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by ROBERT W. STEELE*

Introduction

During the past 25 years, I have been involved in both trademark and antitrust litigation, particularly with emphasis on cases where restraints on distribution and pricing have arisen from the purported enforcement of trademark rights.

This has been a controversial and rapidly-evolving area of the law during the past ten years. In fact, probably no greater area of controversy has arisen in trademark law within this time period than that of the parallel imports or gray market cases.

"Gray Market goods" or parallel imports are goods which are bought abroad and sold in the United States for less than the usual price. If an importer can purchase Duracell batteries, for example, for significantly less in Singapore than in the United States, he can ship the batteries back to the United States and resell them here, undercutting the domestic price, and still make a profit. The D.C. Circuit defined parallel imports as:

> [G]oods manufactured abroad bearing legitimate foreign trademarks that are identical to American trademarks. This situation typically arises when a foreign producer creates an American subsidiary that then registers the American trademark.[1]

Parallel import cases do not present the issues that normally arise in a Lanham Act trademark or unfair competition case. The typical Lanham Act case arises when a trademark owner seeks to stop the sale of another's product as his own.[2] For a few reasons, parallel import cases are very different.

First, parallel imports do not involve the pirating of trade-

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1. Coalition to Preserve the Integrity of American Trademarks v. United States, 790 F.2d 903, 904 (D.C. Cir. 1986), *aff'd in part*, 108 S. Ct. 950 (1988).

2. 15 U.S.C. § 1114 (1987). Prestonettes, Inc. v. Coty, 264 U.S. 359, 368 (1924).

marks.[3] The trademarks at issue are placed on the goods by the trademark owner. Second, the goods and trademarks at issue are not counterfeit; they are genuine. Third, by definition, there can be no confusion of source in parallel imports cases, since the goods emanate from the trademark owner. Fourth, there is a substantial question as to whether a trademark owner suffers a loss of profit, cognizable by law, in parallel import transactions since the owner of the trademark has received his profit on the first sale of the trademarked goods. Thus, the primary issue in parallel imports cases is whether a trademark owner who has placed his trademark on goods manufactured abroad can and should be allowed to prevent these goods from being imported "independently" into the United States.

For more than fifty years, Customs Service regulations have permitted parallel imports to be brought into the United States under both Section 42 of the Lanham Act and Section 526 of the Tariff Act of 1930.[4] In 1984, three cases challenged the Customs Service regulations on parallel imports.[5] My comments focus on *Coalition to Preserve the Integrity of American Trademarks v. United States* (*COPIAT*), the one case that reached the U.S. Supreme Court. The other two cases, *Olympus* and *Vivitar*, upheld the Customs Service Regulations. The D.C. Circuit, in *COPIAT*, was the only court to hold that the Customs Service regulations were invalid.

COPIAT's use of the word "American" in its name is somewhat misleading. 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.[6]

When the *COPIAT* case reached the Supreme Court, it took

3. This is confirmed by the legislative history of the Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, Ch. 15, 98 Stat. 2178. *See* S. REP. NO. 526, 98th Cong., 2d Sess. 3 (1984), *reprinted in* 1984 U.S. CODE CONG. & ADMIN. NEWS 3627, 3629.

4. 1 Fed. Reg. 1,725 (1936) (T.D. 48,537); 19 C.F.R. § 133.21 (1987).

5. Olympus Corp. v. United States, 627 F. Supp. 911 (E.D.N.Y. 1985), *aff'd*, 792 F.2d 315 (2d Cir. 1986), *cert. denied* 108 S. Ct. 2033 (1988); 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), Coalition to Preserve the Integrity of American Trademarks v. United States, 598 F. Supp. 844 (D.D.C. 1984), *rev'd*, 790 F.2d 903 (D.C. Cir. 1986), *aff'd in part*, 108 S. Ct. 950 (1988). K Mart intervened in each of these cases.

