

1989

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Recommended Citation

John J. McNamara, *Attention Gray Market Shoppers: K Mart Corp. V. Cartier, Inc. Fails to Clarify the Clouded Area of Gray Market Goods*, 38 Cath. U. L. Rev. 933 (1989).

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ATTENTION GRAY MARKET SHOPPERS: *K MART CORP. V. CARTIER, INC.* FAILS TO CLARIFY THE CLOUDED AREA OF GRAY MARKET GOODS

Gray market goods are items of foreign manufacture which bear a trademark registered in the United States, as well as in a foreign country, and are subsequently imported into the United States without the consent of the domestic trademark holder.¹ A gray market good can usually be placed in one of three categories.² In the first situation, a domestic firm will purchase the rights to use a trademark from a foreign manufacturer and register that trademark in the United States.³ If the foreign manufacturer, or a third party, subsequently imports the authentic goods of foreign manufacture into the United States, the domestic trademark holder's market is being undercut and a gray market is said to exist.⁴ In the second case, if a domestic firm that registers a trademark is a subsidiary of, a "parent" of, or the same firm as a foreign trademark holder, the importation of goods by the foreign arm of the organization, or by a third party, also gives rise to a gray market.⁵ In the third instance, a gray market exists when a domestic trademark holder authorizes a foreign firm to use its trademark abroad, and the foreign manufactured goods are imported into the United States by the foreign corporation or a third party.⁶

1. The term gray market refers to the situation where authentic goods of foreign manufacture are purchased abroad at lower prices than available in the United States, and then imported into the United States and marketed at lower prices than those of authorized American dealers. This practice undercuts the market of the domestic trademark holder. Unlike black market goods, gray market goods are not wholly illegal, but their ability to undercut the domestic trademark holder's market has caused them to be eyed with suspicion, thus giving rise to the term gray market goods. See generally Palladino, *High Court Duo on Discounters: Legal Fog Still Surrounds Gray Market Goods*, Legal Times, June 20, 1988, at 19, col. 1; Riley, *Gray Market Fight Isn't Black and White*, Nat'l L. J., Oct. 28, 1985, at 1, col. 1.

2. *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811, 1814 (1988).

3. See *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

4. *Id.* at 539. The plaintiff in *Katzel* had purchased the right to use the trademark of A. Bourjois & Cie., E. Wertheimer & Cie., a French company which produced facial powder. *Id.* The defendant purchased the products in France and subsequently imported them into the United States without the consent of the plaintiff. *Id.* at 540.

5. See *Olympus Corp. v. United States*, 627 F. Supp. 911 (E.D.N.Y. 1985), *aff'd*, 792 F.2d 315 (2d Cir. 1986), *cert. denied*, 108 S. Ct. 2033 (1988).

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

In 1921, *A. Bourjois & Co. v. Katzel*⁷ was decided by the United States Court of Appeals for the Second Circuit, and it appeared as though the gray market would never be regulated.⁸ *Katzel* held that the importation of authentic goods bearing a trademark registered in the United States would not infringe upon the rights of a domestic trademark holder; therefore, exclusion of the goods would be unwarranted.⁹ The impetus for the *Katzel* decision was the universality theory of trademark law.¹⁰ According to this theory, a trademark did not confer upon its owner the right to monopolize a product's distribution, but rather functioned merely to protect the public from being deceived by imitation goods.¹¹ In response to the laissez faire attitude espoused by the Second Circuit in *Katzel*, Congress speedily enacted section 526 of the Tariff Act of 1922¹² prohibiting the importation of foreign manufactured goods bearing trademarks registered in the United States. Section 526 was later reenacted in its entirety as section 526 of the Tariff Act of 1930.¹³

The United States Department of Treasury did not initially envision exceptions to the ban on gray market goods that section 526 created.¹⁴ In

7. 275 F. at 539.

8. By the time *Katzel* was decided, the gray market already had been the subject of thirty-five years of litigation resulting in the unimpeded importation of gray market goods. *Fred Gretsch Mfg. Co. v. Schoening*, 238 F. 780 (2d Cir. 1916) (holding that the importation of authentic trademarked goods was legal); see *Russia Cement Co. v. Frauenhar*, 133 F. 518 (1904), *cert. denied*, 196 U.S. 640 (1905); *Apollinaris Co. v. Scherer*, 27 F. 18 (C.C.S.D.N.Y. 1886).

9. 275 F. at 543.

