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The Seven Billion Dollar Gray Market: Trademark Infringement or Honest Competition?

In 1984, over seven billion dollars worth of gray market goods were imported into the the United States.¹ Gray market goods are goods produced by a foreign manufacturer which bear the manufacturer's trademark.² Gray market goods are purchased abroad legally.³ They are sold, however, in competition with goods marketed by the official United States distributor.⁴ The official distributor claims to own the right to be the exclusive distributor of the goods in the United States. Therefore, the unexpected competition from the gray market has resulted in numerous lawsuits initiated by domestic mark holders to exclude gray market goods from the United States.⁵

The gray market has become increasingly popular with the American consumer.⁶ Furthermore, the gray market promises to become even more popular as consumers discover that they can purchase anything from cars to cameras at prices far below those domestic mark holders command.⁷ In 1980, over 1,500 cars were imported into the United States through the gray market.⁸ Four years later that number increased to 48,000.⁹ This dramatic increase illustrates the surge in popularity of gray market goods. A typical example of the cost savings of gray market goods is a Mercedes Benz 500 that costs more than \$53,000 in a United States showroom can be purchased in Germany for about \$30,000, shipped to the United States for about \$2,000,

1. Westerman, *The \$7 Billion Gray Market: Where it Stops, Nobody Knows*, Bus. Wk., April 15, 1985, at 86 (gray market goods account for almost six percent of the trade deficit).

2. See, e.g., *Weil Ceramics & Glass, Inc. v. Bernard Dash*, 618 F. Supp. 700, 702 (D.C.N.J. 1985) (gray market goods are also referred to as parallel imports).

3. *Id.*

4. The official distributor is the owner of the United States trademark. See *id.*

5. See *infra* notes 163-202 and accompanying text.

6. McAlevey, *The Perils of a Gray Market*, Newsweek, Jan. 28, 1985, at 56.

7. *Id.* In 1980, according to the Environmental Protection Agency, 1,500 cars were imported into the United States through the gray market. This year the Environmental Protection Agency estimates that 100,000 cars will be imported through the gray market. *Id.*

8. Seamonds, *If You Buy a Car on the "Gray Market,"* U.S. News & World Rep., March 18, 1985, at 49.

9. *Id.* See also Blinken, *The Mercedes Relief Act*, New Republic, June 3, 1985, at 13 (22,000 out of 100,000 Mercedes Benzs sold in the United States in 1984 were from the gray market).

and modified to meet federal standards for about \$5,000.¹⁰ The net result is a cost savings of more than \$16,000.¹¹ One can see why the gray market is booming.¹²

Domestic mark holders¹³ claim that the sale of gray market goods violates federal trademark law¹⁴ because domestic mark holders have exclusive territorial rights to sell their products.¹⁵ Furthermore, consumers identify the products with the domestic mark holder.¹⁶ When a gray market product is defective or damaged and no warranty is available to cover the claim, the reputation of the domestic mark holder suffers.¹⁷ In lieu of a damaged reputation, domestic mark holders often voluntarily incur the cost of repair.¹⁸ Finally, domestic mark holders complain that gray market importers are taking a free ride on the advertising expenses that the domestic owner has incurred to promote the product.¹⁹

Gray market importers claim domestic mark holders are violating antitrust laws by claiming exclusive territory rights.²⁰ An exclusive ter-

10. McAlevey, *supra* note 6, at 56.

11. *See id.*

12. *See id.*

13. Domestic mark holders are the owners of the rights to distribute a particular product in the United States. Having a domestic mark holder helps the foreign manufacturers facilitate the distribution process because domestic buyers might be reluctant to purchase foreign goods which are not supported by a local company. Nolan-Haley, *The Competitive Process and Gray Market Goods*, 5 N.Y.L. SCH. J. INT'L & COMP. LAW 231, 236 (1984).

14. Federal trademark law allows the holder of a mark to prevent others from copying or simulating that mark. 15 U.S.C. § 1124 (1982). The law protects three distinct interests. (1) The consumer's desire to get particular goods in a condition in which can be relied upon; (2) The trademark owner's interest in maintaining the goodwill of the business; and (3) the public policy in favor of free competition. Note, *Trademark Infringement: The Power of an American Trademark Owner to Prevent the Importation of the Authentic Product Manufactured by a Foreign Company*, 64 YALE L.J. 557, 561 (1955).

15. Theoretically, when a foreign owner of a trademark sells the rights to distribute the product in the United States to the domestic mark holder, the foreign owner promises not to sell to any other distributors in the United States. *See* Nolan-Haley, *supra* note 13, at 235. Therefore, the domestic mark holder claims to have the exclusive right to market the product. *See id.* Once the United States distributor has purchased the right to use the trademark in the United States, the distributor registers the trademark and can invoke the protection of federal trademark law. 19 U.S.C. § 1526 (1982).

16. Nolan-Haley, *supra* note 13, at 236.

17. *Id.* at 234. Consumers do not always know they are buying a product that is not supplied by the authorized distributor in the United States. Therefore, the goodwill of the domestic mark holder suffers when consumers are dissatisfied. *See also* McAlevey, *supra* note 6, at 56 ("They're not going to say 'My gray market Mercedes is a lemon.'").

18. *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1167 (S.D.N.Y. 1984).

19. *See* Nolan-Haley, *supra* note 13, at 235. In 1981, eight well known watch companies involved in importing watches through authorized distribution channels spent about 50 million dollars on advertising in the United States. *Id.* at 235 n.18. *See also* Victor, *Preventing Importation of Products in Violation of Property Rights*, 53 ANTITRUST L.J. 783, 790 (1984).

20. *See generally* United States v. Guerlain, Inc., 155 F. Supp. 77, 79 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958) (three United States toiletry companies were charged

ritory theoretically allows domestic mark holders to inflate the price of the product because intrabrand competition²¹ is eliminated.²² If the domestic mark holder is able to exclude the gray market goods, the price charged by the domestic mark holder is sure to increase.²³ In addition to the antitrust violations, gray market importers claim that when the foreign manufacturer and the enterprise which owns the domestic mark are owned or controlled by the same people, no need exists to exclude the imports because the actual owners²⁴ of the trademark have already made a profit from the initial sale of the product.²⁵

Gray market goods have generated controversy in this country since the 1923 decision in *Bourjois v. Katzel*.²⁶ In *Bourjois*, the United States Supreme Court first recognized the territoriality view²⁷ of trademark protection by allowing a perfume company that owned a domestic trademark to exclude the importation of gray market perfume.²⁸ Sixty years later in *Parfums Stern, Inc. v. United States Customs Service*,²⁹ a federal district court applied the universality view and ruled that the domestic mark holder could not exclude the importation of gray market perfume bearing an identical trademark.³⁰

This confusion in the courts has been paralleled by attempts of various governmental bodies to resolve the gray goods issue. Con-

with violating antitrust laws when they invoked trademark laws to exclude competition from the gray market). See *infra* notes 118-37 and accompanying text.

