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Trademark Law: The Wacky World of Grey Market Goods: Untangling the Knot of Customs Regulations Around Section 526 and the Tariff Act

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NOTE

TRADEMARK LAW: THE WACKY WORLD OF GREY MARKET GOODS: UNTANGLING THE KNOT THE CUSTOMS REGULATIONS TIE AROUND SECTION 526 OF THE TARIFF ACT*

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I. INTRODUCTION

Grey market goods, or parallel imports, are genuine[1] goods manufactured and sold abroad under a genuine trademark.[2] Distributors import these products into the United States to compete with goods owned by the American holder of the identical trademark.[3] The cost savings on a Mercedes Benz 500, retailing for $53,000 in a United States showroom, represents a parallel importation situation. The same automobile purchased on the grey market can be purchased in Germany, shipped to America, and prepared to meet government safety standards for $37,000.[4] Although legislation,[5] judicial analysis,[6] and legal commentary[7] have addressed grey market goods for more than a century,[8] the *recent strength* of the United States dollar in

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1. Genuine goods are products with a trademark that "signifies the same source of origin as that which it normally means to the purchasing public." Vandenburgh, *The Problem of Importation of Genuinely Marked Goods Is Not a Trademark Problem*, 49 TRADEMARK REP. 707, 713 (1949).

2. Vivitar Corp. v. United States, 761 F.2d 1552, 1555 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986).

3. *Id. See also* Parfums Stern, Inc. v. United States Custom Serv., 575 F. Supp. 416, 418 (S.D. Fla. 1983) ("goods produced by a foreign manufacturer and bearing that manufacturer's trademark, which are purchased abroad and imported into this country by persons other than the manufacturer's authorized United States distributor"); 2 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 30.35 (2d ed. 1984) ("[S]omeone other than the designated exclusive United States importer buys genuine trademarked goods outside the U.S. and imports them for sale in the U.S. in competition with the exclusive U.S. importer."); Victor, *Preventing Importation of Products in Violation of Property Rights*, 53 ANTITRUST L.J. 783, 790 (1984) ("[G]ray market goods are genuinely produced and trademarked goods that are sold outside of their authorized distribution channels."); Comment, *Grey Market Imports: Stemming the Tide*, 65 OR. L. REV. 123, 123 (1986) ("Grey market goods are goods . . . imported into the United States, and sold to American consumers by persons other than the manufacturer's authorized United States distributor.").

4. Comment, *The Seven Billion Dollar Gray Market: Trademark Infringement or Honest Competition?*, 18 PAC. L.J. 261, 261-62 (1986).

5. *See infra* notes 86-105 and accompanying text.

6. *See* Bourjois & Co. v. Katzel, 260 U.S. 689 (1923) (the Supreme Court first addressed the grey market controversy); Fred Gretsch Mfg. Co. v. Schoening, 238 F. 780 (2d Cir. 1916) (universality principle applied to federal legislation governing importation); Apollinaris Co. v. Scherer, 27 F. 18 (C.C.S.D.N.Y. 1886) (universality principle applied to parallel imports in common law trademark infringement claim).

7. *See* Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927) (examination of trademark law including parallel importation).

8. *See supra* notes 5-7 and accompanying text.

foreign markets[9] has activated the grey market,[10] kindling litigation[11] and discussion[12] regarding parallel importation.

American trademark owners, attempting to exclude grey market goods from the United States, argue that permitting importation of these goods misleads consumers,[13] permits vendors of parallel imports to unfairly profit from the American trademark holders' goodwill,[14] and violates the fundamental principles of trademark protection.[15] Although a number of legal avenues are available to United States trademark owners seeking to halt parallel importation,[16] claims for relief are most frequently[17] brought under section 526 of the Tariff Act of 1930 (the Genuine Goods Exclusion Act).[18] This statute prohibits

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9. Baldo, *Score One for the Gray Market*, FORBES, Feb. 25, 1985, at 74.

10. *Id.* Grey market retailers are able to purchase genuine goods abroad and import them for resale in the United States in competition with the exclusive American distributors. *Id.*

11. *See, e.g.*, NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506 (9th Cir. 1986) (directing American distributors to proceed under the Tariff Act, § 526, to obtain protection against parallel importers), *cert. denied*, 108 S. Ct. 152 (1987); Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986) (Customs regulations held valid due to Congress' acquiescence to Customs' actions towards § 526); Coalition to Preserve the Integrity of United States Trademarks (COPIAT) v. United States, 790 F.2d 903 (D.C. Cir.) (Customs regulations held invalid as abuse of Customs Service's authority to interpret § 526 of the 1930 Tariff Act), *cert. granted*, 107 S. Ct. 642 (1986); Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985 (Customs regulations held valid as within Customs' discretion), *cert. denied*, 474 U.S. 1055 (1986); Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983) (irreparable harm required for American distributor to obtain preliminary injunction under § 526).

12. *See, e.g.*, Coggio, Gordon, & Coruzzi, *The History and Present Status of Gray Goods*, 75 TRADEMARK REP. 433 (1985) (review of legislative, regulatory, and judicial history of gray goods, including recent cases); Lipner, *Gray Market Goulash: The Problem of At-the-Border Restrictions on Importation of Genuine Trademarked Goods*, 20 CORNELL INT'L L.J. 103 (1987) (discussion of *COPIAT*, *Vivitar*, and *Olympus*, with proposed solutions to the dilemma); Note, *The Greying of American Trademarks: The Genuine Goods Exclusion Act and the Incongruity of Customs Regulation 19 C.F.R. § 133.21*, 54 FORDHAM L. REV. 83 (1985) (criticism of the Customs regulations); Comment, *supra* note 4 (discussion of factors activating the grey market, along with the judicial and legislative development of the conflict).

13. *See* Note, *supra* note 12, at 84; *see also infra* notes 177-80 and accompanying text.

14. *See* Note, *supra* note 12, at 86; *see also infra* notes 187-91 and accompanying text.

15. *See infra* notes 35-40 and accompanying text.

16. Available remedies include, but are not limited to, the following: relief and damages for trademark infringement under §§ 32 & 42 of the federal Lanham Act, 15 U.S.C. §§ 1114 & 1124 (1984); directing Customs to bar importation of grey market goods under § 526(a) of the Tariff Act, 19 U.S.C. § 1526(a) (1982); relief for unfair competition by petition to the International Trade Commission under § 337(a) of the Tariff Act, 19 U.S.C. § 1337(a) (1982).