10. The epitome of the universality theory is espoused in *Katzel*. *Id.* at 539.

11. *Id.* at 543. When the case finally reached the United States Supreme Court, however, Justice Holmes reversed the decision of the United States Court of Appeals for the Second Circuit and initiated what is now known as the territoriality theory of trademark law. *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1922). This approach views the source of trademark protection as the product of a particular sovereign state, thus making abstract discussion of the genuineness of a trademark meaningless. Note, *The Greying of American Trademarks: The Genuine Exclusion Act and the Incongruity of Customs Regulation* 19 C.F.R. § 133.21, 54 *FORDHAM L. REV.* 83, 106 (1986) (illustrating that the customs regulations are inconsistent with the intent of the Tariff Act of 1930).

12. Ch. 356, § 526, 42 Stat. 858, 975, *superceded by* Tariff Act of 1930, ch. 497, § 526, 46 Stat. 590, 741 (codified as amended at 19 U.S.C. § 1526 (1986)).

13. The Tariff Act of 1930 states in part:

[I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association created or organized, within the United States, and registered in the patent office . . . unless written consent of the owner of such trademark is produced at the time of making entry.

19 U.S.C. § 1526.

14. Kersner & Stein, *Judicial Construction of Section 526 and the Importation of Gray Market Goods: From Total Exclusion to Unimpeded Entry*, 11 N.C.J. INT'L L. & COM. REG. 251, 261 (1986).

1936, however, the Customs Service regulations, which the United States Department of Treasury promulgated as a mechanism for enforcing section 526, began to make exceptions to the total ban on gray market goods.¹⁵ The regulations permitted the importation of goods bearing registered United States trademarks if the foreign and domestic trademarks were owned by the same person, partnership, association, or corporation.¹⁶ This "related" exception was deleted in 1959,¹⁷ but more exceptions would later surface.¹⁸

In 1972, the United States Department of Treasury issued the current Customs Service regulations in an attempt to codify what it believed to be exceptions to the ban on gray market goods.¹⁹ The "common control"²⁰ and "same company"²¹ exceptions once again allowed the importation of goods simultaneously bearing foreign and domestic trademarks if one company had control, in some manner, over both trademarks.²² The "authorized use" exception,²³ however, allowed the importation of foreign manufactured products bearing American trademarks if the domestic trademark holder authorized a foreign company to produce that product abroad.²⁴ The Treasury Department's 1972 promulgation²⁵ was an attempt to eliminate ambiguity about what are acceptable gray market goods.²⁶ The Customs Service regulations, however, have been challenged as antithetical

15. T.D. 48,537, 70 Treas. Dec. 336 (1936).

16. *Id.* at 337.

17. T.D. 54,932, 94 Treas. Dec. 433 (1959).

18. T.D. 72,266, 6 Cust. B. & Dec. 550 (1972).

19. 19 C.F.R. §§ 133.21(c) (1), (c) (2), & (c) (3) (1988). The regulations state that the restrictions on the importation of foreign goods bearing trademarks simulating or copying a United States trademark shall not be applicable where:

(c) (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 otherwise subject to common ownership or control. (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner;

Id. (cross reference omitted).

20. *See id.* § 133.21(c) (1), (2).

21. *Id.* § 133.21(c) (3).

22. In *K Mart Corp. v. Cartier Inc.*, 108 S. Ct. 1811 (1988), Justice Kennedy consolidated the common control and same company exceptions under the heading of common control. *Id.* at 1817.

23. 19 C.F.R. § 133.21(c) (1).

24. *Id.*

25. *See supra* note 19 and accompanying text.

26. *See Vivitar Corp. v. United States*, 761 F.2d 1552, 1568 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986). The government was actually claiming that the 1972 promulgation was an attempt to solidify the long-standing interpretation of the Customs Service. *Id.* The court found that the Customs Service "had continuing questions concerning the reading of the statute." *Id.* The court, however, did not see any clarification in the 1972 promulgation. *Id.*

to the purpose of section 526.²⁷

In 1984, the United States District Court for the District of Columbia confronted the gray market exceptions in *Coalition to Preserve the Integrity of American Trademarks v. United States (COPIAT I)*.²⁸ Two retailers of gray market goods, K Mart and 47th Street Photo, initially intervened as defendants, and 47th Street Photo moved to dismiss on the ground that the court lacked proper jurisdiction.²⁹ The court determined that the gray market exceptions promulgated by the Treasury Department accorded with the aim and purpose of section 526 and were thus valid.³⁰ On appeal, the United States Court of Appeals for the District of Columbia Circuit consolidated the issues in *Coalition to Preserve the Integrity of American Trademarks v. United States (COPIAT II)*.³¹ The District of Columbia Circuit subsequently determined that there was proper jurisdiction³² and held that the customs regulations could not limit section 526 in such a manner.³³ The court held the regulations inconsistent with the original purpose of section 526.³⁴ On certiorari, the United States Supreme Court affirmed the Appellate Court's ruling on jurisdiction³⁵ *sub nom K Mart Corp. v. Cartier, Inc.*³⁶ The merits of the case, however, were scheduled for reargument later in the term to allow Justice Kennedy, newly appointed to the Court, to participate in the matter.³⁷ The Court of Appeals' decision was ultimately affirmed in part and reversed in part.³⁸