21. Intrabrand competition is the competition between wholesale or retail distributors of the same product from a common manufacturer. *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 52 n.19 (1977).

22. See Nolan-Haley, *supra* note 13, at 233. If gray market goods were excluded from the United States, the domestic market would be insulated from intrabrand price competition. As a result, consumers would have to pay an artificially high price. *Id.*

23. *United States v. Guerlain*, 155 F. Supp. 77 (S.D.N.Y. 1957).

24. The actual owner of the trademark in this situation is the foreign manufacturer. *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416, 417-19 (S.D.Fla. 1983). Although the domestic mark holder is often incorporated under another name, the foreign manufacturer owns or controls the corporation. Therefore, once the foreign supplier has sold the product to the gray market importer, the actual owners of the domestic trademark have already made a profit from the sale. Consequently, the domestic mark holder cannot be hurt by a sale lost to the gray market. See generally *id.* (because the plaintiff was a cog in a single international enterprise, he had no right to exclude the gray market goods from importation).

25. See *id.* (the profit is made when the foreign manufacturer sells to the gray market importer).

26. 260 U.S. 689, 691 (1923).

27. The territoriality principle is based upon the notion that a trademark has a separate legal identity in each country which symbolizes the reputation and goodwill of the domestic mark holder. *Osawa*, 589 F. Supp. at 1171. In contrast, the universality view only recognizes the single reputation and goodwill of the manufacturer. This view originated from the idea that trademarks were merely marks to indicate origin. *Id.*

28. *Bourjois*, 260 U.S. at 691.

29. 575 F. Supp. 416 (S.D. Fla. 1983).

30. *Id.* at 421.

gress enacted legislation to regulate gray market imports.³¹ This legislation has been the primary source of relief for the domestic mark holder.³² The Bureau of Customs, however, has changed position on which gray market goods to exclude from importation no less than four times.³³ The changes at the Bureau of Customs are attributable to attempts to follow the direction set by both Congress and the Supreme Court.³⁴ The resulting confusion has caused two district courts confronted with similar factual situations to come to opposite conclusions.³⁵

Initially, this comment will discuss the numerous factors that contribute to the fertility of the gray market.³⁶ This comment will then examine the burdens and benefits of the gray market to the American consumer.³⁷ Next, the development of the gray goods issue in both the courts and Congress will be addressed.³⁸ Finally, this comment will conclude that current uncertainties in the law should be resolved in favor of allowing the importation of gray market goods.³⁹ The imports, however, should be subject to certain restrictions in order to protect the American consumer, and to protect the integrity of the domestic mark holder.

FACTORS CONTRIBUTING TO THE GRAY MARKET

The predominant factor that contributes to the gray market is fluctuation of currency exchange rates.⁴⁰ When the dollar is strong in foreign markets, the gray market becomes active.⁴¹ Gray market importers can buy trademarked goods from wholesalers overseas and import them at a lower cost than the domestic mark holder who purchases directly from the manufacturer.⁴² The domestic mark holder does not always have the luxury of buying when the dollar is strong

31. 19 U.S.C. § 1526 (1982); 15 U.S.C. § 1124 (1982).

32. *Osawa*, 589 F. Supp. at 1165.

33. *Vivitar Corporation v. United States*, 761 F.2d 1552, 1566-67 (1985).

34. *Id.*

35. *See infra* notes 178-202 and accompanying text.

36. *See infra* notes 40-49 and accompanying text.

37. *See infra* notes 51-70 and accompanying text.

38. *See infra* notes 80-147 and accompanying text.

39. *See infra* notes 211-23 and accompanying text.

40. Nolan-Haley, *supra* note 13, at 232 (the gray market has been compared to the commodity exchange because gray market dealers watch foreign exchange rates and then traffic the gray goods accordingly).

41. Baldo, *Score One for the Gray Market*, *Forbes*, Feb. 25, 1985, at 74. (when the United States dollar is strong, retailers find that they can buy United States trademarked goods cheaper overseas and bring them back for resale in the United States).

42. *Id.*

because a steady supply of merchandise must be maintained at a stable price.⁴³ Goods must be purchased as the need arises, otherwise, the domestic mark holder will face adverse competitive effects.⁴⁴ Therefore, the domestic mark holder often purchases goods when the dollar is weak. The gray market importer, however, monitors the currency rates and purchases the goods when the dollar is strong.⁴⁵ The result is that the gray market importer who purchases with a strong dollar will obtain more goods per dollar than the exclusive distributor who purchases with a weaker dollar.⁴⁶

Another major factor contributing to the higher price charged by domestic mark holders is the cost of goodwill.⁴⁷ The domestic mark holder often spends millions of dollars on advertising to promote products.⁴⁸ In addition, domestic mark holders may provide warranty coverage, product liability insurance, rebates, seminars, dealer training, and often carry an exhaustive supply of inventory to meet the needs of customers.⁴⁹ The relative inability of the domestic mark holder to monitor exchange rates, coupled with advertising expenses and the need to offer peripheral services explains why the domestic mark holder must charge a higher price for imported products than the gray market importer.

The difficult issue to be resolved in the gray market controversy is whether the domestic mark holder should be able to invoke trademark and unfair trade practice laws in order to maintain the higher price. A look at the benefits and burdens of the gray market will demonstrate that the concerns of the domestic mark holders can be alleviated by placing a notice label on gray market goods.⁵⁰

BENEFITS AND BURDENS IN THE GRAY MARKET

The primary benefit to American consumers from the gray market is the opportunity to purchase products at significantly lower prices.⁵¹ The lower cost is attributable partially to a lower overhead expense

43. Supnik, *The Bell and Howell: Mamiya Case—Where Now Parallel Imports?*, 74 TRADE-MARK REP. 1, 2 n.7 (1983).

44. *Id.*

45. Nolan-Haley, *supra* note 13, at 232.

46. *Id.*

47. *Osawa*, 589 F. Supp. at 1166. In *Osawa*, the plaintiff incurred many public relations expenses related to the providing of rebates, seminars, and free peripheral equipment. *Id.*

48. See Baldo, *supra* note 41, at 74 (the Duracell division of Dart & Kraft Inc. spent \$150 million over the past three years to promote Duracell batteries).

49. *Osawa*, 589 F. Supp. at 1166.