17. The majority of the cases analyzed for this note contain claims for relief brought under 19 U.S.C. § 1526 (1982).

18. The relevant part of this statute provides as follows:

> [I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or asso-

grey market goods import when certain requirements are met.[19] Generally, courts literally observe section 526 as the selected method of tolling the flow of parallel imports across American borders.[20]

Grey marketeers argue that the goods should freely enter the stream of commerce and that policies of fair and free competition[21] encourage importing such goods into the United States.[22] They argue that the United States Customs Service's interpretation[23] of section 526 should apply.[24] The Customs regulations, which expand administration of section 526, provide that when the grey marketeer and the American trademark owner have a corporate relationship,[25] the statute does not allow the American trademark holder to block the grey market goods entry.[26] Recent litigation has discussed the Customs Ser-

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ciation created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, . . . and if a copy of the certificate or registration of such trademark is filed with the Secretary of the Treasury, . . . unless written consent of the owner of such trademark is produced at the time of making entry.

19 U.S.C. § 1526(a) (1982).

19. *Id.* These requirements include registration of the American trademark with the Patent and Trademark Office, filing a copy of this registration with the Secretary of the Treasury, and the absence of the American trademark holder's written consent. *Id.*

20. *See supra* note 17 and accompanying text.

21. Note, *The Gray Market Case: Trademark Rights v. Consumer Interests*, 61 NOTRE DAME L. REV. 838, 852 (1986).

22. *Id.* at 839.

23. 19 C.F.R. § 133.21 (1986).

24. The relevant part of these regulations provides as follows:

Restrictions on importation of articles bearing recorded trademarks and trade names . . .

(b) Identical trademark. Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States . . . are subject to seizure and forfeiture as prohibited importations.

(c) Restrictions not applicable. The restrictions set forth in paragraph[s] . . . (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control . . .; control . . . ;

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner; . . . .

19 C.F.R. § 133.21 (1986).

25. *Id.* Examples of such a relationship are found in 19 C.F.R. § 133.21(c)(1)-(3).

26. *Id.* § 133.21(c). The restriction of 19 C.F.R. § 133.21(b) is inapplicable if any of the relationships listed in 19 C.F.R. § 133.21(c) exist. These exceptions to section 526 are apparently the result of ambiguities in two phrases in the statutes: "merchandise of foreign manufacture" and "owned by."

vice's interpretation of section 526[27] and the United States Supreme Court is currently deciding its fate.[28]

This note provides a brief history of the parallel imports dilemma, tracing both the legislation and judicial decisions which developed this controversy. Additionally, this note examines the impact of these historical developments on modern grey market goods cases. In determining which, if either, approach to the controversy lawmakers should follow, this note analyzes policy considerations each side offers. The note also determines which approach better upholds the basic principles upon which courts have historically based trademark protection. Finally, this note anticipates the United States Supreme Court's decision on the grey market controversy, and concludes that until Congress creates a feasible compromise between the two approaches, the Supreme Court should invalidate the Customs regulations and follow the strict letter of section 526.

II. THE EVOLUTION OF THE GREY MARKET CONTROVERSY

A. *The History and Functions of Trademarks*

Legal trademark protection indicating the ownership and source of goods[29] has developed since the early nineteenth century.[30] The federal Lanham Act codifies the modern definition of a trademark as "any word, name, symbol, or device . . . adopted and used by a manufacturer or merchant to identify his goods and distinguish his goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown."[31]

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27. *E.g.*, Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986) (Customs regulations held valid due to Congress' acquiescence to Customs' actions); Coalition to Preserve the Integrity of United States Trademarks (COPIAT) v. United States, 790 F.2d 903 (D.C. Cir.) (Customs regulations held invalid as abuse of Custom Service's authority to interpret § 526 of the 1930 Tariff Act), *cert. granted*, 107 S. Ct. 642 (1986); Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985) (Customs regulations held valid as within Customs' discretion), *cert. denied*, 474 U.S. 1055 (1986).

28. The Supreme Court heard oral arguments in the *COPIAT* case on Oct. 6, 1987. 56 U.S.L.W. 3286 (U.S. Oct. 20, 1987).

29. 1 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 5.1 (2d ed. 1984).

30. P. GOLDSTEIN, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES 276 (2d ed. 1981).

31. 15 U.S.C. § 1127 (1982). The federal Lanham Act is codified at 15 U.S.C. §§ 1051-1127 (1982). *See also* McLean v. Fleming, 96 U.S. 245, 254 (1878) ("[A] trade-mark may consist of a name, symbol, figure, letter, form, or device, if adopted and used by a manufacturer . . . to

Unlike patents and copyrights, for which the United States Constitution[32] provides specific protection, Congress' power to provide and regulate trademark protection for American citizens[33] is indirectly inferred from the commerce clause of the Constitution.[34]

Trademarks perform four basic functions.[35] First, trademarks identify a seller's goods and distinguish them from goods sold by others.[36] Second, consumers presume all goods bearing a trademark come from a single source.[37] Third, trademarks ensure that all goods bearing the trademark are of the same quality.[38] Fourth, trademark holders use trademarks to advertise and sell the goods.[39] Additionally, trademarks symbolize the goodwill[40] businesses have developed. This goodwill plays a prominent role in the grey market goods controversy,[41] as seen in early parallel importation cases.

B. *The Early Grey Market Goods Cases: The Universality Theory*

The first significant parallel importation case, *Apollinaris Co. v. Scherer*,[42] followed the universality trademark theory.[43] Under the universality theory, goods bearing a lawful trademark may be transported to any nation without infringing upon the exclusive rights of the owner of the identical trademark in the country the goods enter.[44] In *Apollinaris*, the plaintiff owned an exclusive right to import mineral water into the United States.[45] The manufacturer of the product refused to grant the defendant, another American importer, the right to also import this product.[46] The defendant later purchased the min-

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designate the goods . . . manufacture[d] . . . to distinguish the same from those manufactured or sold by another, . . . to enable him to secure such profits as result from his reputation . . . ."). *Id.*

32. U.S. CONST. art. I, § 8, cl. 8.

33. Corporations are included in the definition of a United States citizen. 28 U.S.C. § 1332(c) (1982).

34. U.S. CONST. art. I, § 8, cl. 3.

35. 1 J. MCCARTHY, *supra* note 29, at § 3.1.

36. *Id.* at § 3.2.

37. *Id.* at § 3.3.

38. *Id.* at § 3.4.

39. *Id.* at § 3.5.

40. *See infra* notes 188-91 and accompanying text.

41. *See infra* notes 59-85 and accompanying text.

42. 27 F. 18 (C.C.S.D.N.Y. 1886).

43. Coggio, Gordon, & Coruzzi, *supra* note 12, at 445-46.

44. Note, *supra* note 12, at 107.

45. 27 F. at 19.

