracell's trademark has a separate existence under U.S. laws, the trademark represents local goodwill of Duracell U.S.A., and the use of the trademark in the United States is not separated from the goodwill of the business it identifies.<sup>93</sup> The ALJ concluded that grey market importers had violated section 32(1) because there was a substantial likelihood that consumers would be confused about the source of the Belgian Duracells.<sup>94</sup>

The Commission largely upheld the ALJ's determination, finding violations of section 337 on six grounds.<sup>95</sup> The ITC affirmed the ALJ's holding that the territoriality principle was incorporated in section 42 and determined that importation of genuine Belgian Duracells infringed Duracell U.S.A.'s exclusive trademark rights.<sup>96</sup> Because the right to exclude others from using a trademark is implicit in an exclusive right to that mark,<sup>97</sup> the Commission concluded that the territoriality principle protects domestic mark holders from competition with genuine grey market importers who misappropri-

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<sup>91</sup> See *id.* at 824. In the early 1980s the U.S. dollar rose considerably against most European currencies, including the Belgian franc. U.S. importers began importing Belgian-made Duracells. While U.S. retailers could sell the imported Duracells at the same price as domestic Duracells, they could purchase them at roughly one half the wholesale price. See *id.* at 826. By 1983 Duracell U.S.A. had lost substantial sales to the unauthorized imports, estimating that it lost millions of dollars during 1983 in its New York sales district alone. See *id.* at 838.

Respondents and parties filing *amicus* briefs included an array of importers, a major retail chain, trade associations, the U.S. Customs Service, and U.S. owners of foreign trademarks. Party respondent was a major importer of Duracell batteries. K-Mart was allowed to intervene as a non-party and filed a post-hearing brief on the grey market issues. On review at the Commission, the case was designated more complicated, thus giving parties greater response time. The list of *amici curiae* included the Association of General Merchandise Chains, Inc., COPIAT, 47th St. Photo, Inc., and the Vivitar Corporation. See *id.* at 825.

<sup>92</sup> See *id.* at 826, 837.

<sup>93</sup> See Initial Determination of Judge Duvall in *Duracell*, Inv. No. 337-TA-165, at 65-66 (Int'l Trade Comm'n 1984).

<sup>94</sup> See *id.* at 67. See also *Duracell*, 225 U.S.P.Q. at 834-37.

<sup>95</sup> See *Duracell*, 225 U.S.P.Q. at 826. The ITC found violations in other areas specific to the Duracell facts, including misappropriation of trade dress, false designation of origin, and violations of fair packaging and labeling laws. See *id.* These violations are not found in other grey market cases and were peripheral to the *Duracell* finding of trademark infringement. Vice Chairman Liebler, Commissioners Eckes and Lodwick concurred in the majority opinion; Vice Chairman Liebler authored the Additional Views, and Chairwoman Stern and Commissioner Rohr wrote Other Views. The Other Views authors found infringement, but recommended an alternative remedy. See *id.* at 844; *infra* notes 102-09 and accompanying text.

<sup>96</sup> See *Duracell*, 225 U.S.P.Q. at 826-32.

<sup>97</sup> *Id.* at 829. Section 33 of the Lanham Act, 15 U.S.C. § 1115 (1982) gives a trademark owner an exclusive right to use the mark.

ate benefits of consumer goodwill that they did not create.<sup>98</sup>

Under the Commission's analysis, the trademark was copied, notwithstanding the fact that the goods were genuine. When sold in overseas markets, the Duracell mark on Belgian-made batteries was not a copy of the U.S. trademark. However, once imported into the United States, the Belgian trademark became a copy or simulation of the U.S. mark.<sup>99</sup> The ITC also concluded that section 32(1)'s prohibition against imports likely to mislead consumers was violated. Pointing out that retailers sell domestic and foreign batteries for the same price,<sup>100</sup> the Commission reasoned that the Belgian Duracells should be excluded because any disparities in warranty and quality would not be noticed at time of purchase.<sup>101</sup>

Unlike the *Coalition* and *Vivitar* courts, the Commission held that the relationship between a domestic mark holder and a foreign manufacturer is irrelevant for purposes of determining whether section 42 is violated, as well as whether section 337 of the Tariff Act has been violated. According to the Commission, the issue is not whether the parent corporation has been injured, but whether domestic industry has been injured by unfair importation.<sup>102</sup> Indeed, Vice Chairman Liebler characterized the ITC majority as holding that "regardless of the corporate relationship between the holder of a U.S. trademark and a foreign trademark, the U.S. trademark holder can exclude from the U.S. the identically marked foreign product."<sup>103</sup>

### 1. Alternate Remedies

Although Chairman Stern and Commissioner Rohr agreed that Duracell's trademark rights were violated, they disagreed with the

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<sup>98</sup> See *Duracell*, 225 U.S.P.Q. at 830-31. This is because the purposes of trademark law include: (1) enabling consumers to identify and distinguish goods; (2) signifying that all similarly marked goods come from a single source; (3) guaranteeing a level of quality; (4) assisting in advertising the product; and (5) representing the mark owner's goodwill. See *id.* at 829; 1 J. McCARTHY, *supra* note 20, § 3:1. The ITC also reasoned that the foreign Duracells would demand a premium, capitalizing on Duracell U.S.A.'s consumer goodwill even if they were labeled as of foreign origin, because batteries are an impulse item purchased primarily on the basis of trademark. See *Duracell*, 225 U.S.P.Q. at 839-40.