50. See *infra* notes 219-21 and accompanying text.

51. Nolan-Haley, *supra* note 13, at 233.

incurred by the gray market importer.⁵² In addition, when the gray market is active, the resulting intrabrand competition drives down the price charged by the domestic mark holder.⁵³ The gray market consumer will be discouraged, however, to discover that no warranty is available to cover the product.⁵⁴ An expectation of warranty coverage is justifiable because the gray market consumer normally is introduced to the product through advertisement by the domestic mark holder who often provides a warranty.⁵⁵

Other problems gray market consumers encounter include purchasing substandard goods.⁵⁶ Gray market goods often are damaged or not in compliance with United States safety, ingredient control, or labeling requirements.⁵⁷ Furthermore, gray market goods occasionally have been found incompatible with United States weights, measure, or specifications, and some have been found to be obsolete.⁵⁸ Any disappointment incurred by American consumers due to purchases on the gray market normally will be reflected in damage to the reputation of the domestic mark holder.⁵⁹ When the consumer discovers the product has no warranty coverage, or the product is somehow defective, the goodwill⁶⁰ of the domestic mark holder is damaged. To protect the goodwill of a business, the owner may be forced to warranty products sold by gray market importers.⁶¹ Warranty coverage is a cost of doing business that is reflected in the price charged to

52. See *id.* at 235. The gray market importers take a free ride on the overhead of the domestic mark holder. See *supra* notes 47-49 and accompanying text.

53. See *supra* notes 21-23 and accompanying text.

54. Consumer discouragement results in dissatisfaction with the product and, therefore, the goodwill of the company is damaged. See Nolan-Haley, *supra* note 13, at 233.

55. Consumers often do not know that they are buying gray market goods. Therefore, they expect to get the services offered by the domestic mark holder. *Id.* at 234.

56. See Baldo, *supra* note 41, at 74 (gray market Duracell batteries are not fresh when sold in the United States).

57. Nolan-Haley, *supra* note 13, at 233 (many gray market goods are not regulated by the inspection, transit and quality controls used to monitor goods earmarked for the domestic mark holder).

58. Victor, *Preventing Importation of Products in Violation of Property Rights*, 53 ANTI-TRUST L.J. 783, 791 (1984) (goods not in compliance with the standards of the domestic mark holder or the United States weights and measures seriously injure the business of the domestic mark holder).

59. The domestic mark holder cannot exercise control over the substandard goods imported by the gray market importers. As a result, the reputation of the domestic mark holder suffers. *Id.* at 791.

60. Shely, *Discrimination Against Foreign Owners of U.S. Trademarks Under 19 U.S.C. § 1526*, 18 GEO. WASH. J. INT'L L. & ECON. 423, 425 n.16 (1984) (goodwill is a business value that reflects the basic human propensity to continue doing business with a seller who has offered goods and services that the customer likes and has found adequate).

61. See *Osawa*, 589 F. Supp. at 1166 (the domestic mark holder may be forced to warranty a gray market good in order to save goodwill).

the consumer.⁶² If the domestic mark holder is forced to warranty products that were sold by others, profits will decrease as warranty costs increase.⁶³

Another concern of domestic mark holders is that consumers will go to United States distributors and test products in the showroom.⁶⁴ After the desired product is selected, however, the consumer purchases the product on the gray market.⁶⁵ The time and money expended by the domestic mark holder on advertising and showroom displays has resulted in a direct benefit to the gray market importer.⁶⁶ Finally, the most significant effect of a gray market sale is that the domestic mark holder loses a potential sale.⁶⁷ If enough sales are lost, the distributor may be forced to reduce the sales staff.⁶⁸

A notice label stating who is actually selling the gray market good, and explaining that the product does not carry a warranty would solve many of the problems created by the gray market.⁶⁹ Much of the damage to the goodwill of the domestic mark holder would be alleviated with a notice label because the consumer would be less likely to associate the defective gray market product with the domestic mark holder.⁷⁰ A notice label would not remedy the problem of lost sales to the domestic mark holder. Protecting domestic mark holders from lost sales, however, is not the purpose of United States trademark laws.⁷¹ Therefore, the exclusion of gray market goods with a notice label would not be warranted.⁷²

The primary purpose of trade laws in the United States is to foster open competition.⁷³ Open competition drives prices down and ultimately benefits consumers.⁷⁴ An overriding public policy, however,

62. *See id.*

63. *See id.* at 1167.

64. Ramirez, *Blue v. Gray: IBM Tries to Stop the Discounters*, *Fortune*, May 27, 1985, at 79 (owner of computer chain complains that customers intent on buying on the gray market consume hours of legitimate dealers' time scouting out the product).

65. *See id.*

66. Victor, *supra* note 58, at 790 (gray market importers are taking a free ride on the goodwill and efforts of the domestic mark holder).

67. Recently, a camera dealer attributed a 60% reduction in sales staff to the importation of gray market cameras. Nolan-Haley, *supra* note 13, at 233 (citing Brief for Appellee at 33 n.8, Bell & Howell: Mamiya Co. v. Masel Co., 548 F. Supp. 1063 (E.D.N.Y. 1982), *vacated and remanded*, 719 F.2d 42 (2d Cir. 1983)).

68. *Id.*

69. *See infra* notes 219-21 and accompanying text.

70. *See infra* note 220 and accompanying text.

71. *See* Nolan-Haley, *supra* note 13, at 235.

72. *See infra* note 221 and accompanying text.

73. Nolan-Haley, *supra* note 13, at 235.

74. *Id.* Open competition cannot be devoid of legal restraints. Otherwise, many competitors would be inhibited from entering the market due to unfair competition. Presently, United States

is to avoid destructive competition without discouraging legitimate and productive competition.⁷⁵ With respect to legitimate competition, a trademark⁷⁶ preserves three distinct interests. These three interests are: (1) the consumer's desire to get particular goods in a reliable condition; (2) the trademark owner's interest in maintaining the good will of the business; and (3) the public policy in favor of free competition.⁷⁷

The first interest, commonly referred to as identification, was a significant factor in the development of trademark laws in the United States.⁷⁸ Consequently, courts focus upon the likelihood of consumer confusion in identifying the source of the product to determine whether a trademark has been infringed.⁷⁹ The rationale for focusing upon consumer confusion is that when consumers are confused as to the actual source of the product, consumers are likely to direct any dissatisfaction to the domestic mark holder.⁸⁰ Consumers are less likely to be confused if gray market goods are labelled with a notice of their origin. Therefore, total exclusion of gray market goods would be unwarranted if a notice label existed because the interests of consumers would be adequately protected.