6. For example, Cartier, Inc. and Charles of the Ritz Group, Ltd., the other two named plaintiffs, are members of COPIAT and are owned by foreign companies.

on a different moniker which more clearly contrasts the interests involved: *K Mart Corporation v. Cartier, Inc.*[7] K Mart is the second largest retailer and the largest discount retailer in the world. K Mart and other discounters spend millions each year to promote merchandise and to keep customers satisfied. K Mart also owns valuable rights in the K Mart trademark and other trade names, so it appreciates the protection afforded by the intellectual property laws.

Some manufacturers, like Cartier, do not want discounters to handle their products. These manufacturers yearn for a return to the so-called "Fair Trade" era, when they could legally control resale prices and boycott discount stores.[8] They argue that the consumer is somehow benefitted when free market forces are stifled and retail prices are uniformly and artificially higher.

Discount retailers like K Mart don't share this belief and neither do I. Lately, however, the intellectual property laws[9] — and even the Uniform Commercial Code[10] and common law — have been the pretext for resale price fixing and other distributional restraints meant to prevent discounting of goods manufactured abroad.[11]

We often lose sight of common sense in the rhetoric of ob-

7. 108 S. Ct. 1811 (1988). The District of Columbia Circuit entered its opinion and order on May 6, 1986 and denied the appellees' petitions for rehearing and suggestions for rehearing *en banc* on July 18, 1986. 790 F.2d 903 (D.C. Cir. 1986). By orders of May 6, 1986 and August 6, 1986, the court of appeals stayed issuance of its mandate until September 30, 1986 in order to give the parties a meaningful opportunity to petition for a writ of certiorari. The name of the case changed to reflect the fact that K Mart was the first to file in the Supreme Court. Indeed, K Mart was the only party to file a petition for certiorari within the time provided by Rule 41(b) of the Federal Rules of Appellate Procedure to continue the stay — and preserve the availability of parallel imports — until final disposition by the Supreme Court.

8. In passing the Consumer Goods Pricing Act of 1975, Pub. L. No. 94-145, 89 Stat. 801 (1975), and thereby repealing the so-called Fair Trade laws, Congress rejected arguments made by "authorized" dealers that price-fixing was necessary to protect their goodwill and prevent "free-riding." H.R. REP. No. 341, 94th Cong., 1st Sess. 5 (1975).

9. For example, "authorized" importers have claimed that, by copyrighting their labels or trademarks, they can invoke the copyright laws to preclude parallel imports. Cosmair, Inc. v. Dynamite Enterprises, Inc., 226 U.S.P.Q. (BNA) 344 (S.D. Fla. 1985).

10. Parallel imports survived a challenge under the Uniform Commercial Code in Johnson & Johnson Products, Inc. v. DAL International Trading Co., 798 F.2d 100 (3d Cir. 1986).

11. COPIAT members also argue that once American goods have been exported, the trademark, tariff or copyright laws prevent their reimportation. *See* Cosmair, Inc. v. Dynamite Enterprises, Inc., 226 U.S.P.Q. (BNA) 344 (S.D. Fla. 1985).

scure legislative history or the semantics of statutory construction. In deciding whether or not parallel imports are excludable under trademark law, we should ask: What makes sense from a trademark perspective? What makes sense for the consumer? And what makes sense from the standpoint of foreign trade?

Looking at each of these questions, I believe you must conclude that it makes sense to permit — even to encourage — parallel imports.

I
Trademark Law

Section 42 of the Lanham Act provides, in pertinent part:

> [N]o article of imported merchandise which shall copy or simulate the name of the [*sic*] any domestic manufacture, or manufacturer, or trader, or of any manufacturer or trader located in any foreign country . . . or which shall copy or simulate a trademark registered in accordance with the provisions of this Act . . . shall be admitted to entry at any customhouse of the United States. . . .[12]

The Lanham Act is limited to cases where there is a showing of copying of someone's trademark without their permission, resulting in confusion of source at the consumer level. Section 526 of the Tariff Act of 1930[13] makes it unlawful to import any merchandise of foreign manufacture, if such merchandise bears a trademark owned by a citizen of the United States, without the written consent of the owner of such trademark.[14]