<sup>99</sup> See *Duracell*, 225 U.S.P.Q. at 833. The Commission relied on a liberal interpretation of "copy" as found in *Aldridge*, 263 U.S. at 675. Support also was found in *Adolf Coors Co. v. A. Genderson & Sons, Inc.*, 486 F. Supp. 131, 135 (D. Colo. 1980) (liberal reading of § 32 of Lanham Act to prevent misappropriation of trademark owner's goodwill).

<sup>100</sup> See *Duracell*, 225 U.S.P.Q. at 835.

<sup>101</sup> See *id.*

<sup>102</sup> See *id.* at 838.

<sup>103</sup> *Id.* at 843. The Commission confirmed previous rulings limiting § 526 of the Tariff Act of 1930 to *Katzel*-type fact situations, holding exclusion under § 526 unavailable. See *id.* at 842 (citing *Vivitar*, 593 F. Supp. at 420). Since the Commission found a violation of common law trademark rights independent of the Lanham Act, the Customs Department trademark regulations at 19 C.F.R. § 133.21 were not in issue. See *id.* at 832.

majority about the appropriate remedy. Stern and Rohr contended that exclusion of improperly labeled or misleading imports was a better remedy than the majority's general exclusion order.<sup>104</sup> They contended that labeling goods fairly would remove any unjust advantage enjoyed by importers because consumers would not pay full retail prices for goods imported without the U.S. mark holders' authorization.<sup>105</sup> The price received by unauthorized importers would, for example, reflect the true value of a Duracell battery made in Belgium and warranted by the Belgian manufacturer, as determined by informed consumers. Therefore, properly labeled imported batteries would not earn a premium based on the strength of Duracell U.S.A.'s consumer goodwill.<sup>106</sup> Stern and Rohr also argued that Duracell's U.S. goodwill would be protected by adequate labeling to inform consumers about the respective warranties of Belgian and U.S. Duracells and permit them to detect disparities between the foreign and domestic batteries.<sup>107</sup> Finally, the dissenters stressed that labeling did not disrupt international trade to the same degree as would an exclusion order.<sup>108</sup>

Stern and Rohr also advocated a different application of the territoriality principle. They emphasized that it can be used to determine if two trademarks are similar and cause confusion. Viewed in this manner, the doctrine of territoriality is relevant only to determine what constitutes a copy or simulation.<sup>109</sup> Thus, two identical marks can embody legally separate rights created by independent sovereign nations without implying unfairness of the use of one mark in the country of another. Under this theory, unfairness is predicated on showing confusion and harm to consumer goodwill developed by the trademark owner and territoriality itself may not be violated. Territoriality merely establishes that genuine goods carry separate marks that may copy or simulate an identical mark.<sup>110</sup> Therefore, use of a mark is legitimate as long as the public is not confused and is properly informed about the origin of the good.<sup>111</sup>

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<sup>104</sup> See *Duracell*, 225 U.S.P.Q. at 845 (views of Chairwoman Stern & Comm'r Rohr). This suggestion is consistent with some of the options developed by the President's working group on intellectual property. See *supra* note 4.

<sup>105</sup> See *Duracell*, 225 U.S.P.Q. at 858 (views of Chairwoman Stern & Comm'r Rohr).

<sup>106</sup> See *id.* "When a mark is used in a way that does not deceive the public we see no such sanctity in the work as to prevent its being used to tell the truth. It is not taboo." *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924).

<sup>107</sup> See *Duracell*, 225 U.S.P.Q. at 858 (views of Chairwoman Stern & Comm'r Rohr).

<sup>108</sup> See *id.* at 860-61 (views of Chairwoman Stern & Comm'r Rohr). This position is more in keeping with international laws concerning trade barriers. See *infra* notes 149-77 and accompanying text.

<sup>109</sup> See *Duracell*, 225 U.S.P.Q. at 851 (views of Chairwoman Stern & Comm'r Rohr).

<sup>110</sup> See *id.* (citing § 32 of the Lanham Act, 15 U.S.C. § 1114 (1982)). Chairwoman Stern interpreted *Katzel*, 260 U.S. at 639, to permit a finding that even genuine goods are infringing. See *id.* at 849.

<sup>111</sup> See *id.* at 858-59; *Prestonettes*, 264 U.S. at 359 (use of mark permitted as long as public is informed correctly; relabeling removed likelihood of confusion). For support of a

## 2. Presidential Disapproval

While the Commission's Duracell decision presented some novel applications of the territoriality doctrine, it was short-lived. In January 1985, President Reagan disapproved the Commission's determination in a memorandum reiterating the Government's position in *Vivitar*<sup>112</sup> and *Coalition*<sup>113</sup>. The President stated that the ITC interpretation of section 42 of the Lanham Act was contrary to the Treasury Department's interpretation.<sup>114</sup> He concluded that approval of the ITC's determination would produce an erroneous impression of official policy before his Administration had formulated its response to the grey market problem.<sup>115</sup>

## III. Antitrust Considerations

Because grey market cases involve market protection and create price discrepancies, antitrust issues are a recurring feature of grey market litigation. As is the case with general trade law in this area, the application of antitrust law to grey market cases presents an ambiguous picture.

In the leading case, *United States v. Guerlain, Inc.*,<sup>116</sup> the Government brought suit against U.S. distributors of French perfume. The distributors were accused of violating sections 2 and 4 of the Sherman Act.<sup>117</sup> The Government contended they had attempted to monopolize importation and sale of foreign-made toiletries by using section 526 of the Tariff Act to exclude competitive imports. The Southern District Court for New York held that defendants had violated the antitrust laws.<sup>118</sup>

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labeling remedy in grey market cases see *Vivitar*, 593 F. Supp. at 435; Atwood, *Import Restrictions on Trademarked Merchandise--The Role of the U.S. Bureau of Customs*, 59 TRADE-MARK REP. 301, 309 (1969); Dam, *Trademarks, Price Discrimination and the Bureau of Customs*, 7 J. L. & ECON. 45 (1964).