46. *Id.* at 18.

eral water from a German distributor and imported it into the United States to compete with the plaintiff.[47]

The Circuit Court for the Southern District of New York concluded the facts did not entitle the plaintiff to make a valid trademark infringement claim,[48] and refused to grant a preliminary injunction restraining the defendant from importing the water into the United States.[49] While the plaintiff had a valid trademark worthy of common law protection from unauthorized use,[50] the court found the real issue was whether the defendant unlawfully interfered with the plaintiff's exclusive rights to sell the mineral water in the United States.[51] Although the defendant's direct competition affected the plaintiff's ability to control the water's price, the defendant did not act unlawfully or dishonestly.[52] The court ruled that a trademark merely denotes whether a product is authentic, but does not protect an exclusive right to sell that product.[53] Since both parties in *Apollinaris* sold the genuinely trademarked mineral water,[54] the court refused to grant the plaintiff any relief.[55]

The *Apollinaris* court applied the universality theory to common law claims for trademark infringement.[56] In 1905, Congress passed legislation forbidding the importation of goods which copied or simulated American-owned trademarks.[57] Congress, however, did not expressly state whether the universality theory applied to federally registered trademarks.[58]

C. *The Birth of The Genuine Goods Exclusion Act*

The Court of Appeals for the Second Circuit planted the seed which eventually blossomed into the conflict between section 526 of the Tariff

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47. *Id.* at 19.
48. *Id.*
49. *Id.* at 19, 22.
50. *Id.* at 19.
51. *Id.* at 20.
52. *Id.* at 22.
53. *Id.* at 20. "There is no exclusive right to the use of a name or symbol . . . except to denote the authenticity of the article with which it has become identified by association. The name has no office except to vouch for the genuineness of the thing which it distinguishes . . . . " *Id.*
54. *Id.*
55. *Id.* at 22.
56. *Id.* at 19.
57. "[N]o article of imported merchandise which shall copy or simulate the name of any domestic manufacture . . . shall be admitted to entry at any custom-house of the United States . . . ." Trade-Mark Act of 1905, ch. 592, § 27, 33 Stat. 724.
58. *Id.*

Act and the Customs regulations in *A. Bourjois & Co. v. Katzel.*[59] In *Katzel,* the plaintiff purchased the American trademark registrations and goodwill of a French face powder[60] and imported the product for sale in the United States.[61] Defendant, a Northeast pharmacy owner,[62] imported the face powder into America for sale in her stores to compete with the plaintiff.[63] As in *Apollinaris,*[64] the court ruled that genuine goods could enter the flow of United States commerce[65] and denied the permanent injunction.[66] The plaintiff then appealed the Second Circuit's decision to the United States Supreme Court.[67]

Responding to the Second Circuit's adoption of the *Apollinaris* trend,[68] Congress and the Supreme Court both addressed the parallel importation controversy. While the Supreme Court deliberated over the *Katzel* case,[69] the United States Congress enacted section 526 of the Tariff Act.[70] Although Congress did not intend to limit section 526 to the *Katzel* facts,[71] the case sparked Congress' drive to expand the

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59. 275 F. 539 (2d Cir. 1921), *rev'd,* 260 U.S. 689 (1923).

60. 275 F. at 539-40.

61. *Id.* at 539.

62. *Id.* at 540.

63. *Id.*

64. *See supra* notes 42-56 and accompanying text.

65. 275 F. at 540, 543.

66. *Id.* at 543.

67. *See* A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923).

68. *See supra* notes 59-66 and accompanying text.

69. The *Katzel* Second Circuit decision is dated June 30, 1921. 275 F. at 539. Section 526 was enacted into law on Sept. 21, 1922. Tariff Act of 1922, ch. 356, § 526, 42 Stat. 858, 975. The Supreme Court decided *Katzel* on Jan. 29, 1923. 260 U.S. at 689.

70. Tariff Act of 1922, ch. 356, § 526, 42 Stat. 858, 975.

71. The Senate debate over § 526 lasted 10 minutes. 62 CONG. REC. 11,585 (1922). The entire Conference Report addressing the statute reads as follows:

> A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trade-mark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. The Senate amendment makes such importation unlawful without the consent of the owner of the American trade mark, in order to protect the American manufacturer or producer; and the House recedes with an amendment requiring that the trade mark be owned, at the time of the importation, by a citizen of the United States or by a corporation or association created or organized within the United States.

H.R. REP. NO. 1223, 67th Cong., 2d Sess. 158 (1922). *See also* 62 CONG. REC. 11,602-03 (1922) (statement of Senator Kellogg that § 526 was to apply to all goods, including goods manufactured in America, exported to another nation, and subsequently imported into the United States); *but see* Coty, Inc. v. Le Blume Import Co., 292 F. 264, 268-69 (S.D.N.Y.) (Judge Learned Hand's

scope of American trademark owners' protection.[72] Rather than limiting goods which Customs could halt to those which "copy or simulate"[73] American trademarks, section 526 simply requires that the United States trademark owner register the mark with the Patent and Trademark Office[74] and record the registration with the Treasury Department.[75] Thus, Congress statutorily repealed *Katzel* and its predecessors[76] which applied the universality theory to grey market goods cases.

The United States Supreme Court, without referring to section 526, also reversed *Katzel*.[77] Justice Holmes emphasized that the *Katzel* plaintiff invested a substantial sum of money to promote its product.[78] Further, the American public believed that products bearing plaintiff's trademark belonged to the plaintiff.[79] This represented the first judicial recognition of the value of the American trademark owner's goodwill.[80] The Court specifically addressed the genuine goods issue, holding that authentic goods could infringe upon an American trademark holder's rights in the same manner as non-genuine goods.[81]

Although Congress and the Supreme Court used different rationales[82] to solve the problems with the Second Circuit's *Katzel* opinion, both entities replaced the universality principle with the territoriality theory of trademark protection.[83] The territoriality principle recognizes that a "trademark has a separate legal existence under each country's laws, and that its proper function is not necessarily to specify the origin . . . of a good . . . but rather to symbolize the

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statement that "Section 526(a) . . . was intended only to supply the casus omissus, supposed to exist in section 27 of the Act of 1905 . . . , because of the decision of the Circuit Court of Appeals in Bourjois v. Katzel . . . . Had the Supreme Court reversed . . . last spring, it would not have been enacted."), *aff'd*, 293 F. 344 (2d Cir. 1923).

72. Prior to enactment of § 526, there was no congressional legislation addressing the exclusion of genuine goods. *See* notes 57-58 and accompanying text.

73. Trade-Mark Act of 1905, ch. 592, § 27, 33 Stat. 724, 730.

74. Tariff Act of 1922, ch. 356, § 526, 42 Stat. 858, 975.

75. *Id.*

76. *See supra* notes 42-45 and accompanying text.

77. 260 U.S. 689 (1923).

78. *Id.* at 691.

79. *Id.*

80. Coggio, Gordon, & Coruzzi, *supra* note 12, at 450.

81. 260 U.S. at 691.