Section 526 was passed to close a judicially created gap in the trademark law[15] which arose from the decision in *A. Bourjois & Co. v. Katzel*.[16] In *Katzel*, the Second Circuit held that a French company which had sold its trademark rights to an American corporation could nonetheless continue to sell trademarked products in the United States, even though it did not have the permission of the American purchaser of the trademark.[17] The

12. 15 U.S.C. § 1124 (1987).
13. 19 U.S.C. § 1526 (1987).
14. *Id.*
15. *See* H.R. REP. No. 1223, 67th Cong., 2d Sess. 158 (1922).
16. 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).
17. *Katzel* certainly had nothing to do with multinational enterprises who assign American trademark rights to wholly owned subsidiaries. It also had nothing to do with goods manufactured and trademarked abroad with the authority of the American trademark owner.

Supreme Court reversed, holding that the American corporation's trademark was infringed.[18]

The weight of authority in the courts is that parallel imports do not violate the trademark laws.[19] This is a sensible conclusion because parallel imports by definition are genuine, and the trademark has been applied with the consent or under the authority of the domestic trademark owner.[20]

The international nature of trademarks is obvious from looking at such familiar examples as Seiko watches, Volkswagen automobiles, Sony radios and Olympus cameras. These products are manufactured abroad and promoted worldwide, and consumers universally recognize the trademarks.[21] Volkswagen of America does not urge consumers to buy a Volkswagen because it is the American distributor of Volkswagens. It advertises that Volkswagens are "German engineered"[22] (by its parent company) and strongly hints that they are made in Germany (by its parent company), even though the cars themselves are made in Brazil or Pennsylvania.

It does not make any sense to say that the American consumers associate the Sony trademark with the Sony subsidiary which distributes Sony products in the United States, or that identical Sony goods do not bear genuine Sony trademarks. Nor does it make any sense to say that Sony Corporation of America has a goodwill separate from that of the foreign parent which directs its operations, advertises worldwide and manufactures all its merchandise.

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

19. *See* United States v. Guerlain, Inc., 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated & remanded*, 358 U.S. 915 (1958), *dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959); Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054 (9th Cir. 1983); Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983); Diamond Supply Co. v. Prudential Paper Products Co., 589 F. Supp. 470 (S.D.N.Y. 1984); El Greco Leather Products Co. v. Shoe World, Inc., 599 F. Supp. 1380 (E.D.N.Y. 1984), *rev'd on other grounds*, 806 F.2d 392 (2d Cir. 1986), *cert. denied*, 108 S. Ct. 71 (1987); Parfums Stern, Inc. v. United States Customs Service, 575 F. Supp. 416 (S.D. Fla. 1983); United States v. Eighty-Nine Bottles of "Eau de Joy," 797 F.2d 767 (9th Cir. 1986); American Honda Motor Co. v. Carolina Autosports Leasing & Sales, Inc., 645 F. Supp. 863 (W.D.N.C. 1986); NEC Electronics, Inc. v. CAL Circuit Abco, Inc., 810 F.2d 1506 (9th Cir. 1987), *cert. denied*, 108 S. Ct. 152 (1987).

20. This is the language of the Customs Service regulation. 19 C.F.R. § 133.21 (1987).

21. The Court of Appeals for the Federal Circuit observed that American consumers cannot necessarily distinguish between a foreign manufacturer and its affiliated domestic distributor with a similar name. In re Wella A.G., 787 F.2d 1549, 1552-53 (Fed. Cir. 1986).

22. *See* advertisement, TIME, Mar. 28, 1988 at 52.

COPIAT suggests that the American distribution subsidiaries have promoted the trademark in America, and that trademark law should protect their investment. The money for this investment, however, comes from, or is spent at the direction of, the foreign parent company. The trademark was made famous worldwide by the foreign parent company, and the goods were designed and manufactured by the foreign parent company.