The gravamen of trademark infringement is the use of a similar mark likely to cause confusion. There is no infringement if the likelihood of confusion is eliminated. See *Duracell*, 225 U.S.P.Q. at 851 (views of Chairwoman Stern & Comm'r Rohr). "[T]he heart of a successful claim under [the Lanham Act] . . . is a showing of likelihood of confusion, that is, whether an appreciable number of purchasers is likely to be misled as to the source or sponsorship of defendant's products." *El Greco*, 599 F. Supp. at 1390.

<sup>112</sup> Presidential Disapproval, *supra* note 5, 225 U.S.P.Q. at 862. The Federal Circuit had not decided *Vivitar*, 761 F.2d at 1552, at this point.

<sup>113</sup> Presidential Disapproval, *supra* note 5, 225 U.S.P.Q. at 862.

<sup>114</sup> *Id.*

<sup>115</sup> See *id.*

<sup>116</sup> *United States v. Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), *prob. jurisd. noted sub nom. Lanvin, Parfums, Inc. v. United States*, 355 U.S. 951, *cert. denied*, 357 U.S. 924, *vacated and remanded sub nom., Guerlain, Inc. v. United States*, 358 U.S. 915 (1958), *dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959) (three actions consolidated for trial). The dismissal was with prejudice since the Justice Department abandoned the action, leaving defendants unable to prevail or appeal.

<sup>117</sup> *Guerlain*, 155 F. Supp. at 79.

<sup>118</sup> 15 U.S.C. § 2 (1982). Section 2 prohibits monopolizing, or attempting to monopolize, trade. 15 U.S.C. § 4 (1982) grants federal courts jurisdiction over § 2 offenses.

Before the case reached the Supreme Court the Government requested a remand for dismissal, stating that the litigation involved policy issues best handled by legislation.<sup>119</sup> The Government anticipated enactment of legislation validating its claim that section 526 did not enable a U.S. company to exclude goods produced by its foreign affiliate from domestic markets.<sup>120</sup> The Supreme Court complied with the Government's request for remand, and the district court dismissed the *Guerlain* action.<sup>121</sup>

In 1959 the Cellar Bill, which would have removed import protection for related companies, was proposed. The Cellar Bill called for repeal of the Tariff Act and revision of section 42 of the Lanham Act to establish that legitimately marked products manufactured by a foreign affiliate of a domestic trademark owner could be imported into the United States.<sup>122</sup> The bill's justification was that profits would eventually go to the controlling corporation and international enterprise would be encouraged. Although counterfeit marks were still prohibited, domestic companies could not set prices in the United States free of competition from products purchased abroad.<sup>123</sup> The bill was a direct response to restraint of trade practices by MNEs attempting to isolate the U.S. market from international competition<sup>124</sup> and would have removed international exclusive distribution arrangements from protection provided by U.S. trademark and tariff laws. The bill never passed. Furthermore, because *Guerlain* was dismissed in anticipation of legislation that never materialized, its precedential value is substantially limited. However, exclusive distributorships involving MNEs and trademarks are not free from antitrust attacks.<sup>125</sup>

Since *Continental T.V., Inc. v. GTE Sylvania, Inc.*,<sup>126</sup> a rule of reason standard is applied to most vertical restrictions of trade. When a

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*Guerlain*, 155 F. Supp. at 90. The court concluded that defendants had attempted to monopolize, largely because the U.S. company and its French counterpart were a single international enterprise. *Id.* at 90-91.

<sup>119</sup> Motion to vacate and remand to the district court for consideration of motion to dismiss to be filed by the United States. *Guerlain*, 358 U.S. at 915. Section 526 should not be invoked by a U.S. division of a single international company in order to divide its global market. The relationship between the U.S. trademark holder and the foreign manufacturer is critical. Section 526 does not provide an exception to § 2 of the Sherman Act, and should not be read in that fashion. See Callmann, *Worldmarks and the Antitrust Law*, 11 VAND. L. REV. 515 (1969).

<sup>120</sup> Brief in support of United States, motion to vacate at 6-7, *Guerlain*, 358 U.S. 915 (1958). See H.R. REP. NO. 7234, 86th Cong., 1st Sess. 1959; Atwood, *supra* note 110, at 307, 313.

<sup>121</sup> See *Guerlain*, 172 F. Supp. at 107.

<sup>122</sup> H.R. REP. NO. 7234, 86th Cong., 1st Sess. 1959.

<sup>123</sup> See Atwood, *supra* note 111, at 314.

<sup>124</sup> See Vandenburg, *The Problem of Importation of Genuinely Marked Goods is not a Trademark Problem*, 49 TRADE-MARK REP. 707, 707-08 (1959).

<sup>125</sup> Various antitrust remedies may exist in these situations. See *Osawa*, 589 F. Supp. at 1178.

<sup>126</sup> 433 U.S. 36 (1977).