A. *Initial Judicial Consideration*

An examination of the historical development of the law governing the gray market indicates that the total exclusion of gray market goods is unwarranted. The controversy in the courts concerning the gray market began in the early 1900's. The controversy centered around the territoriality view of trademark law as opposed to the universality view. The universality view is concerned with the single reputation of the manufacturer because of the belief that a trademark is

law provides remedies for espionage, misappropriation of trade secrets, patent infringement, copyright infringement, trademark infringement, and other tortious acts amounting to unfair competition. *Id.*

75. Epstein, *Interference with Contractual Relations: A Property Limitation*, 18 STAN. L. REV. 1406 (1966).

76. The term trademark includes any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify goods and distinguish them from those manufactured or sold by others. 74 AM. JUR. 2d *Trademarks and Tradenames* § 1 (1974). Exclusive rights to use a trademark are granted by the federal government. *Id.* § 10.

77. Note, *Trademark Infringement: The Power of an American Trademark Owner to Prevent the Importation of the Authentic Product Manufactured by a Foreign Company*, 64 YALE L.J. 557, 561 (1955).

78. See Callmann, *Another Look at the Unlawful Importation of Trademarked Articles*, 52 TRADE-MARK REP. 556, 557 (federal protection is granted if the use of the trademark by one other than the authorized dealer is likely to cause consumer confusion).

79. *Id.* at 557-58.

80. See Nolan-Haley, *supra* note 13, at 235.

merely an indicator of origin.⁸¹ In contrast, the territoriality view recognizes that a trademark has a separate legal identity in each country and the trademark symbolizes the reputation of the domestic mark holder.⁸² In 1921, in *Bourjois v. Katzel*,⁸³ a United States company purchased the business and trademark from a French company that produced face powder.⁸⁴ The defendant purchased the powder from the same manufacturer in Europe and attempted to sell the powder in the United States. The appellate court held that the universality view of trademarks should apply.⁸⁵ The court concluded trademark infringement could not exist when the imported goods were properly trademarked.⁸⁶ The Supreme Court,⁸⁷ however, reversed the appellate court and held the territoriality view of trademarks⁸⁸ should apply.⁸⁹ The court applied the territoriality view because the foreign manufacturer and the domestic mark holder were separate and unrelated entities.⁹⁰ The court concluded that the foreign manufacturer would be able to take an unfair advantage of the domestic mark holder under the universality view.⁹¹

Before the Supreme Court ruled on the *Bourjois* case, Congress enacted section 526 of the Tariff Act of 1930.⁹² The section provides for the exclusion of all imports that are branded with trademarks owned by a United States citizen, corporation, or association if the trademark is registered and recorded with the United States Customs Office for import protection.⁹³ Many domestic mark holders have invoked section 526 to protect themselves from gray market imports.⁹⁴ The Bureau of Customs, however, has restricted section 526 severely by adopting exceptions in the implementing regulations for companies owned or controlled by foreign manufacturers.⁹⁵ Critics of courts allow-

81. *Osawa*, 589 F. Supp. at 1163.

82. *Id.*

83. 275 F. 539 (1921).

84. *Id.*

85. *Id.* (court did not actually refer to the universality view, but the view is apparent from the context).

86. *Id.* at 543.

87. *Bourjois v. Katzel*, 260 U.S. 689 (1923).

88. *See supra* note 86 and accompanying text.

89. *Bourjois*, 260 U.S. at 692 (court did not actually refer to the territoriality view, but the view is apparent from the context).

90. *See id.*

91. *Id.* at 691.

92. 19 U.S.C. § 1526 (1982).

93. *Id.*

94. *Osawa*, 589 F. Supp. at 1163; *Seiko Time Corp. v. Alexander's, Inc.*, 218 U.S.P.Q. 560 (1982).

95. *Vivitar Corp. v. United States*, 761 F.2d 1552, 1557 (2d Cir. 1985). *But see Guerlain*,

ing domestic mark holders to invoke section 526 argue that section 526 was enacted in response to *Bourjois* and should be limited to the facts of that case.⁹⁶

Customs regulations presently allow the owner of a United States trademark to exclude from importation all genuinely marked goods if the United States trademark owner is independent from the foreign manufacturer.⁹⁷ The goods will be excluded whether or not the owner has established an independent reputation for the trademark.⁹⁸ Section 526, as interpreted by Customs, gives independent domestic mark holders an intrabrand monopoly on the American market by enforcing the domestic mark holder's right to be the sole distributor of the product in the United States.⁹⁹ In apparent contradiction to section 526, however, the regulations do not give the same protection to domestic mark holders who are owned or controlled by a foreign manufacturer.¹⁰⁰

Two reasons have been given for limiting protection under section 526 to independent mark holders.¹⁰¹ First, to allow a foreign manufacturer to take advantage of section 526 would allow foreign manufacturers to exclude goods from the United States that were purchased from the manufacturer's own plant.¹⁰² As a result, the foreign manufacturer could prevent competition from wholesale gray market buyers and domestic mark holders. Eventually, the foreign manufacturer could develop an international monopoly.¹⁰³ Therefore, if the entity that owns the trademark is owned or controlled by a common person or corporation, gray market goods will not be excluded from the United States.¹⁰⁴ This statutory interpretation comports with the view of many commentators that the Congressional intent behind the

155 F. Supp. at 82 (judge said he was not persuaded that the intention of Congress was to grant the special privilege of excluding gray market goods to an international enterprise).

96. Victor, *supra* note 58, at 792. See also Shely, *supra* note 60, at 427 n.33.

97. *Vivitar*, 761 F.2d at 1557.

98. *Id.* (Section 133.21 of the Bureau of Customs regulations provides for a blanket exclusion of all gray market goods, the section then provides for numerous exceptions for related companies. Thus, with the exceptions, only independent United States owners get blanket protection from the gray market.).

99. This monopoly is only an intrabrand monopoly. *Continental*, 433 U.S. at 52 n.19. The domestic mark holder is the only one who can sell goods under the particular trademark. 15 U.S.C. § 1526 (1982). The domestic mark holder still must compete with different brands of the same product. *Continental*, 433 U.S. at 52 n.19.