82. Congress, in enacting § 526, provided protection to American trademark owners regardless of the establishment of goodwill. The Supreme Court, in *Katzel*, protected American trademark owners who have developed goodwill. Coggio, Gordon, & Coruzzi, *supra* note 12, at 450.

83. Note, *supra* note 12, at 107-08 n.144.

domestic goodwill of the domestic markholder."[84] Thus, the focus in parallel importation cases shifted from determining the goods' origin to resolving whether the grey marketeer unfairly took advantage of the American trademark owner's local goodwill.[85] However, the controversy surrounding grey market goods was just beginning to erupt.

D. *Section 526 and the Customs Regulations: Consistently Inconsistent Through the Years*

Although Congress considered altering the language of section 526 on several occasions,[86] the statute's scope remains unchanged since its initial passage in 1922.[87] The Customs Service's interpretation of section 526, however, commonly referred to as the Customs regulations,[88] has undergone many inconsistent changes since the Treasury Department first issued the regulations in 1923.[89] The first regulations merely recognized that American trademark owners were entitled to section

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84. Osawa & Co. v. B. & H. Photo, 589 F. Supp. 1163, 1171-72 (S.D.N.Y. 1984).

85. Note, *supra* note 21, at 841.

86. Congress reenacted § 526 in the Tariff Act of 1930. Tariff Act of 1930, ch. 497, tit. IV, § 526, 46 Stat. 590, 741. In 1954, an attempt to narrow the amount of protection afforded American trademark owners failed. H.R. 9476, 83d Cong., 2d Sess. (1954); S. 2540, 83d Cong., 2d Sess. 36 (1954). Additionally, a 1959 effort to repeal the entire section did not garner enough support to succeed. Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063, 1078 (E.D.N.Y. 1982), *vacated*, 719 F.2d 42 (2d Cir. 1983). This latter proposal was a response to the 1957 Southern District of New York decision in United States v. Guerlain, Inc., 155 F. Supp. 77 (S.D.N.Y. 1957). In *Guerlain*, the Justice Department contended that American trademark holders' use of § 526 to exclude genuine goods violated antitrust principles found in § 2 of the Sherman Act. *Id.* at 79-80. The court agreed with the government's contention that the United States mark holders had monopolized or attempted to monopolize the goods sold under the trademark, stating that intraband competition in the subject goods was prevented. *Id.* at 85-88. After obtaining this favorable result from the Court, the Justice Department requested that the Supreme Court overturn it, proposing with the Departments of Treasury, State, and Commerce that Congress was the entity which could best resolve the issue. Guerlain, Inc. v. United States, 358 U.S. 915 (1958). Unfortunately for these executive branch departments, and despite the *Guerlain* holding, Congress refused to amend or repeal § 526. H.R. 7234, 86th Cong., 1st Sess. (1959). A proposed 1969 amendment to the Lanham Act included a repeal of § 526, but as with all prior attempts, Congress refused to limit the protections that the statute offers. S. Res. 3713, 90th Cong., 2d Sess., 114 CONG. REC. 19,447 (1968). Amendments to § 526, providing (1) exemptions for imports for personal use and (2) procedures for Customs to follow upon discovering counterfeit marks, also failed to limit the scope of the statute. 19 U.S.C. § 1526(d)-(e) (1982).

87. *See supra* note 86.

88. *See, e.g.*, Noite, *supra* note 12, at 83.

89. *Id.* at 98.

526 protection.[90] New regulations, issued with the 1930 reenactment of section 526,[91] expressly stated that the section permitted United States trademark owners to exclude genuine goods.[92]

In 1936, the Customs Service's interpretation of section 526 contrasted with the statute's literal meaning.[93] Customs used the universality view, limiting the scope of section 526 to goods copying or simulating protected American trademarks.[94] Additionally, the regulations could not prohibit importation if the American trademark holder and the grey marketeer were "owned by the same person, partnership, association, or corporation."[95] Regulations issued in 1953 expanded this relationship to include licensees.[96] However, 1959 regulations allowed grey marketeers to import without the American trademark owner's consent only if the parallel importer was part of the "same entity" as the mark owner.[97]

In 1972, the Customs Service issued regulations which are in effect today.[98] These regulations contain the same provisions regarding the American trademark owner and grey marketeer corporate relationship.[99] The regulations expressly limit the United States trademark holder's ability to stop importation if the relationship is either between

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90. Customs Regulations of 1923, art. 475-80, *cited in* Vivitar Corp. v. United States, 761 F.2d 1552, 1566 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986).

91. Customs Regulations of 1931, art. 513(a), *cited in* Vivitar Corp. v. United States, 761 F.2d 1552, 1566 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986).

92. *Id.*

93. T.D. 48,537, 70 Treas. Dec. Int. Rev. 337 (1936).

94. Vivitar Corp. v. United States, 761 F.2d 1552, 1566 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986).

95. T.D. 48,537, 70 Treas. Dec. Int. Rev. 337 (1936). The United States Tariff Commission reported that the corporate relationship reference did not apply to § 526, because "[s]ection 526 . . . does apply to the merchandise of the trade-mark owner which bears his trade-mark if the merchandise was produced abroad and if the trade-mark owner is a citizen of the United States." *An Act to Provide for the Registration and Protection of Trade marks Used in Commerce, to Carry Out the Provisions of Certain International Conventions, and for Other Purposes: Hearings on H.R. 82 Before a Subcomm. of the Comm. of Patents*, 78th Cong., 2d Sess. 86-87 (1944), *cited in* Note, *supra* note 12, at 99 n.90.

96. 19 C.F.R. § 11.14 (1953), T.D. 53,399, 88 Treas. Dec. Int. Rev. 383-84 (1953).

97. 19 C.F.R. § 11.14 (1959), T.D. 54,932, 94 Treas. Dec. Int. Rev. 433-34 (1959).

98. 19 C.F.R. § 133.21(a), (b), (c)(1)-(3) (1985). For relevant portions of these regulations, see *supra* note 24.

99. 19 C.F.R. § 133.21(c)(2) (1985). For purposes of this section, common ownership means "individual or aggregate ownership of more that 50 percent of the business entity" and common control means "effective control in policy and operations and is not necessarily synonymous with common ownership". *Id.* § 133.2(d).

parent and subsidiary corporations[100] or United States trademark licensors and licensees.[101] Because the Customs Service constantly changed its interpretation of a statute Congress never modified,[102] it is difficult to determine whether the regulations validly interpret section 526.[103] Four contemporary grey market goods cases[104] address this issue, with varying conclusions.[105]

E. *Recent Parallel Importation Cases: Are the Customs Regulations Valid?*

Following a nearly twenty-five year absence from the nation's courtrooms,[106] grey market goods cases reappeared in the early 1980s.[107] Significantly, the United States dollar's strength in foreign markets[108] led to this flurry of grey market activity.[109] Courts have recently

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100. *Id.* § 133.21(c)(2).