U.S. trademark holder excludes its subsidiary's legitimately marked goods from the U.S. market, it controls manufacturing, distribution, and possible retail of the goods. This may constitute an impermissible vertical restraint of trade when the restraint has unreasonable anti-competitive effects and, particularly, when the arrangement causes price fixing.<sup>127</sup>

When the ALJ applied the rule of reason test in the *Duracell* case he found no evidence that Duracell was restricting trade or artificially inflating U.S. prices.<sup>128</sup> Although price differences in Duracell batteries did exist between the U.S. and European markets, there was little evidence indicating that the price differences were not attributable to exchange rates.<sup>129</sup> The ALJ also held that the extensive interbrand competition in the U.S. battery market negated any inference of anti-competitive behavior on the part of Duracell.<sup>130</sup>

In *Parfums Stern v. United States Customs Service* the District Court for the Southern District of Florida concluded that the antitrust laws did not permit exclusion of grey market goods imported by plaintiff's international affiliates and refused to enjoin importation of these goods.<sup>131</sup> Plaintiff, a MNE subsidiary that owned the U.S. "Oscar de la Renta" trademark and distributed "Oscar de la Renta" trademarked goods worldwide, argued that the unauthorized imports of "Oscar de la Renta" goods infringed its trademark rights.<sup>132</sup> The court concluded that plaintiff was attempting to insulate itself from competition with genuine goods marketed internationally by its own foreign manufacturing sources.<sup>133</sup> Analogous to the *Guerlain* court, the *Parfums Stern* court held that, because of the strong relationship between the domestic trademark owner and the foreign manufacturer, the plaintiff was trying to monopolize imports of these products.<sup>134</sup>

According to some commentators, the reasoning of *Parfums Stern* reflects antitrust concerns mirrored in Customs Regulation section 133.21.<sup>135</sup> Section 133.21's exclusion of related companies from trademark protection in certain cases has been analyzed as Customs' attempt to deal with antitrust problems inherent in exclusive distributorships and market division.<sup>136</sup> This analysis<sup>137</sup> is supported by

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<sup>127</sup> See *id.* at 59. It is a *per se* violation of § 1 of the Sherman Act for a manufacturer to fix the price at which the retailer can sell the product. See *Dr. Miles Medical Co. v. John Park & Sons Co.*, 220 U.S. 373, 407-08 (1911).

<sup>128</sup> See Initial Determination of Judge Duvall in *Duracell*, Inv. No. 337-TA-165 (Int'l Trade Comm'n 1984).

<sup>129</sup> See *id.*

<sup>130</sup> See *id.*

<sup>131</sup> 575 F. Supp. 416 (S.D. Fla. 1983).

<sup>132</sup> See *id.* at 418-19.

<sup>133</sup> See *id.* at 420.

<sup>134</sup> See *id.*

<sup>135</sup> *Osawa*, 589 F. Supp. at 1177; Atwood, *supra* note 111.

<sup>136</sup> See *Osawa*, 589 F. Supp. at 1177; Atwood, *supra* note 111, at 313; *supra* note 133.

the adoption of section 133.21 in relation to the *Guerlain* case.<sup>138</sup> By use of this regulation, the Customs Service refuses to permit a single multinational concern to divide its international business goodwill into national fragments by the use of exclusive agreements and distributorships.<sup>139</sup>

If President Reagan's disapproval of the ITC's Duracell ruling foreshadows the policy that eventually will be adopted in this area, Customs regulation 133.21's treatment of section 526 of the Tariff Act and sections 42 and 32(1) of the Lanham Act probably will prevail. If the Administration follows Customs' lead, companies owning both the U.S. trademark and the foreign subsidiary manufacturing the trademarked goods will be prevented from excluding grey market goods because of antitrust law, and the antitrust reasoning exemplified in *Parfums Stern* will displace that offered by the ALJ in Duracell.

#### IV. National Policy and Grey Market Goods

The profound need for a coherent grey market policy is illustrated by the differing results produced by judicial and administrative reviews of grey market disputes. Although the *Vivitar* and *Coalition* courts sustained Customs' interpretation of section 526 and permitted the importation of genuine grey market goods produced by a foreign concern related to the U.S. mark holder, the ITC determined that grey market imports in the Duracell case violated section 337 of the Tariff Act.<sup>140</sup>

Policymakers in this area will have to consider a number of diverse factors in order to formulate a viable grey market policy. Trademark law and trademark protection, U.S. trade law, including questions about the desirability of excluding goods in light of international trade agreements, and possible compromises with protectionist sentiment in Congress must be examined.

##### A. Trademark Law

According to one school of thought, importation of genuine unauthorized goods erodes aspects of U.S. trademark law and may negatively affect the public interest. Proponents of this view argue that businesses will be more likely to invest in adequately protected trademarks.<sup>141</sup> Since trademarks protect consumers by identifying

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<sup>137</sup> See *Coalition*, 598 F. Supp. at 849-51.

<sup>138</sup> See *id.*

<sup>139</sup> See Callmann, *supra* note 119, at 524.

<sup>140</sup> See *Vivitar*, 761 F.2d at 1555; *Coalition*, 598 F. Supp. at 844; *Duracell*, 225 U.S.P.Q. at 825. The Reagan Administration's solicitation of information from industry on the effect of imports underscores the urgency of the grey market problem.

<sup>141</sup> Proponents of this view also suggest that U.S. firms would have incentives to develop foreign markets if U.S. trademarks on foreign goods were protected. Such develop-

goods and their respective quality, this school contends that consumers ultimately will benefit from trademark investment, and that manufacturers may have less incentive to develop quality goods denoted by trademarks, both at home and abroad, if trademark investments are not protected.<sup>142</sup>

In response to these arguments, Kenneth Dam contends that, although trademarks guarantee the quality of a product, recognition of this trademark function does not mandate exclusion of genuine goods in the international trade situation. Dam maintains that general trademark law provides adequate protection when goods are altered or when used goods are sold as new.<sup>143</sup> Therefore, exclusion is neither the only nor the most appropriate remedy for maintaining product quality and protecting trademark holders' goodwill. For example, labeling the unauthorized imports may offer the most viable solution.