100. Bicks, *Antitrust and Trademark Protection Concepts in the Import Field*, 49 TRADE-MARK REP. 1255, 1257 (1960).

101. *Id.*

102. *Id.*

103. See *id.* This monopoly, however, would only be an intrabrand monopoly. *Continental*, 433 U.S. at 52 n.19.

104. *Id.* See also *Vivitar*, 761 F.2d at 1557.

passage of section 526 was to prevent fraud.¹⁰⁵ The second reason for limiting protection to independent mark holders is the concern that not allowing the domestic mark holder to take advantage of section 526 would permit a foreign manufacturer to sell trademark rights to an American distributor, and then turn around and flood the market by supplying to gray market importers.¹⁰⁶

In *Vivitar v. United States*,¹⁰⁷ however, the appellate court held section 526 was not passed solely with the intent of nullifying the appellate court in *Bourjois*.¹⁰⁸ The *Vivitar* court held section 526 gave domestic mark holders the right to control the importation of all goods bearing an identical mark regardless of the relationship between the domestic mark holder and the foreign manufacturer.¹⁰⁹ Furthermore, the court stated that the interpretation of section 526 by Customs restricting the use of section 526 to independent United States companies was a reasonable interpretation.¹¹⁰ The court addressed the apparent contradiction between the express language of section 526 and the interpretation of the Bureau of Customs by stating that Congress could not have foreseen all possibilities in international trade relationships.¹¹¹ The court concluded the interpretation of section 526 by the Bureau of Customs was valid, though not controlling, with respect to the scope of protection of section 526.¹¹² Therefore, the Bureau of Customs may decide to allow the importation of gray market goods. The decision by Customs, however, does not preclude the domestic mark holder from bringing an action for trademark infringement.¹¹³

Not all courts and commentators are in agreement regarding whether section 526 should apply to domestic mark holders owned or con-

105. Nolan-Haley, *supra* note 13, at 242. See also Shely, *supra* note 60, at 427; Bicks, *supra* note 100, at 1256.

106. See Bicks, *supra* note 100, at 1256.

107. 761 F.2d at 1552.

108. *Id.* at 1561.

109. *Id.* at 1565.

110. *Id.* at 1571 (the court explained that many variations are found in the gray market. For example, the United States and foreign trademark rights may be owned by the same entity, or by related companies, or by wholly separate companies. The goods of the domestic mark holder may be imported and may be identical to, or different from the gray market goods. Goods may be produced in the United States by the domestic mark holder and different goods produced abroad by an affiliate of the domestic mark holder. Services and warranties may or may not be the same in the United States as abroad.). See Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 5 WASH. L. REV. 433 (1982) (for a discussion of other variations).

111. *Vivitar*, 761 F.2d at 1570.

112. *Id.* (the court stated that regulations cannot effect the scope of a trademark owner's rights).

113. *Id.*

trolled by foreign manufacturers.¹¹⁴ If the holding by the *Vivitar* court is adopted as the final determination on the issue,¹¹⁵ domestic mark holders who are owned or controlled by foreign manufacturers are left without an adequate remedy.¹¹⁶ Those domestic mark holders will be forced into court to obtain a determination of trademark infringement, after which they must invoke the aid of the Bureau of Customs to exclude the infringing imports.¹¹⁷ Regardless of how the issue of the scope of section 526 is resolved, domestic mark holders must contend with the possibility of antitrust violations.

ANTITRUST VIOLATIONS

In 1957, in *United States v. Guerlain*,¹¹⁸ the Justice Department filed complaints against three United States toiletry companies charging them with invoking trademark laws to effectuate a monopoly.¹¹⁹ The defendants in *Guerlain* were associated closely with a French manufacturer.¹²⁰ The defendants had been assigned certain trademark rights in the merchandise involved in the case.¹²¹ The theoretical basis for the case presented by the government was that the defendants' use of section 526 of the Tariff Act and section 42 of the Lanham Act to exclude genuine goods violated the antitrust provision of the Sherman Act.¹²²

In order to find an antitrust violation, the court first had to find an exploited product. Exploitation is defined as pricing which is not affected by price changes in similar products.¹²³ Once a distributor begins to exploit a relevant market,¹²⁴ consumers lose the benefits of

114. *Compare Vivitar*, 761 F.2d at 1565 (the court held that § 526 gave a trademark owner the right to control imports of all goods bearing the mark regardless of the relationship between the domestic mark holder and the foreign manufacturer) *with Bicks*, *supra* note 100, at 1256 (the sole purpose of § 526 was to prevent fraud).

115. The case has been appealed to the Supreme Court. *Victor*, *supra* note 58, at 800.

116. Callmann, *Federal Circuit Dodges Grey Goods Issue*, 7 BUS. COMPETITION L. ADVISOR 1, 2 (4th ed. 1985).

117. *Vivitar*, 761 F.2d at 1570. *But cf.* Callmann, *supra* note 116, at 2. The editor criticized the *Vivitar* court for not ordering Customs to bring the regulations into compliance with the interpretation of the court. The editor explained that domestic mark holders are forced to waste time and money to bring a lawsuit to get a determination of infringement, then invoke the aid of Customs to exclude the goods. *Id.*

118. 155 F. Supp. 77 (S.D.N.Y. 1957).

119. *Id.* at 79.

120. *Id.*

121. *Id.*

122. *Id.* (by excluding the gray market goods, the defendants were insulating the American market from competition).

123. *Id.* (for example, if another perfume company lowered its price, the manufacturer of the exploited product still would not lose any sales).

124. *See id.* at 83. A relevant market is the market within which the strength of competitive

competition and must pay an artificially high price for the product.¹²⁵ The district court held that the trademark was exploited beyond the scope of trademark protection, and was the most valuable aspect of the appeal of the product.¹²⁶ A second element of an antitrust claim is establishment of a relevant market.¹²⁷ The *Guerlain* court defined the relevant market as the separate lines of trademarked products imported by the defendants.¹²⁸

After finding an exploited product and a relevant market, the *Guerlain* court concluded that the defendants were exercising monopoly power by intentionally excluding all competition.¹²⁹ The defendants wrongfully excluded competition by invoking section 526 of the Tariff Act.¹³⁰ Although prevailing on the merits, the Justice Department moved to vacate the judgment.¹³¹ The United States Solicitor General¹³² did not believe that a company should be held in violation of the antitrust laws when relying on the tariff laws.¹³³ Commentators generally agree that *Guerlain* provides no precedential value because of the way the case was disposed.¹³⁴ Furthermore, the case has been discredited by critics because the judge who wrote the opinion merely presumed that a relevant market existed.¹³⁵ The judge based his find-

forces are measured. *See id.* The primary factor that one looks to in determining the existence of a relevant market is the cross-elasticity of demand. *Id.* An element to consider in determining the cross-elasticity of a product is to look at the responsiveness of the consumer to a price change of a similar product. *Guerlain*, 155 F. Supp. at 85 (S.D.N.Y. 1957). If a slight decrease in the price of a similar product occurs, and consumers switch to that brand, high cross-elasticity exists. *Id.*

125. *See id.*

126. *Id.* at 85.

127. *Id.* at 83.

128. Shely, *supra* note 60, at 432 (the court based the relevant market on the importance of the trademark to the sale of perfume).

129. *Guerlain*, 155 F. Supp. at 85.

130. *Id.*

131. *United States v. Guerlain*, 358 U.S. 915 (1958).

132. The Solicitor General of the United States is in charge of representing the Government in the Supreme Court. He determines the position that the Government should take on the issues in the case. The Solicitor General's duties include deciding whether the United States should appeal in cases it loses before the lower court. BLACK'S LAW DICTIONARY 712 (5th ed. 1979).