II
American Consumers

American consumers express themselves with their dollars. They spend their money on what they feel gives them the best value; that is, on the mix of product and service which best fits their needs.[23] Anyone who has saved money by purchasing a name-brand imported camera, watch, perfume or electronic item from a discount department store, catalog showroom or mail-order house, has probably purchased a parallel import. K Mart, for example, sells parallel imports to the consumer at up to 40% less than the retail prices which COPIAT members and other foreign manufacturers seek to maintain in the United States.[24] Annual retail sales of parallel imports have been estimated at some six billion dollars.[25]

COPIAT argues that American consumers find parallel imports unsatisfactory, but consumers themselves indicate otherwise by continuing to purchase parallel imports. However, COPIAT does not satisfactorily explain why consumers should shun parallel imports.[26] Nor does COPIAT explain why identi-

23. Consumers also speak for themselves. Consumers Union of U.S., Inc. filed an amicus brief in support of petitioner in K Mart Corp. v. Cartier, Inc. which argued that consumers benefit greatly from parallel imports and that parallel imports stimulate competition in several important ways. Brief of amicus curiae, Consumers Union of U.S., Inc. at 4, K Mart Corp. v. Cartier, Inc., 108 S. Ct. 1811 (1988). The state of Washington, joined by many other states, likewise argued in an amicus brief that citizens of those states benefitted greatly from parallel imports and would be harmed by a change in the Customs Service regulations. Brief of amicus curiae, State of Washington at 2, K Mart Corp. v. Cartier, Inc. *Id.* In connection with the 1984 Treasury Department study of the Customs Service regulations on parallel imports, some 10,000 consumers sent letters supporting the continued availability of parallel imports. 49 Fed. Reg. 21,453 (1984); 49 Fed. Reg. 29,509 (1984).

24. Parallel imports of wines and spirits save consumers some $20 million annually, according to states such as Washington which distribute these products themselves. Brief of amicus curiae, State of Washington at 7 n.12, K Mart Corp. v. Cartier, Inc., 108 S. Ct. 1811 (1988).

25. *The Assault on the Right to Buy Cheap Imports*, FORTUNE, Jan. 7, 1985, at 89.

26. COPIAT has argued that Section 526 (and Section 42 of the Lanham Act)

cal merchandise is so much more expensive in America than elsewhere. Why is perfume, a product with no warranty, cheaper at retail in France than at wholesale in the United States? Why are Japanese cameras and electronics so much cheaper in Western Europe than here?

The cost of advertising, providing service or honoring warranties in America does not raise prices.[27] European and Japanese markets also require advertising, service and warranties.[28] In fact, Europe and Japan allow parallel imports, and their courts have held that the distribution restraints favored by COPIAT violate their antitrust laws.[29]

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were actually meant to deal with imagined evils ranging from unsafe automobiles to adulterated liquor. As legislative history and court decisions confirm, these are not the controlling statutes on these matters. Statutes such as the Federal Food, Drug & Cosmetic Act, 21 U.S.C. §§ 301 - 92 (1982), the National Traffic & Motor Vehicle Safety Act, 15 U.S.C. §§ 1391 - 1431 (1982), and the Clean Air Act, 42 U.S.C. §§ 7401 - 7642 (1982 & Supp. 1986), govern the contents and labelling of cosmetics and the safety and emissions of cars — whether imported or domestic and whether sold by an "authorized" or an "independent" distributor. Similarly, federal and state warranty, labeling and consumer protection statutes, such as the Fair Packaging and Labelling Act, 15 U.S.C. §§ 1451 - 61 (1982), and the Magnuson-Moss Warranty — F.T.C. Improvement Act, 15 U.S.C. §§ 2301 - 12 (1982), govern the responsibility of retailers, distributors and manufacturers (whether foreign or domestic) for consumer goods.