Another commentator also concludes that the grey market import problem should not be resolved by the trademark laws.<sup>144</sup> Vandenburg compares international trademark use with trademark use in the U.S. system, noting that a trademark owner licensing a subsidiary to produce trademarked goods in one state could not interfere with interstate commerce and prevent those goods from entering other states in the national market. By analogy, he suggests that goods made abroad under fact situations that would not constitute trademark infringement if carried out in the United States should not be excluded under the U.S. trademark laws.<sup>145</sup> Vandenburg concludes that U.S. tariff law, not trademark law, might offer the proper avenue for excluding grey market goods.<sup>146</sup>

### B. Trade Policy and Multinational Enterprises

The correct application of the territoriality principle should not be the sole or overriding issue in the grey market debate. Trade policy lies at the heart of the grey market problem and debate must center on formulating a coherent policy and assessing its impact on international trade and domestic markets.<sup>147</sup> In formulating a grey

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ment would benefit consumers and industry because MNEs would enjoy a greater economy of scale in advertising costs by using the same trademark internationally. Theoretically, U.S. industry also might benefit because the internationally used mark could invite a spillover of goodwill previously established in its native country. *Duracell*, 225 U.S.P.Q. at 841-44.

<sup>142</sup> See *Duracell*, 225 U.S.P.Q. at 829-30.

<sup>143</sup> See Dam, *supra* note 111, at 50-51; see also *Duracell*, 225 U.S.P.Q. at 829-30.

<sup>144</sup> See Vandenburg, *supra* note 123, at 707.

<sup>145</sup> See *id.* at 715; see also Dam, *supra* note 111, at 57.

<sup>146</sup> See Vandenburg, *supra* note 124, at 713.

<sup>147</sup> See Dam, *supra* note 111, at 48-49. For example, grey market policy could have a direct effect on prices charged for protected goods. Were U.S. MNEs able to invoke § 526 of the Tariff Act or provisions of the Lanham Act to exclude genuine goods from the U.S.

market position, policy makers must consider international trade law and U.S. relations with its trading partners. International trade law presumptively favors national trade policies involving minimal distortions of international trade.<sup>148</sup> If the United States created an exclusionary grey market policy, a whole range of internationally known trademarked goods could be excluded from the U.S. market. This sort of policy would involve unacceptable disruptions of international trade because large numbers of goods would be barred entirely from domestic markets.<sup>149</sup>

An effective policy also must address grey market imports produced by MNEs. Both the specific character of MNEs and their abilities to restrict trade must be considered. Policy makers must balance perceived ill effects to domestic industry with positive contributions made by MNE imports.<sup>150</sup> In the case of domestic MNEs, the balance becomes a weighing of the benefits of allowing a domestic company protected by an exclusionary grey market policy to compete internationally against trade distortions and other problems that such a policy might create.

### C. *Examples from the European Economic Community*

The European Economic Community (EEC) has faced the grey market import problem since its birth as an integrated economic region in the late 1950s. From its inception, the EEC has worked towards greater economic integration of Europe through a policy founded on free trade between EEC member nations. While it may be argued that the EEC is a *sui generis* regional arrangement with little in common with the United States, the goal of free trade between nations is shared, at least in theory, by the United States and the European Community. The EEC's treatment of grey market imports therefore may enhance discussion of this problem in the United States.

Trademark holders' rights to exclude grey market goods from national markets are substantially restricted in the European Com-

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market, the cost of similar goods in the U.S. market would rise. Theoretically, the exclusion would raise domestic prices just as a tariff would. *Id.* at 45.

<sup>148</sup> For example, the General Agreement on Tariffs and Trade reduces tariffs but prohibits quantitative restrictions except in certain situations. See General Agreement on Tariffs and Trade, *opened for signature* Oct. 30, 1947, art. XI, 61 Stat. A3, T.I.A.S. No. 1700, 55 U.N.T.S. 187.

<sup>149</sup> See Dam, *supra* note 111, at 49.

<sup>150</sup> See J. DUNNING, INTERNATIONAL PRODUCTION AND MULTINATIONAL ENTERPRISES 388 (1981); see also ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, RESTRICTIVE BUSINESS PRACTICES OF MULINATIONAL ENTERPRISES: REPORT OF THE COMMITTEE OF EXPERTS ON RESTRICTIVE BUSINESS PRACTICES 7 (1977); Davidow, *The Seeking of a World Competition Code: Quixotic Quest?*, COMPETITION IN INTERNATIONAL BUSINESS 381-82 (O. Schachter & R. Hellawell eds. 1981); Wang, *Analysis of Restrictive Business Practices by Transnational Corporations*, COMPETITION IN INTERNATIONAL BUSINESS 4-5 (O. Schachter & R. Hellawell eds. 1981).

mon Market. Underlying this practice is the principle that the EEC should not be partitioned by exclusive distributorships that often are based on trademark rights.<sup>151</sup> The EEC's policy supports international trade and economic integration through the free flow of grey market imports.