133. The Solicitor General became sympathetic to the argument that unfairness existed when the Justice Department prosecuted firms for antitrust violations when those firms had acted with the continuing aid of Customs authorities. Lipner, *The Legality of Parallel Imports: Trademark, Antitrust, or Equity?*, 19 TEX INT'L SCH. L. 553, 560 (1983).

134. Nolan-Haley, *supra* note 13, at 247; Shely, *supra* note 60, at 431.

135. Victor, *supra* note 58, at 801. The case is also limited because recently the Supreme Court has upheld vertical restrictions. *Continental*, 433 U.S. at 54. Vertical restrictions were upheld because they increase interbrand competition. Vertical restrictions reduce intrabrand competition by limiting the number of sellers of a particular product competing for the business of a given group of buyers. Vertical restrictions tend to promote interbrand competition by allowing the manufacturer to achieve certain efficiencies in the distribution of the product. *Id.* *Guerlain* is also limited because the Reagan Administration has withdrawn from many of

ing of a relevant market on the fact that the value of the goods was derived from their trademark.¹³⁶ Despite the criticism of the *Guerlain* decision, domestic mark holders still must contend with the possibility of antitrust violations because their activities produce an intrabrand monopoly.¹³⁷

THE LANHAM ACT

Antitrust issues involved in the gray market controversy are now secondary to the trademark infringement issues.¹³⁸ Since enactment in 1946, the Lanham Act has been used by domestic mark holders to exclude the importation of genuinely marked goods.¹³⁹ The Lanham Act represents traditional trademark protection offered to trademark owners.¹⁴⁰ The pertinent language of the Lanham Act states that no article of imported merchandise that copies or simulates a trademark registered in accordance with the provisions of the act shall be admitted to the United States.¹⁴¹

Initially, the Lanham Act did nothing to protect domestic mark holders. In *Gretsch v. Schoening*,¹⁴² the Second Circuit held the owner of a United States trademark could not rely on the Lanham Act to exclude the importation and sale of goods bearing a genuine mark because no trademark infringement had occurred.¹⁴³ The primary issue to be resolved when determining the existence of trademark infringement is whether the marks create a likelihood of confusion causing consumers viewing a particular mark to associate the mark with an improper source.¹⁴⁴ The court reasoned that genuine goods could not mislead consumers.¹⁴⁵ In *Bourjois v. Aldridge*,¹⁴⁶ however, the Supreme Court overruled *Gretsch* and held that the Lanham Act could be in-

the old line antitrust claims on the belief that larger companies are more efficient and have bolstered the economy. Johnson, *Current Antitrust Goals and Policies: How Different are They Really?*, 27 ST. LOUIS U.L.J. 321, 322. (1981). See also Taylor & Crock, *Reagan Team Believes Antitrust Legislation Hurts Big Business*, Wall St. J., July 8, 1981, at 1, col. 1.

136. Victor, *supra* note 58, at 810.

137. See *supra* notes 21-24 and accompanying text.

138. Victor, *supra* note 58, at 802.

139. *Osawa*, 589 F. Supp. at 1163; *Seiko*, 218 U.S.P.Q. at 560.

140. 15 U.S.C. § 1127 (1982).

141. *Id.*

142. 238 F. 780 (2d Cir. 1916).

143. *Id.* at 782.

144. Callmann, *Another Look at the Unlawful Importation of Trademarked Articles*, 52 TRADE-MARK REP. 556, 557 (1960).

145. See *Gretsch*, 238 F. at 782.

146. 292 F. 1013 (1922).

voked to exclude the importation of a genuinely marked item of merchandise.¹⁴⁷

The Lanham Act protects any owner of a United States trademark.¹⁴⁸ In contrast, section 526 is limited to American owners of United States trademarks.¹⁴⁹ Another difference between section 526 and the Lanham Act is that the purpose behind section 526 is to prevent foreign manufacturers from perpetrating fraud upon the United States assignee of the foreign trademark.¹⁵⁰ In contrast, the purpose of the Lanham Act is to prevent trademark infringement and unfair competition.¹⁵¹ As a consequence of the narrow scope of section 526, the protection provided to domestic mark holders is, for the most part, inadequate.¹⁵² In contrast, the Lanham Act squarely addresses the position taken by the domestic mark holders.¹⁵³ Some doubt exists, however, regarding whether the sale of a genuinely trademarked good is trademark infringement. Early courts had difficulty applying trademark protection to the gray market because gray market goods are indeed genuinely marked goods.¹⁵⁴ The marketing of gray market goods does not involve copying or simulation.¹⁵⁵ The goods come from the same manufacturer who supplies the domestic mark holder.¹⁵⁶

In the absence of any distinct characteristics associated with the domestic mark holder, the rationale underlying trademark protection does not warrant the exclusion of genuinely trademarked goods.¹⁵⁷ Exclusion is not warranted because consumers simply are not deceived as to the origin of the product.¹⁵⁸ Trademark protection appears to be warranted, however, when the owner of the United States mark has established an independent reputation for the trademark.¹⁵⁹ An independent reputation is distinguished from the trademark associated with the foreign manufacturer.¹⁶⁰ With an independent reputation, the

147. *Id.* at 1014.

148. 15 U.S.C. § 1124 (1982).

149. Bicks, *supra* note 100, at 1257.

150. *Id.* at 1256.

151. 15 U.S.C. § 1127 (1982).

152. *See supra* notes 106-11 and accompanying text.

153. *See supra* notes 13-19 and accompanying text.

154. *Gretsch*, 238 F. at 782.

155. 15 U.S.C. § 1124 (1982). Copying or simulation is the language of the statute. In *Bourjois v. Aldridge*, however, the court extended the Lanham Act to gray market imports. 292 F. 1013 (1922).

156. *Weil Ceramics & Glass v. Bernard Dash*, 618 F. Supp. 700, 702 (D.N.J. 1985).

157. *Callmann*, *supra* note 144, at 557 (because one must establish consumer confusion).

158. *See id.*

159. An independent reputation is developed when the consumer can identify the domestic mark holder as the source of the product even though the product carries the same mark as the foreign manufacturer. *Weil*, 618 F. Supp. at 710.