27. In a submission to the Customs Service, COPIAT stated that the warranty costs for three of its member camera manufacturers averaged less than 2.7% of the retail price; three members manufacturing fragrance and cosmetics had no warranty or service costs whatsoever. COPIAT, *The Economic Impact of Diversion*, submitted to the Customs Service, Sep. 20, 1984, at Table 4. One court found that the American importer of Lladro figurines — a COPIAT member and a very active litigant against parallel importers — conducted quality control for "smaller pieces" consisting solely of a spot "shake test" to determine if an occasional box rattled. Weil Ceramics & Glass, Inc. v. Dash, 618 F. Supp. 700, 711-12 (D.N.J. 1985). *See also* Diserios Artisticos & Industriales S.A. v. Work 676 F. Supp. 1254, 1263-65 (E.D.N.Y. 1987). In this case the court held that the copyright on Lladro figurines had been forfeited because the American copyright owner had failed to put a copyright notice on the figurines.

28. There is no legal authority for the position that COPIAT members can ignore their obligation to honor warranties (which are provided by their parent companies) on parallel imports.

29. The Court of Justice of the European Communities has ruled that a Swiss watch manufacturer could not refuse warranty service on watches sold by independent distributors. E.T.A. Fabriques d'Ebauches v. DK Investment, No. 31/81, European Court of Justice, Dec. 10, 1985, *reported in* 50 Antitrust & Trade Reg. Rep. (BNA) No. 1251, at 262-63 (1986). The European Community Commission recently fined two subsidiaries of Konica (Japan) for engaging in practices to discourage parallel trade in photographic film. 54 Antitrust & Trade Reg. Rep. (BNA) No. 1350, at 138 (1988). The Japanese Fair Trade Commission has declared hindering parallel imports to be an unfair trade practice, and Japanese regulations permit parallel imports. *See* Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 WASH. L. REV. 433, 442-43 (1982). Japanese courts rejected an attempt by the French owner of the Lacoste trademark and its Japanese licensee to prevent the sale in Japan

COPIAT has contended in oral arguments that Mexican Coca Cola or Puerto Rican baby powder tastes and smells different to the American consumer. This difference, they argue, adversely affects the value of an internationally recognized trademark in the United States.

The argument is specious.[30] If true, the problem could be solved by using different packaging for different formulations of a product. This suggestion is unacceptable to COPIAT. Another option is to use different trademarks in different countries. But COPIAT rejects this solution as well.[31]

Instead, COPIAT insists on using the *same* packaging and trademarks on foreign products which purportedly are different from, and therefore inferior to, those destined for the American market. Under the Lanham Act, such conduct causes forfeiture of trademark rights.[32]

In fact, COPIAT members can solve the "problem" — without changing their packaging or labelling — by selling goods at a fair price in America. Foreign companies, however, have unfairly used Section 526 to preserve artificially high prices in the American market. They have used it to shut off discounters from supplies of cameras, watches, consumer electronics and cosmetics. This issue brings the antitrust laws into play. COPIAT members, however, have escaped antitrust actions due to their multinational corporate structure.[33]

Why should a foreign manufacturer enjoy a degree of control

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of Lacoste shirts manufactured for Lacoste's American trademark licensee. La Chemise Lacoste v. Shinshinboeki, 48 Antitrust & Trade Reg. Rep. (BNA) No. 1199, at 225 (1985).

30. This argument was rejected in a case involving Shield deodorant soap and Sunlight dishwashing detergent allegedly formulated for the British market but packaged identically to the American product. Lever Brothers Co. v. United States, 652 F. Supp. 403 (D.D.C. 1987), *cert. denied*, 107 S. Ct. 2461 (1987).

31. Similarly, it does not make sense for COPIAT members to use identical trademarks and packaging on goods which are not identical. If, as COPIAT contends, cologne is formulated differently for the French consumers than for American, the labelling should so indicate. As one court noted, a company should not be surprised if a consumer complains about identically packaged soap which has different formulas in different countries. *See Lever Bros.*, *supra* note 30, at 405-06.