To understand development of the European Community's grey market doctrine, relevant provisions of the treaty creating the EEC must be discussed. The Treaty of Rome<sup>152</sup> generally prohibits protectionist laws, including import quotas or national regulations which would have the same effect as a quota.<sup>153</sup> Article 85 proscribes business practices that affect Community trade and prevent, restrict, or distort competition in the Common Market. Prohibited practices include price fixing, production limits, and, importantly, market allocation.<sup>154</sup>

There are exceptions to this general free trade policy. For example, article 36 states that some import controls may be justified when they are imposed to protect industrial and commercial property<sup>155</sup> unless used to discriminate against or restrict trade between Member States.<sup>156</sup> Nonetheless, the article 36 exception does not limit application of article 85 prohibitions of anti-competitive practices.<sup>157</sup> An exclusionary policy may be compatible with article 36 and remain invalid as an infringement of article 85.<sup>158</sup> The article 36 exception to EEC free trade principles is construed strictly and lim-

<sup>151</sup> See A. HERMANN & C. JONES, *FAIR TRADING IN EUROPE* 44 (1977).

<sup>152</sup> Treaty Establishing the European Economic Community, Mar. 25, 1957, 298 U.N.T.S. 11 [hereinafter cited as Treaty of Rome].

<sup>153</sup> See *id.* arts. 30-34.

<sup>154</sup> See *id.* art. 85. Article 85 provides in pertinent part:

The following practices shall be prohibited as incompatible with the Common Market: all agreements . . . which are designed to prevent, restrict or distort competition within the Common Market or which have this effect. This shall, in particular, include . . . direct and indirect price fixing; production, market, technical development or investment controls; market-sharing or the sharing of supply sources; discriminatory trade practices; and restrictive trade agreements.

Article 85 only concerns agreements between independent commercial entities. It thus does not apply to agreements between a parent and a subsidiary concerning the allocation of tasks within the enterprise. The Commission will examine such agreements, however, to ascertain if they directly or indirectly affect present or future trade. See 1 *THE LAW OF TRANSNATIONAL BUSINESS TRANSACTIONS* § 9.03(2)(a) (V. Nanda ed. 1985) [hereinafter cited as V. Nanda].

<sup>155</sup> Article 36 provides that articles 30-34 shall not preclude prohibitions on imports justified on grounds including the protection of industrial and commercial property. Such prohibitions, however, must not constitute trade discrimination or restrictions between Member States. See Treaty of Rome, *supra* note 152, art. 36.

<sup>156</sup> *Id.*

<sup>157</sup> See *Establishments Costen SARL & Grundig-Verkauf-GmbH v. Comm'n EEC*, 1966 E. Comm. Ct. J. Rep. 299, 345, [1966] COMMON MKT. REP. (CCH) ¶ 8046 at 7654. For a discussion of *Grundig*, see V. Nanda, *supra* note 154, § 9.03(2)(e).

<sup>158</sup> See A. HERMANN & C. JONES, *supra* note 151, at 77.

ited to unique circumstances.<sup>159</sup> Consequently, trademarks receive limited protection under this article. Although trademarks are protected as industrial and commercial property rights under basic Community doctrine, the Treaty militates against employing trademarks as a means of trade control between the Member States. Therefore, it is difficult to exclude grey market imports by use of trademark law within the EEC.<sup>160</sup>

The EEC's grey market policy has been consistently developed in case law over the last two decades. The anti-competitive articles of the Treaty and the EEC's ability to deal with grey market imports were initially tested in *Etalissements Costen SARL & Grundig-Verkauf GmbH v. Commission des Communautés Europeenes* in 1966.<sup>161</sup> The issues in *Grundig* arose when third parties began importing genuine Grundig goods from Germany into France after Grundig, a German manufacturer, granted exclusive distribution rights in France to plaintiff. Plaintiff, who had sold the Grundig products in France under its own "GINT" trademark, brought suit in France alleging infringement of its trademark. The French court delayed action until the Commission could hear the case.<sup>162</sup> The Commission determined that the absolute territorial protection which Costen sought was contrary to article 85.<sup>163</sup> Therefore, the Commission permitted the genuine, albeit grey, Grundig articles to enter the French market.<sup>164</sup> The ruling in *Grundig* prohibits the use of trademarks to exclude grey market imports when the trademark owner and foreign manufacturer are related enterprises,<sup>165</sup> and invalidates exclusive distributorship agreements that would provide protection from grey market imports in the EEC.<sup>166</sup>

Some years later, in *Sirena S. v. Eda GmbH*, the Commission further restricted use of trademarks to exclude grey market goods.<sup>167</sup>

<sup>159</sup> See *S.P.A. Salgoli v. Haitian Ministry for Foreign Trade*, 1968 E. Comm. Ct. J. Rep. 453, 463, [1967-70 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 352.56.

<sup>160</sup> See A. HERMANN & C. JONES, *supra* note 151, at 44-45.

<sup>161</sup> 1966 E. Comm. Ct. J. Rep. 299, [1961-66 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8046.

<sup>162</sup> See *id.* at 304 [1961-66 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8046 at 7672. A. HERMANN & C. JONES, *supra* note 151, at 73. French law provided then, as it does today, that exclusive distributors may protect their territory through trademark actions. See *Grundig*, 1966 E. Comm. Ct. J. Rep. at 369, [1961-66 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8046 at 7672; A. HERMANN & C. JONES, *supra* note 151, at 73. For present French law, see text at 32.

<sup>163</sup> See generally *supra* note 154.

<sup>164</sup> See *Grundig*, 1966 E. Comm. Ct. J. Rep. at 304, [1961-66 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8046 at 7621. See also A. HERMANN & C. JONES, *supra* note 151, at 73.

<sup>165</sup> An example of a related enterprise is exclusive distributor and manufacturer. See S. HERMANN & C. JONES, *supra* note 151, at 45.