101. *Id.*

102. *See supra* notes 86-101 and accompanying text.

103. Courts deciding contemporary grey market cases have been divided as to the validity of the regulations. *See infra* notes 112-71 and accompanying text.

104. *See* Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986) (Customs regulations held valid due to Congress' acquiescence to Customs' actions); Coalition to Preserve the Integrity of United States Trademarks (COPIAT) v. United States, 790 F.2d 903 (D.C. Cir.) (Customs regulations held invalid as abuse of Custom Service's authority to interpret § 526 of the 1930 Tariff Act), *cert. granted*, 107 S. Ct. 642 (1986); Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985) (Customs regulations held valid as within Customs' discretion), *cert. denied*, 474 U.S. 1055 (1986); Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1171-72 (S.D.N.Y. 1984) (Customs exceeded its authority in disseminating the regulations).

105. *See infra* notes 112-71 and accompanying text.

106. Coggio, Gordon, & Coruzzi, *supra* note 12, at 452.

107. *See, e.g.*, NEC Elecs. v. CAL Circuit Abco, 819 F.2d 1506 (9th Cir. 1986) (regarding importation of computer chips), *cert. denied* 108 S. Ct. 152 (1987); Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986) (photographic equipment); *COPIAT*, 790 F.2d at 903 (group of trademark owners seeking general relief); *Vivitar*, 761 F.2d at 1552 (photographic equipment); Weil Ceramics & Glass, Inc. v. Dash, 618 F. Supp. 700 (D. N.J. 1985) (LLADRO ceramic figurines); Selchow & Righter Co. v. Goldex Corp., 612 F. Supp. 19 (S.D. Fla. 1985) (TRIVIAL PURSUIT games); El Greco Leather Prods. Co. v. Shoe World, Inc., 599 F. Supp. 1380 (E.D.N.Y. 1984) (women's shoes), *rev'd*, 806 F.2d 392 (2d Cir. 1986), *cert. denied*, 108 S. Ct. 71 (1987); Parfums Sterns, Inc. v. United States Customs Serv., 575 F. Supp. 416 (S.D. Fla. 1983) (OSCAR DE LA RENTA fragrances); Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063 (E.D.N.Y. 1982) (photographic equipment), *vacated*, 719 F.2d 42 (2d Cir. 1983).

108. Baldo, *supra* note 9, at 74; Nolan-Haley, *The Competitive Process and Gray Market Goods*, 5 N.Y.L. SCH. J. INT'L & COMP. L. 231, 232 (1984).

109. *Why Camera Prices are Falling*, BUSINESS WEEK, Sept. 6, 1982, at 61, 64.

decided four grey market cases, one analyzing the regulations[110] and three directly addressing their validity.[111]

In *Osawa & Co. v. B & H Photo*,[112] the plaintiff owned the trademark rights for certain photographic equipment marks.[113] The defendants were discount camera dealers importing photographic equipment bearing trademarks identical to those the plaintiff owed.[114] The plaintiff sought an injunction barring the defendants from selling the grey market goods.[115] The court ruled the plaintiff demonstrated irreparable harm.[116] Factors establishing such injury included declining sales,[117] damage in consumers' views of the trademarker's reputation,[118] and customer confusion arising from large price disparities and warranty services.[119] After stating that the plaintiff easily proved irreparable harm,[120] the court analyzed the validity of the Customs regulations.[121]

Because the plaintiff and defendants in *Osawa* were separate legal entities,[122] the Customs regulations did not influence the court's decision.[123] However, in harsh dictum, the court questioned Cutoms' authority to issue such regulations.[124] Concluding that Customs exceeded its authority in disseminating the regulations,[125] the court questioned the "wisdom and necessity"[126] of the regulations. Although their validity was not at issue in *Osawa*,[127] the Customs regulations received a

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110. Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1171-72 (S.D.N.Y. 1984).

111. Olympus Corp. v. United States, 792 F.2d 315 (2d Cir 1986); *COPIAT*, 790 F.2d at 903, *Vivitar*, 761 F.2d at 1551.

112. 589 F. Supp. 1163 (S.D.N.Y. 1984).

113. *Id.* at 1164.

114. *Id.* at 1165.

115. *Id.*

116. *Id.* at 1168-70.

117. *Id.* at 1168.

118. *Id.* at 1168-69.

119. *Id.* at 1169-70.

120. *Id.* at 1170.

121. *Id.* at 1177-78.

122. Separate entities do not fall under the "common ownership" or "common control" definitions regarding application of the Customs regulations. *See* 19 C.F.R. § 133.2(d), *supra* note 99.

123. 589 F. Supp. at 1177.

124. *Id.* at 1177-78.

125. *Id.* at 1177.

126. *Id.*

127. *Id.*

stinging blow from the analysis. This analysis, however, did not convince all courts, since three cases[128] directly addressing the regulations produced three different results.[129]

In *Vivitar Corp. v. United States*,[130] plaintiff sought a declaratory judgment requiring Customs to follow the strict letter of section 526.[131] The Court of International Trade refused to grant plaintiff's claim[132] and validated the Customs regulations.[133] On appeal,[134] the Court of Appeals for the Federal Circuit rejected the rationale validating the regulations.[135] However, the court upheld the regulations because Congress could not have foreseen all potential scenarios arising from parallel importation,[136] and the Customs Service had authority to place "implied limitations"[137] upon enforcement of the Genuine Goods Exclusion Act. Citing cases which examined the facts before determining whether to enforce section 526,[138] the court concluded that the statute should be developed on a case-by-case basis.[139]

The United States Supreme Court refused to grant certiorari to plaintiff,[140] but granted certiorari in the next case to address the Customs regulations, *Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States*.[141] In *COPIAT*, the plaintiff, a group of American trademark owners, sought the same declaratory relief as the *Vivitar* plaintiff.[142] The plaintiffs alleged that the Customs regulations were inconsistent with section 526 and, therefore, in-

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128. Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986); Coalition to Preserve the Integrity of United States Trademarks (COPIAT) v. United States, 790 F.2d 903 (D.C. Cir.), *cert. granted*, 107 S. Ct. 642 (1986); Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985), *cert denied*, 474 U.S. 1055 (1986).

129. *See infra* notes 130-73 and accompanying text.

130. 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986).

131. *Id.* at 1555.

132. *Id.*

133. *Vivitar*, 593 F. Supp. at 426-33.

134. Judge Nies wrote the Federal Circuit Court opinion. 761 F.2d at 1555.

135. *Id.* at 1565, 1568.

136. *Id.* at 1570.

137. *Id.*

138. *See* 761 F.2d at 1570 n.25 (list of cases).