160. *Id.*

possibility of consumer confusion is enhanced.¹⁶¹ Again, however, courts have split on which gray market goods are excludable from importation when an independent reputation has been established by the domestic mark holder.¹⁶²

RECENT CASES AND CONTROVERSIES

Gray market litigation was almost nonexistent for twenty-five years after the *Guerlain* antitrust decision.¹⁶³ In 1982, however, a camera distributor brought suit to enjoin a gray market importer from importing gray market cameras.¹⁶⁴ The domestic mark holder alleged that the gray market importer was violating both the Lanham Act and the Tariff Act.¹⁶⁵ In *Bell & Howell v. Masel*,¹⁶⁶ Mamiya Camera Co. Ltd. manufactured cameras in Japan.¹⁶⁷ J. Osawa & Co. owned the exclusive rights to distribute Mamiya cameras worldwide.¹⁶⁸ Osawa sold the rights to distribute the cameras in the United States to the plaintiff Bell & Howell.¹⁶⁹ Significantly, Osawa owned seven percent of Bell & Howell directly, and owned the remaining ninety-three percent through a wholly owned subsidiary.¹⁷⁰ Furthermore, Osawa sold Mamiya cameras directly to the Hong Kong market.¹⁷¹ In Hong Kong, defendant Masel Co. purchased Mamiya cameras.¹⁷² Masel then imported and sold the cameras in the United States through the gray market.¹⁷³ The Second Circuit held consumer confusion was unlikely because the gray market cameras were genuine Mamiya cameras.¹⁷⁴ The only differences in the cameras sold by the gray market importer were that those cameras did not have a sticker applied to their packaging, and they did not carry a warranty.¹⁷⁵ The court did not, however, hold that exclusion of the gray market goods based on trademark infringement would be prohibited.¹⁷⁶ The court simply found no

161. *See id.*

162. *Parfums*, 575 F. Supp. at 416; *Weil*, 618 F. Supp. at 710.

163. *United States v. Guerlain*, 155 F. Supp. 77 (S.D.N.Y. 1957).

164. *Bell & Howell: Mamiya v. Masel Supply Co.*, 548 F. Supp. 1063 (E.D.N.Y. 1982), *vacated and remanded*, 719 F.2d 42 (2d Cir. 1983).

165. *Id.* at 1066.

166. 548 F. Supp. 1063 (E.D.N.Y. 1982).

167. *Id.* at 1065.

168. *Id.*

169. *See id.*

170. *Id.*

171. *Id.*

172. *Id.*

173. *Id.*

174. *Bell & Howell*, 719 F.2d at 46.

175. *Bell & Howell*, 548 F. Supp. at 1068.

176. *See id.* at 1079.

trademark infringement because the likelihood of consumer confusion was nonexistent.¹⁷⁷ Less than one year after *Bell & Howell*, a lawsuit involving similar facts was filed.

In *Osawa v. B & H Photo*,¹⁷⁸ a broad foundation was laid for a finding of irreparable injury and consumer confusion.¹⁷⁹ The result was that the federal district court ordered the gray market goods excluded from importation.¹⁸⁰ In *Osawa*, the foreign supplier owned ninety-three percent of the plaintiff's stock, and owned a substantial portion of the company which owned the remaining seven percent of the plaintiff's stock.¹⁸¹ The court invoked the territoriality view¹⁸² of trademark protection,¹⁸³ and held that trademarks not only identify the product, but also the goodwill of the business.¹⁸⁴ The court focused upon the fact that the plaintiff incurred substantial advertising expense.¹⁸⁵ The gray market importer was able to take advantage of that advertising.¹⁸⁶ Furthermore, the domestic mark holder had established a separate identity from the foreign supplier.¹⁸⁷ The separate identity was established by offering various services such as warranty coverage, rebates, seminars, and an exhaustive inventory of Mamiya camera parts in all dealerships.¹⁸⁸ Therefore, because consumers were likely to be confused as to the origin of the gray market cameras, the cameras were excluded from importation.¹⁸⁹ The plaintiff's success in the *Osawa* case is attributable primarily to the amount of evidence presented to the court concerning the likelihood of consumer confusion.¹⁹⁰ In contrast, the unfavorable outcome for the plaintiff in the *Bell & Howell* case was attributable primarily to the lack of evidence concerning consumer confusion.¹⁹¹

177. *Id.*

178. 589 F. Supp. at 1163 (S.D.N.Y. 1984).

179. *Id.* at 1166 (plaintiff demonstrated the extent of costs incurred to promote the product, and the damage plaintiff was incurring as a result of lost sales to the gray market).

180. *Id.* at 1179.

181. The plaintiff in this case was formerly named Bell & Howell: Mamiya Co. who was the plaintiff in *Bell & Howell v. Masel Supply Co.* and is now named Osawa & Co. *Id.* at 1165. Ninety-three percent of the plaintiff's stock is owned by Osawa & Co. (U.S.A.), Inc., a wholly owned subsidiary of the Japanese trading company, J. Osawa Co., Ltd. The remaining seven percent of the plaintiff's stock is owned by Mamiya Co. of Japan. J. Osawa Co., Ltd. owns 30% of Mamiya's stock. *Id.* See also Shely, *supra* note 60, at 432 n.76.

182. See *supra* note 27 and accompanying text.

183. *Osawa*, 589 F. Supp. at 1171.

184. *Id.* 1171-74.

185. *Id.*

186. *Id.*

187. *Id.* at 1174.

188. *Id.* at 1166.

189. See *id.*

190. See *supra* note 179 and accompanying text.

191. See *supra* note 174 and accompanying text.

In *Parfums Stern, Inc. v. United States Customs Service*,¹⁹² the court was not necessarily concerned with consumer confusion.¹⁹³ The federal district court was faced with a commonly owned enterprise similar to *Osawa*, but came to the opposite result.¹⁹⁴ In *Parfums*, a conglomerate consisting of enterprises incorporated under the laws of several states and several foreign countries was owned by members of the Milton Stern family.¹⁹⁵ The entity owned the rights to manufacture, promote, and distribute Oscar de la Renta products throughout the world.¹⁹⁶ A foreign distributor of Oscar de la Renta products sold the genuine products to the gray market for resale in the United States.¹⁹⁷

The court held that the plaintiff was a "cog in a single international enterprise."¹⁹⁸ The court invoked the universality view,¹⁹⁹ and concluded that the domestic mark holder had no right to exclude the goods from importation.²⁰⁰ The court acknowledged that the plaintiff may have developed a separate identity and incurred advertising expenses.²⁰¹ The court stated, however, that the free riding on the plaintiff's advertising was a benefit to the public because the defendant was able to offer a lower price.²⁰²

THE INADEQUACIES OF CURRENT LAW

The Lanham Act has been the primary remedy for domestic mark holders.²⁰³ One commentator has suggested that section 44(h) of the Lanham Act²⁰⁴ offers the true solution to the gray market dilemma.²⁰⁵ According to section 44(h) of the Lanham Act, any person, whether a citizen, a domestic corporation, or a national of a foreign country, is entitled to effective protection against unfair competition in the form of remedies analogous to those which the Act provides against

192. 575 F. Supp. 416 (S.D. Fla. 1983).