<sup>166</sup> See *id.* at 73.

<sup>167</sup> See 1971 E. Comm. Ct. J. Rep. 69, 83, [1971-73 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8101 at 7112. See also A. HERMANN & C. JONES, *supra* note 151, at 45; V. Nanda, *supra* note 154, § 9.03(2)(c).

The case concerned two European companies that had each purchased exclusive rights to use a U.S. trademark.<sup>168</sup> Sirena had an exclusive trademark license for Italy, and Eda had a similar license for Germany.<sup>169</sup> Sirena brought suit when Eda attempted to sell the identically trademarked goods in Italy.<sup>170</sup> The Commission denied Sirena's claim and expanded the scope of its *Grundig* decision by holding that trademarks could not be used to isolate national markets from less expensive genuine imports even when unrelated enterprises were involved.<sup>171</sup>

In a series of decisions in the early 1970s, the Commission clarified the relationship between intellectual property rights and free trade in the EEC. In *Deutsche Grammophon GmbH v. Metro-SB-Grossmarkte GmbH & Co. KG* the Commission held that an intellectual property right owner cannot invoke article 36 when that owner or an authorized third party sells goods covered by the property right in another EEC country.<sup>172</sup> In *Re WEA-Filipacchi Music S.A.* the Commission found that a customer agreement violated article 85 because it established exclusive distributorships by controlling genuine exports.<sup>173</sup> In *Van Zuylen Freres v. HagA.G.* the Commission limited the territoriality principle, holding that exclusive trademark owners cannot rely on their national laws to prohibit marketing of genuine goods originating in the EEC.<sup>174</sup> Ultimately, the Commission extended this free market policy to non-EEC companies in *Re Pittsburgh Corning Europe*, holding that non-EEC parent corporations may not isolate national markets within the EEC to protect a subsidiary from lower priced grey market goods.<sup>175</sup> Through these cases, the Com-

<sup>168</sup> See *Sirena*, 1971 E. Comm. J. Rep. at 80-81, [1971-73 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8101 at 711.

<sup>169</sup> See *id.*

<sup>170</sup> See *id.*

<sup>171</sup> See *id.* at 84-85, [1971-73 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8101 at 7113. The Commission suggested that consumer confusion was the only basis for excluding grey market imports, and established a "rule of reason test" to determine if consumers in fact were misled. See *id.*

<sup>172</sup> See 1971 E. Comm. Ct. J. Rep. 487, 512, [1971-73 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8106 at 7193. See also Treaty of Rome, *supra* note 152, art. 36; A. HERMANN & C. JONES, *supra* note 151, at 78.

<sup>173</sup> See 1973 Common Mkt. L.R. D43, D48. See also *Centrafarm B.V. and Adriaan de Peijper v. Sterling Drug, Inc.*, 1974 E. Comm. Ct. J. Rep. 1147, [1975 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8246 (plaintiff exhausted intellectual property rights by marketing drugs in England and could not prevent grey market goods from entering Dutch market). See V. Nanda, *supra* note 154, § 9.03(2)(e), for discussion of *Merck & Co. v. Stephan B.V.*, [1981] COMMON MKT. REP. (CCH) ¶ 8707, which substantially supports *Centrafarm*; see also HUNNINGS, ANTITRUST CASES FROM COMMON MARKET LAW REPORTS 395 (1976).

<sup>174</sup> See 1974 E. Comm. Ct. J. Rep. 731, 755, [1974 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8230 at 9133. This case involved a German firm which lost the right to its Belgian trademark due to wartime expropriation. Its general applicability thus may be limited. See A. HERMANN & C. JONES, *supra* note 151, at 45-46.

<sup>175</sup> 1973 Comm. Mkt. L.R. D2, D7-D8 (E.C. Comm'n-Restr. Practices); see also HUNNINGS, *supra* note 173, at 384.

mission established a free trade doctrine regarding grey market imports that permits few exceptions.

In 1976 the Commission modified its position holding that the Treaty of Rome did not prevent a trademark owner from excluding genuine goods. Nonetheless, the Commission held that exclusion of genuine imports was permissible only if the trademark holder owned the mark throughout the EEC and if exclusion would not partition or isolate EEC markets.<sup>176</sup> The Commission also held that genuine imports creating consumer confusion could be excluded if independent trademark owners subject to different national laws were involved and exclusion would not create artificial market divisions.<sup>177</sup>

Recent EEC decisions continue to reflect a free market approach to grey market goods within the Community. Commercial agreements that exclude grey market goods, without attempting to utilize import controls, have been challenged and voided by the Commission. In one case, an agreement between a manufacturer and its distributors to control grey market goods through discriminatory warranty and sales services was invalidated under article 85.<sup>178</sup> In addition, the Commission determined that an agreement between a supplier and distributors which limited grey market trade through export controls violated EEC law.<sup>179</sup>

The EEC has stated firmly that the Community will not tolerate trade distortions and anti-competitive pricing produced by an exclusionary policy toward grey market goods. A sampling of other national laws presents a similar picture. German trademarks may not be used to keep out genuine goods made lawfully abroad when the German trademark owner has marketed the good abroad, either directly or through an affiliate. In France, doctrine and case law seem to permit exclusive distributorships when they do not concern essential goods. French law appears to focus on the anti-competitive effects of trademark enforcement, rather than applying a *per se* rule. Swedish law allows importation of grey market goods if the domestic trademark owner and the foreign manufacturer are part of the same enterprise. In Denmark, trademark law generally does not provide protection from grey market goods. Finally, grey market goods have been permitted to enter Japan since the 1970s. Moreover, an open grey market policy is now officially endorsed by the Japanese Fair

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<sup>176</sup> See *EMI Records Ltd. v. CBS Grammofon A/S*, 1976 E. Comm. Ct. J. Rep. 871, 908, [1976 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8351 at 7402.