139. *Id.* at 1570. The court stated that trademark owners must first pursue private remedies authorized by 19 U.S.C. § 1526(c) (1982). *Id.* If successful, Judge Nies continued, then Vivitar could have parallel imports stopped by Customs. *Id.*

140. Vivitar Corp. v. United States, 474 U.S. 1055 (1986).

141. 790 F.2d 903 (D.C. Cir.), *cert. granted*, 107 S. Ct. 642 (1986).

142. *Compare* 790 F.2d at 904 *with* Vivitar Corp. v. United States, 761 F.2d 1555 (Fed. Cir. 1985) (Vivitar sought a declaratory judgment requiring Customs to follow the strict letter of § 526).

valid.[143] The United States District Court for the District of Columbia denied COPIAT's claim for relief, validating the regulations as an authorized interpretation of section 526.[144] The court based its decision on prior case law, the statute's legislative history, and Customs' consistent policies regarding grey market goods.[145]

The United States Court of Appeals, District of Columbia Circuit, overturned the district court's ruling[146] and concluded that "the regulations simply cannot be squared with section 526 and are thus invalid."[147] The majority held that an administrative agency such as Customs may reasonably interpret a governing statute.[148] The court believed section 526 had a clear legislative intent, and Customs therefore unreasonably interpreted the statute.[149] The court examined the purpose of section 526,[150] the statute's legislative history,[151] and the subsequent Customs Service interpretations of section 526.[152] The Customs regulations did not display, among other required characteristics,[153] the consistency needed for acceptance.[154] Illustrating this inconsistency was Customs' "poorly articulated and vacillating reasons"[155] throughout the history of the regulations.

A third case addressing Customs' actions, *Olympus v. United States*, took yet another view of the issue.[156] Shortly after *COPIAT*, the Second Circuit Court of Appeals agreed in principle with the *Vivitar* decision,[157] holding the Customs regulations valid.[158] Unlike *COPIAT*, which held that Customs acted erratically and inconsistently in interpreting section 526,[159] the *Olympus* court determined

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143. 790 F.2d at 907.

144. Coalition to Preserve the Integrity of Trademarks (COPIAT) v. United States, 598 F. Supp. 844, 845 (D.D.C. 1984).

145. *Id.*

146. *COPIAT*, 790 F.2d at 907.

147. *Id.*

148. *Id.* at 908 (citing Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 837, 843 (1984)).

149. *Id.* at 912-13.

150. *Id.* at 908-10.

151. *Id.* at 910-14.

152. *Id.* at 913-16.

153. *Id.* at 916. Other requirements include thoroughness and validity. *Id.*

154. *Id.*

155. *Id.*

156. Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986).

157. For a discussion of *Vivitar*, see *supra* text accompanying notes 130-40.

158. *Olympus*, 792 F.2d at 320.

159. For a discussion of *COPIAT*, see *supra* text accompanying notes 141-55.

that the regulations consistently interpreted the statute.[160] The plaintiff in *Olympus* exclusively distributed a Japanese corporation's photographic equipment in America.[161] Plaintiff brought its action against the Treasury Department, attempting to eliminate the regulations,[162] and joined two potential grey marketeers of plaintiff's products.[163]

Agreeing with *Osawa* that the regulations' validity was questionable,[164] the *Olympus* court held the interpretation was within Customs' discretion as an administrative agency.[165] The court also agreed with the *Vivitar* rationale that the regulations must be applied to the facts on a case-by-case basis.[166] Unlike *Vivitar's* holding that Customs could place "implied limitations" on the statute,[167] the *Olympus* majority decided that Congress acquiesced to Customs' practices through its silent reaction to the regulations.[168]

Thus, two of three recently-decided cases addressing the grey market dilemma[169] have upheld the Customs regulations based on differing rationales,[170] and the third rejected the regulations outright.[171] Analyzed together, these three decisions present an unclear picture of the grey market controversy. The United States Supreme Court, by granting certiorari in *COPIAT*,[172] has the opportunity to clarify the situation. The Court will have to consider which, if either, approach to the grey market better advances the fundamental principles underlying trademark protection.[173] The Supreme Court must decide whether to favor the American trademark owners, the grey marketeers, or choose an alternative position which satisfies all interested parties.

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160. *Olympus*, 792 F.2d at 319.
161. *Id.* at 317.
162. *Id.*
163. *Id.*
164. *Id.* at 320.
165. *Id.*
166. *Id.*
167. *See supra* note 137 and accompanying text.
168. 792 F.2d at 320.
169. *See supra* notes 130-68 and accompanying text.
170. For a discussion of *Vivitar*, see *supra* text accompanying notes 130-40, and for a discussion of *Olympus*, see *supra* text accompanying notes 164-76.
171. For a discussion of *COPIAT*, see *supra* text accompanying notes 149-63.
172. 107 S. Ct. 642 (1986).
173. *See supra* notes 38-43 and accompanying text.

III. THE SUPREME COURT'S CHALLENGE: WHO PREVAILS, THE AMERICAN TRADEMARK OWNER OR THE GREY MARKETEER?

A. *Side One: Section 526 Is a Reasonable Means of Protecting Trademark Holders*

Literally enforcing section 526 enables United States trademark owners to completely halt the flow of parallel imports into America.[174] Literal enforcement maximizes protection offered trademark owners in grey market situations by eliminating the possibility of customer confusion[175] and harm to the trademark owner's goodwill.[176] Trademark owners contend that grey market goods cause confusion among consumers regarding the products' source,[177] thus violating a basic function of trademark protection.[178] Both consumers and the law presume all goods bearing the same mark originate from the same source.[179] However, this presumption may be erroneous with parallel imports. By failing to acknowledge that its products are not the exclusive American distributor's products, the grey market misleads consumers to conclude the American mark holder is the goods' source.[180]

This customer confusion can lead to the breach of another fundamental principle of trademark protection, the guarantee of consistent quality.[181] When American consumers purchase grey market goods at lower prices,[182] they are often surprised to discover that services provided with the American mark holder's goods, such as warranty coverage,[183] are not available with the parallel imports.[184] If the purchaser buys the goods unaware that the product is a grey market good,[185] the consumer will believe that the product and the trademark lack quality.[186] Further, the consumer's mistaken belief that the American product's quality is deficient causes the trademark owner's goodwill to suffer.[187]

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174. Note, *supra* note 21, at 858-61.
175. Note, *supra* note 12, at 84-87.
176. *Id.*
177. *Id.*
178. 1 J. MCCARTHY, *supra* note 29, at § 3.1.
179. *Id.* at § 3.3.
180. Note, *supra* note 21, at 855-57.
181. 1 J MCCARTHY, *supra* note 29, at 3.4.
182. Nolan-Haley, *supra* note 108, at 233.
183. *Id.*
184. *Id.*
185. Note, *supra* note 21, at 856.
186. Nolan-Haley, *supra* note 108, at 233.
187. Note, *supra* note 12, at 84.