32. The conduct must deceive the public. *See* 15 U.S.C. § 1055 (1982).

33. Under Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752 (1984), a foreign parent and its domestic subsidiary are a single entity which cannot conspire with itself to fix prices or allocate markets. *Id.* at 771. However, a multinational company cannot both claim to be a single entity in order to avoid antitrust liability under *Copperweld*, and at the same time claim to be separate and independent when a consumer seeks warranty service on an "international" warranty or when trademark good will is at issue.

over the distribution of its products that no American manufacturer can possess?[34] An American company which sells goods at a lower price in one market than another cannot invoke the trademark law or Section 526 to prevent natural operation of free market forces. An American company cannot call on the government to enforce its distributional restraints or price discrimination. Such actions are precisely what foreign manufacturers, through COPIAT, claim under Section 526.

The same corporations which insist that resale price maintenance is good for consumers now state that parallel imports are bad for consumers. They believe that discounting is bad, arguing that not only should the consumer pay higher prices, but also the manufacturer should dictate the price consumers must pay. This runs counter to decades of judicial and congressional wisdom developed in the antitrust laws.[35]

III
Foreign Trade

Our foreign trade deficit[36] is unprecedented, and it is only worsened when American consumers are forced to pay extra for foreign goods. The Reagan Administration has repeatedly sought to lower non-tariff barriers to trade, eliminate protectionism and "level" the international "playing field."[37] None of these goals will be achieved by barring parallel imports. A ban on parallel imports would be a significant trade barrier. To close the American market to foreign merchandise from genuine manufacturers would constitute the worst sort of protec-

34. Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, Ch. 15, 98 Stat. 4173.

35. Historically, courts have been quick to strike down arrangements where a trademark has been used to divide territories, whether national or international. *See, e.g.*, U.S. v. Sealy, Inc., 388 U.S. 350 (1967); Timken Roller Bearing Co. v. U.S., 341 U.S. 593 (1951). Group boycotts to enforce price fixing are per se illegal regardless of the euphemistic label which the participants have concocted. Klor's, Inc. v. Broadway-Hale Stores, Inc., 359 U.S. 207, 212 (1959). Any joint arrangement designed to prevent discounters from obtaining merchandise is per se illegal. U.S. v. General Motors Corp., 384 U.S. 127, 145-46 (1966). Moreover, the trademark laws do not allow a trademark owner to control the resale prices of goods it has sold. Susser v. Carvel Corp., 332 F.2d 505, 513 (2d Cir. 1964), *cert. dismissed*, 381 U.S. 125 (1965); Sunbeam Corp. v. Wentling, 192 F.2d 7, 9 (3d Cir. 1951).

36. WALL ST. J., Mar. 14, 1988, at 30, col. 3; Mar. 16, 1988, at 4, col. 3; Apr. 15, 1988, at 1, col. 6.

37. Bock, *The Making of Mishmash*, TIME, Mar. 28, 1988 at 48.

tionism. Since our trading partners allow parallel imports, the playing field is already level.

Conclusion

As this article is being written, the Supreme Court has not reached a decision in *K Mart Corp. v. Cartier, Inc.*[38] One can only hope that common sense will ultimately prevail in the Supreme Court, as it did in the district courts in *Vivitar*, *Olympus* and *COPIAT*, and in the courts of appeals in deciding *Vivitar* and *Olympus*.[39] The Court should see that the foreign trade deficit, American consumer preferences, and a fair reading of the body of trademark law all support continuing to allow parallel imports.

38. Ed. Note — The case was decided on the merits on May 31, 1988. 108 S. Ct. 1811 (1988)

39. In fact, both sides have championed legislative solutions to the issue. Senator Chafee (R - R.I.) introduced legislation to codify the Customs Service regulations. Price Competitive Products Act of 1987, S. 1097, 100th Cong., 1st Sess. (1987). Senator Hatch (R - Utah) introduced a bill to amend the Lanham Act to repudiate Customs Service regulations. Trademark Protection Act of 1986, S. 1671, 100th Cong., 1st Sess. (1987). As recently as 1986, Congress rejected a proposal which would have effectively banned parallel imports of wines and spirits as a "price-fixing bill" that would "establish a monopoly, plain and simple." 132 CONG. REC. H11,083-85 (daily ed. Oct. 15, 1986) (statement of Rep. Gray).