193. See *id.* at 419 (the court mentioned that the plaintiff had a separate identity through advertisement, however, the court did not address the issue of consumer confusion).

194. *Id.* at 421.

195. *Id.* at 418.

196. *Id.*

197. *Id.*

198. *Id.*

199. See *supra* note 27 and accompanying text.

200. See *Parfums*, 575 F. Supp. at 421.

201. *Id.* at 419.

202. *Id.* at 421.

203. See *supra* notes 138-53 and accompanying text.

204. Callmann, *supra* note 144, at 562.

205. *Id.*

trademark infringement.²⁰⁶ Therefore, the remedies available under section 42 of the Lanham Act, which protects against trademark infringement, would be applicable to unfair trade practices of gray market importers.²⁰⁷ Determining what constitutes unfair competition, however, has been difficult for the courts to establish.²⁰⁸ In order to determine what is unfair competition, the competing interests to be weighed are the damage to competition caused by reduction in the number of competitors against benefits to competition resulting from elimination of free riding.²⁰⁹ The courts, however, have not formulated standards to produce a predictable result as to what is unfair competition.²¹⁰

PROPOSALS FOR THE GRAY MARKET DILEMMA

Confusion has existed over the treatment of gray market goods since those goods were first imported into the United States.²¹¹ Customs regulations provide an inadequate solution to the problems caused by gray market goods.²¹² In addition, the trademark protection provisions of the Lanham Act do not solve the problem. Congress should act to protect American consumers, while at the same time providing adequate protection to domestic mark holders.

To date, most gray market litigation has involved trademark infringement.²¹³ Much of the gray market controversy could be resolved through negotiations between the domestic mark holder and the foreign supplier. In fact, one commentator has said that trademark concepts are perverted when extended to protect a situation created by private contractual arrangements.²¹⁴

A strong dollar provides fertile ground for the gray market.²¹⁵ Therefore, the price a domestic mark holder pays for the exclusive right to distribute a product may be high. If the parties provide for future contract negotiations to take into account the strength of the

206. *Id.*

207. *Id.*

208. *Id.* at 558. Callmann explains the term "unfair competition" has been loosely used in opinions. Callmann concludes that dilution of the trademark may be a more appropriate description of the effect on the domestic mark holder. *Id.*

209. Lipner, *supra* note 133, at 570.

210. *See supra* note 208 and accompanying text.

211. *See supra* notes 163-202 and accompanying text.

212. *See supra* notes 97-113 and accompanying text.

213. *See supra* notes 142-202 and accompanying text.

214. Vandenberg, *The Problem of Importation of Genuinely Marked Goods Is Not a Trademark Problem*, 49 TRADEMARK REP. 707, 714 (1959).

215. *See supra* notes 40-42 and accompanying text.

dollar, much of the unfairness to the domestic mark holder would be minimized.²¹⁶ If the parties cannot agree initially on a price for exclusive distribution rights, a provision could be placed in the contract that would allow for a rebate from the foreign supplier for any sales lost to the gray market.²¹⁷ The rebate would be financed with profits from sales to gray market importers. Therefore, the domestic mark holder would be compensated for watered down trademark rights from sales to gray market importers.²¹⁸

Not all of the gray market problems can be solved by contractual negotiations. The problems of consumer confusion and damage to the goodwill of the domestic mark holder remain. The remedy that is the least restrictive to all parties concerned and which is gaining support requires the gray market importers to provide full and fair disclosure of the circumstances surrounding the sale of gray market goods.²¹⁹ In 1985, New York passed a statute requiring gray market importers to inform their customers that the products purchased have no relation to the domestic mark holder.²²⁰ The notice label remedies problems relating to consumer confusion and destruction of the domestic mark holder's goodwill.²²¹

No consistency is found among the courts concerning gray market importation.²²² Neither gray market importers nor domestic mark holders can operate with any predictability.²²³ Therefore, since the courts cannot develop a consistent remedy, Congress should enact legislation establishing consistency and predictability in the law. The

216. See *supra* note 40 and accompanying text.

217. Theoretically, this rebate would be paid from profits from the sale to the gray market importer. See Bicks, *supra* note 100, at 1260.

218. See *id.*

219. See *supra* notes 69-72 and accompanying text.

220. N.Y. GENERAL BUSINESS LAW § 218aa.

2. Every retail dealer who knowingly offers for sale gray market merchandise shall conspicuously post, in the following manner, the information required by subdivision three of this section:

a. On a sign attached to the item itself; or
b. On a sign affixed to each cash register or point of sale at which such goods are offered for sale; or
c. On a sign so situated as to be clearly visible to the buyer from the register.

3. Every retail dealer who offers for sale gray market merchandise shall disclose, as applicable, that either some of the products or a specific product are not:

a. accompanied by the manufacturer's warranty valid in the United States; or
b. accompanied by instructions in English; or
c. eligible for a rebate offered by the manufacturer.

221. See *supra* note 70 and accompanying text.

222. See *supra* notes 163-202 and accompanying text.

223. See *supra* notes 163-215 and accompanying text.

most equitable solution to the problems created by gray market goods is to require all gray market importers to inform their customers of what they are actually buying and where the product came from. Furthermore, gray market importers should be required to distinguish their products on a notice label from those of the domestic mark holder.

CONCLUSION

Importation of gray market goods into the United States is at an all time high. While domestic mark holders have sought help from the courts to stop alleged unfair competition by the gray market importers, gray market importers have alleged that domestic mark holders are violating antitrust laws. Courts have reached conclusions supporting each side of the debate. The current status of the law governing the gray market is unclear. Section 526 of the Tariff Act can be invoked only by a domestic corporation and, therefore, is inadequate to protect foreign corporations. Furthermore, the Tariff Act was enacted originally to protect domestic mark holders against fraud, and does not address the gray market issues of trademark infringement and unfair trade practices. The Lanham Act provides broader coverage, but is also limited because the primary focus is trademark infringement. The Lanham Act also addresses unfair competition. The courts, however, have not been able to develop a sufficient standard that gives parties to the gray market debate a reasonable ground for predictability.

Since laws relating to gray market goods are unclear and unpredictable, Congress should enact legislation providing a solution to the present dilemma. Interests of consumers, gray market importers, and domestic mark holders must be balanced. This comment maintains that the least restrictive and most equitable solution would be a federal statute that parallels the notice requirement of the recently enacted New York statute. The notice label required by the New York statute sufficiently protects the interests of consumers. In addition, the notice label protects the goodwill of the domestic mark holder. Therefore, since consumers and domestic mark holders would be adequately protected with a notice label, the importation of gray market goods should be permitted to preserve the benefits of open competition.

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