Goodwill is a business value[188] that a trademark owner earns through the mark holder's "reasonable expecta[tion] of preference in the race of competition."[189] Goodwill induces the public to purchase goods bearing a particular trademark. Goodwill is the trademark owner's asset, reflecting an investment to increase the mark's reputation and value.[190] If, as in *Katzel*, the American trademark owner establishes itself as the source of the trademarked goods, then the trademark owner is entitled to protection against grey market goods.[191]

Therefore, literally administering section 526 provides American trademark owners with protections they expect when they register trademarks.[192] Trademark owners expect that goods bearing their mark originate from the same source,[193] guarantee consistent quality,[194] and protect the goodwill associated with the trademark.[195] However, literal enforcement may diminish American consumers' opportunity to purchase merchandise in a market which is completely competitive. Parallel importation advocates primarily advance this reduced competition argument.

B. *The Flip Side: The Customs Regulations Provide a Competitive Market for Consumers*

One side of the Customs regulations debate desires protection of American trademark owners' rights.[196] However, courts must balance this argument against American consumers' right to a highly competitive, deception-free market.[197] The deception-free market is a concept borrowed from the trademark owners,[198] and advocates consumer awareness. The grey marketeers strongly argue that parallel importation benefits consumers and does not confuse them.[199]

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188. 1 J. MCCARTHY, *supra* note 29, at § 2.8.
189. *In re* Brown, 242 N.Y. 1, 6, 150 N.E. 581, 582 (1926) (definition by Judge Cardozo).
190. Comment, *Preventing the Importation and Sale of Genuine Goods Bearing American-Owned Trademarks: Protecting an American Goodwill*, 35 ME. L. REV. 315, 320-21 n.35 (1983).
191. Bourjois & Co. v. Katzel, 260 U.S. 689, 691-92 (1923).
192. 1 J. MCCARTHY, *supra* note 29, at §§ 3.1-3.5.
193. *See supra* notes 177-80 and accompanying text.
194. *See supra* notes 181-85 and accompanying text.
195. *See supra* notes 186-91 and accompanying text.
196. *See supra* notes 174-95 and accompanying text.
197. Note, *supra* note 21, at 855.
198. *See supra* notes 177-87 and accompanying text.
199. Note, *supra* note 21, at 857-61.

Although a trademark confers an exclusive right upon its owner,[200] grey marketeers maintain that a trademark does not grant an anti-competitive monopoly.[201] According to those favoring the Customs regulations, literally enforcing section 526 allows "anti-competitive practices, discriminating pricing and violations of antitrust law and policy."[202] Permitting grey market goods to flow in American commerce provides consumers with lower prices and simultaneously eliminates the trademark owners' illegal[203] monopolization of the market.[204]

Both American trademark owners and grey marketeers have realistic concerns regarding this dilemma. Trademark owners desire protection which United States trademark laws provide, while grey marketeers want a competitive marketplace. Mark owners further want to continue the territoriality principle espoused in *Katzel* and the contemporary cases supporting literal enforcement of section 526.[205] In contrast, grey marketeers want courts to follow the universality principle which, although replaced in *Katzel*, the present Customs regulations somewhat revive.[206] The United States Supreme Court in *COPIAT* must examine these two equally important contentions and, by applying the theories advanced in the *Osawa* dictum,[207] *Vivitar*,[208] *COPIAT*,[209] and *Olympus*,[210] create a feasible compromise that satisfies each party.

C. *What the Supreme Court Should Do*: COPIAT

COPIAT provides the United States Supreme Court with the opportunity to develop a reasonable solution to the grey market con-

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200. 1 J. McCARTHY, *supra* note 29, at § 2.5.

201. Note, *supra* note 21, at 857.

202. Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1176 (S.D.N.Y. 1984).

203. Grey marketeers claim that trademark owners' monopolies are illegal because they violate the Sherman Act. *See supra* note 86.

204. Note, *supra* note 21, at 857-61.

205. For a discussion of Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 790 F.2d 903 (D.C. Cir.), *cert. granted*, 107 S. Ct. 642 (1986), see *supra* notes 141-55 and accompanying text.

206. For a discussion of Vivitar v. United States, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986), see *supra* notes 130-40 and accompanying text, and for a discussion of Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986), see *supra* notes 156-68 and accompanying text.

207. *See supra* notes 120-27 and accompanying text.

208. *See supra* notes 130-40 and accompanying text.

209. *See supra* notes 141-55 and accompanying text.

210. *See supra* notes 156-68 and accompanying text.

flict.[211] The case offers the first contemporary opportunity to address the parallel importation issue.[212] Initially, the Court must balance the opposing sides' policy arguments,[213] which will likely result in a stalemate since neither side has stronger policy concerns.[214] Thus, the Court's decision should analyze decisions that examine the Customs regulations.[215]

Favoring the section 526 policy arguments over the Customs regulations' policies results in a deadlock. With the regulations in effect, American consumers receive maximum competition and, therefore, lower priced goods.[216] However, consumers also suffer by purchasing grey market products lacking warranty service American distributors provide.[217] Additionally, grey marketeers free ride[218] on the United States trademarks, receiving advertising and other promotional benefits without cost.[219] Conversely, completely removing parallel imports from the American marketplace enables United States trademark owners a market monopoly, removing the consumers' freedom of choice and lower priced merchandise.[220] Based on policies, neither section 526 supporters nor Customs regulations advocates have a stronger position.[221] Because of this policy stalemate, the Court in *COPIAT* must base its decision on legal theories found in *Vivitar*,[222] *COPIAT*,[223] and *Olympus*.[224]

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211. *See, e.g.*, Note, *supra* note 21, at 861-65 (offering a number of alternative solutions); Note, *supra* note 12, at 111-15 (reviewing six proposed solutions).

212. The *COPIAT* court stated that "[t]he issues raised in this case are matters of first impression . . . ." Coalition to Preserve the Integrity of United States Trademarks (COPIAT) v. United States, 790 F.2d 903 (D.C. Cir.), *cert. granted*, 107 S. Ct. 642 (1986).

213. For a discussion of the preliminary policy discussions, see *supra* text accompanying notes 174-210.

214. *Id.*

215. *See supra* notes 207-10 and accompanying text.

216. Comment, *supra* note 4, at 265-68.

217. *Id.* at 266-67.

218. Note, *supra* note 12, at 86. Free riding arises in situations where advertising or other pre-sale or post-sale efforts are part of the sale. *Id.* at 86 n.9 (citing P. AREEDA, ANTITRUST ANALYSIS, ¶ 503, at 647 (3d ed. 1981)).