<sup>177</sup> See *Terrapin (Overseas) Ltd. v. Terranova Industrie C.A. Kapferer & Co.*, 1976 E. Comm. Ct. J. Rep. 1039, 1061-62, [1976 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8362 at 7605.

<sup>178</sup> See *Victor Hasselblad*, 24 O.J. Eur. Comm. (No. L 161) 18 (1981), [1982-85 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 10,401.

<sup>179</sup> See *National Panasonic*, 25 O.J. Eur. Comm. (No. L 354) 28 (1982), [1982-85 Transfer Binder] COMMON MKT REP. (CCH) ¶ 10,441.

Trade Commission.<sup>180</sup>

Additional international support for a non-exclusionary grey market policy is found in the recommendations of a United Nations study authored by the Organization of Economic Co-operation and Development. The study recommends a free entry approach for genuine grey market goods legitimately marked abroad when their exclusion would result in higher prices or anti-competitive effects.<sup>181</sup>

#### D. U.S. Government Action

The United States is far from realizing a national grey market policy.<sup>182</sup> Congress and the Executive disagree on the contours U.S. policy should take. Almost a year before the Duracell action was concluded at the ITC, a number of senators advocated extending trademark protection to all U.S. companies faced with grey market imports, regardless of their relationship to the foreign manufacturer.<sup>183</sup> Protecting consumers, U.S. jobs, and the integrity of U.S. trademarks are the stated goals of this policy,<sup>184</sup> which would effectively exclude all grey market goods from the U.S. market. In response, the Treasury Department contended that regulation 133.21 prevents a U.S. affiliated MNE from excluding importation of authentic goods sold abroad through section 526. As a compromise, the Administration proposed changing Customs regulations so that a U.S. subsidiary of a foreign corporation could protect its exclusive distributorship of foreign-made goods by registering with the Customs service.<sup>185</sup> In short, the Administration indicated that it would translate *Katzel* into a regular Customs' procedure, but would not extend protection against grey market goods to the limits proposed by the senators.

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<sup>180</sup> See ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, RESTRICTIVE BUSINESS PRACTICES RELATING TO TRADEMARKS: REPORT OF THE COMMISSION OF EXPERTS ON RESTRICTIVE BUSINESS PRACTICES 19-35 (1978).

<sup>181</sup> See *id.* at 73-74.

<sup>182</sup> See *Duracell*, 225 U.S.P.Q. at 860-62 (view of chairwoman Stern & Comm'r Rohr). Chairwoman Stern and Commissioner Rohr stated that *Duracell* presented several new issues relating to the powers of the ITC under § 337 and the use of § 337 to protect U.S. companies' trademark rights. While § 337 investigations may consider common law and statutory violations in determining if an unfair act exists, Stern and Rohr doubted that certain questions of law presented in *Duracell* rightly could be considered under § 337. They deemed two sections of the Lanham Act inappropriate for consideration because Customs regulations provided an adequate procedure and remedy under both sections. They concluded that these sections were outside the scope of § 337 just as antidumping and subsidy laws are. See *id.* at 844-45, 846-47.

<sup>183</sup> See Letter from Senators James Abdnor, Bill Bradley, Orrin G. Hatch, Dennis DeConcini, Alfonse D'Amato, Daniel Moynihan, and Paul Laxalt to Donald Regan, Secretary of the Treasury (Nov. 7, 1983).

<sup>184</sup> See *id.*

<sup>185</sup> See Letter from Sec. Donald Regan to Sen. DeConcini (Dec. 23, 1983).

## V. Conclusion

U.S. policymakers must formulate an effective response to grey market imports that embraces industrial, international trade, and consumer concerns, as well as, delineates the protections a U.S. MNE subsidiary may claim from grey market imports. A number of factors must be weighed to avoid a blanket exclusion of grey market goods. An exclusionary policy that creates a trade barrier could close the U.S. market to a whole range of inexpensive name-brand goods, creating a series of international and domestic difficulties for consumers and businesses alike.

Because the grey market problem exists in a period of an inflated dollar and a growing trade deficit, economic pressures may inflame protectionist sentiments against grey market imports. While a protectionist policy could allow U.S. corporations like Duracell to isolate the U.S. market from some international competition, and preserve domestic industry in its present form, long-term imbalances in international trade would result. Furthermore, such measures offer expedient, yet ill-conceived, relief from an overvalued dollar, masking the truly deleterious effects of the high dollar on U.S. and international economies. By creating an artificial barrier to goods made cheaper by the overvalued dollar, industry and government would have less incentive to address the fundamental international trade problems caused by the dollar's valuation.

An international policy-making perspective involves considering the broad ramifications of an exclusionary grey market policy. Policy-makers must recognize that competition could be enhanced by allowing importation of genuine grey market goods. Although such a policy may temporarily injure domestic trademark holders, the free flow of goods could further global economic development.<sup>186</sup>

It remains to be seen whether the Administration and Congress can formulate an effective response to grey market goods. Whatever form the policy eventually takes, it will have to consider trademark law and international, as well as national, trade ramifications.

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<sup>186</sup> See Greer, *Control of Terms and Conditions for International Transfers of Technology to Developing Countries*, COMPETITION IN INTERNATIONAL TRADE 71-72 (O. Schachter & R. Hel-lawell eds. 1981).