219. Note, *supra* note 12, at 86 n.9.

220. Note, *supra* note 21, at 855-61.

221. *See supra* notes 216-20 and accompanying text.

222. *See supra* notes 130-40 and accompanying text.

223. *See supra* notes 141-55 and accompanying text.

224. *See supra* notes 156-68 and accompanying text.

The Supreme Court's solution should minimize the harm to trademark goodwill[225] while maximizing the competitive market.[226] The *Vivitar*, *COPIAT*, and *Olympus* opinions disagree whether Customs has the authority to issue regulations interpreting section 526.[227] *Vivitar* and *COPIAT* present similar analyses of the history and interpretations of section 526.[228] The *Vivitar* court stated that the regulations were a valid act of administrative enforcement.[229] The *COPIAT* court also held that Customs could issue regulations,[230] but only if they interpreted the statute's requirements.[231] The *Olympus* court offered a third view of the regulations, stating that Congress, through its lack of reaction to the Customs regulations, had silently acquiesced to Customs' actions.[232] Apparently, *COPIAT* correctly held that Customs possessed the power to interpret the requirements of section 526, but Customs overstepped this power by issuing regulations inconsistent with both the express wording and legislative intent of the statute.[233] By addressing concepts not contemplated in the statute's wording or intent, Customs exceeded its authority. Without this extension into areas untouched by Congress, the *Vivitar* court accurately held that the Customs regulations are a proper exercise of agency discretion.[234] But delving into issues without congressional consent eliminated any possibility of Customs exercising its discretion. The *Vivitar* court adequately discarded the *Olympus* court statement regarding Congress' implied acquiescence through silence.[235] Although Congress examined the grey market area, "[l]egislation by total silence is too tenuous a theory to merit extended discussion."[236] Based on this analysis, the Supreme Court should invalidate the Customs regulations.[237]

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225. For a discussion of the importance of goodwill, see *supra* notes 187-91 and accompanying text.

226. *See supra* notes 199-204 and accompanying text.

227. *See infra* notes 229-32 and accompanying text.

228. Lipner, *supra* note 12, at 109.

229. Vivitar Corp. v. United States, 761 F.2d 1552, 1570 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986).

230. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 790 F.2d 903, 907 (D.C. Cir.), *cert. granted*, 107 S. Ct. 642 (1986).

231. *Id.*

232. Olympus Corp. v. United States, 792 F.2d 315, 320-21 (2d Cir. 1986).

233. *See supra* notes 146-55 and accompanying text.

234. *See supra* note 229 and accompanying text.

235. Vivitar Corp. v. United States, 761 F.2d 1552, 1568 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986).

236. *Id.*

237. *See supra* notes 141-55 and accompanying text.

D. *Solutions the Supreme Court Should Suggest to Congress*

Invalidating the Customs regulations, however, is not enough. The Court should end the grey market dilemma by proposing an answer which Congress can amend to section 526. A number of commentators suggest that parallel imports carry labels stating that items such as warranty service are not included with the sale of the goods.[238] However, this is a harsh requirement for grey marketeers. Labels with statements such as "WARRANTY SERVICE DOES NOT ACCOMPANY THE SALE OF THIS PRODUCT" are extremely negative and would deter consumers despite the discount price. Two alternative solutions, similar to this labeling requirement but not as severe, are presented below as potential answers to the conflict.

The first alternative solution requires grey marketeers to incur the cost of placing labels on the exclusive American distributors' products.[239] This requirement would cost the grey marketeer approximately the same amount as labeling its own goods, but a label on the American product stating "THIS PRODUCT WAS MANUFACTURED FOR SALE IN THE UNITED STATES" merely advances the competitive mandate which the parallel importation supporters advocate.

Although this solution appears theoretically sound, implementation could cause problems. Notifying the exclusive American distributors would be time-consuming, and grey marketeers would likely avoid notifying their competitors. Therefore, codifying this potential solution necessitates including requirements covering these obstacles.

A second possible solution is to allow the free market to control itself. Under this approach, parallel import retailers would be required to post signs in their stores. These signs would inform consumers that they are purchasing grey market goods at discount prices because the product is not covered by warranty service. Such signs avoid consumer confusion or deception regarding the products' source while providing the grey marketeer with an opportunity to compete within United States borders. Absent the display of such information, the grey market retailer would be required to warrant products it sells to the public without disclosure. This penalty would eliminate goodwill injury while still allowing competition. Nevertheless, similar to the solution requiring parallel import labeling, the store displays could create an

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238. *See supra* note 211.

239. The New York Legislature recently adopted a statute addressing the labeling issue. *See* N.Y. GEN. BUS. LAW. § 218aa (Consol. Supp. 1986). This law requires disclosing lack of a manufacturer's warranty, lack of instructions in English, or lack of eligibility for a rebate. *Id.* This law, however, is limited to articles used for personal, family, or household purposes. *Id.*

unreasonable burden for grey market retailers. However, requiring parallel import retailers to post signs provides the most reasonable means of informing consumers while simultaneously maintaining a competitive marketplace.

IV. CONCLUSION

As the century-old conflict over parallel importation reaches a climax in the Supreme Court, the Court must first affirm the *COPIAT* decisions and invalidate the Customs regulations interpreting section 526. These regulations are concerned with an issue not contemplated in either the statute's language or intent, and therefore wrongfully extend Customs' authority. Once these regulations are eliminated, the Court should suggest to Congress solutions to the grey market goods conflict. Several potential answers exist. If the Court suggests one of the solutions, it will likely end the parallel importation crisis.

David K. Friedland

Author's Note: On March 15, 1988, after this Note went to press, the United States Supreme Court held that federal district courts have jurisdiction over parallel importation cases. 56 USLW 4219. The Court further decided that before determining the merits of the *COPIAT* case, additional oral arguments were necessary. *Id.* These arguments were scheduled for Tuesday, April 26, 1988.

On May 31, 1988, the Supreme Court decided that most of the Customs Regulations concerning parallel imports were valid. In a 5-4 decision, the Court upheld 19 C.F.R. § 133.21(c) (1) and (2) as consistent interpretations of § 526, and in a different 5-4 decision, the Court invalidated 19 C.F.R. § 133.21(c) (3). 6 U.S.P.Q.2d 1987. Justice Scalia, in a strong dissent, argued that the regulations were invalid, stating that they clearly conflicted with § 526. 6 U.S.P.Q.2d at 1912. Justice Scalia further stated that the Court had created law which the Customs Service would not be able to enforce. The majority decision held that merchandise manufactured overseas by a subsidiary of an American corporation is not "merchandise of foreign manfacture" under § 526 of the Tariff Act. However, the Customs Service has no means for identifying corporate ownership, which "is often a closely guarded secret." *Id.* at 1914. Thus, it appears that the Court's "solution" has created a new dilemma.