Justice Kennedy, writing for the Court in a case with many separate opin-

27. See *id.* (holding that the customs regulations are a reasonable exercise of administratively initiated enforcement); *Olympus Corp. v. United States*, 627 F. Supp. 911 (E.D.N.Y. 1985), *aff'd*, 792 F.2d 315 (2d Cir. 1986), *cert. denied*, 108 S. Ct. 2033 (1988) (holding that the customs regulations were not inconsistent with the Tariff Act of 1930).

28. 598 F. Supp. 844 (D.D.C. 1984) [hereinafter *COPIAT I*], *aff'd in part and rev'd in part*, *Coalition to Preserve the Integrity of American Trade Marks v. United States*, 790 F.2d 903 (D.C. Cir. 1986), *aff'd in part and rev'd in part sub nom.*, *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811 (1988).

29. *Id.* at 847. Forty Seventh Street Photo claimed that the United States Court of International Trade possessed exclusive jurisdiction over claims concerning § 526 of the Tariff Act. *Id.* The court, however, found that under 28 U.S.C. § 1331 federal question jurisdiction was present, thus invalidating 47th Street's claim. *Id.*

30. *Id.* at 852.

31. 790 F.2d 903 (D.C. Cir. 1986) [hereinafter *COPIAT II*], *aff'd in part and rev'd in part sub nom.* *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811 (1988).

32. *Id.* at 905.

33. *Id.* at 918.

34. *Id.* at 908.

35. *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 950, 960 (1988), *reargued* 108 S. Ct. 1811 (1988).

36. 108 S. Ct. 1811 (1988).

37. *K Mart*, 108 S. Ct. at 960; see also *Chicago Daily Law Bull.*, May 31, 1988, at col. 1.

38. *K Mart*, 108 S. Ct. at 1817-18.

ions, merged the common control and same company exceptions under the heading of common control and determined these exceptions to be consistent with section 526.³⁹ In Justice Kennedy's view, deferential treatment must be accorded to the interpretation of an administrative agency when not in direct conflict with the statute.⁴⁰ In a concurring opinion, Justice Brennan, joined by Justices Marshall and Stevens, attested to the validity of the common control exceptions, not due to administrative deference, but due to the belief that Congress never intended section 526 to protect those who are subject to these exceptions.⁴¹ Justice Scalia, dissenting, found that the common control exceptions clearly conflicted with section 526 and were therefore invalid.⁴²

Justice Kennedy, writing for another majority, found the authorized use exception invalid because it clearly conflicted with the statute.⁴³ Justice Brennan, dissenting, found the authorized use exception wholly consistent with section 526.⁴⁴ Concurring with the majority on the invalidity of the authorized use exception, Justice Scalia opined that Congress was fully aware of the possibilities pertaining to trademark transferability, thus elimi-

39. *Id.*

40. *Id.* at 1817. Justice Kennedy stated that if "the agency regulation is not in conflict with the plain language of the statute, a reviewing court must give deference to the agency's interpretation of the statute." *Id.*

41. *See id.* at 1820 (Brennan, J., concurring in part and dissenting in part). Justice Brennan cites a plethora of facts indicating that the United States has never intended to confer trademark protection on affiliates of foreign manufacturers. *Id.* Justice Brennan states that the jingoist, protectionistic flavor of § 526 bespeaks an intent, characteristic of the times, to protect only domestic interests. *Id.* Justice Brennan also contends that the legislative history supports this protectionistic interpretation. *Id.* at 1825.

42. *Id.* at 1831 (Scalia, J., concurring in part and dissenting in part). Justice Scalia attempted to attach what he thought Congress meant when they inserted the words "of foreign manufacture" into § 526. *Id.* Hence, Justice Scalia purported that foreign manufacture means manufactured abroad, not merely manufactured by a foreign company. *Id.* In addition, Justice Scalia claimed that the majority's interpretation of these pivotal words would allow the importation of goods manufactured abroad if an American company held the foreign trademark. *Id.* at 1832.

43. *Id.* at 1818.

44. *Id.* at 1828 (Brennan, J., concurring in part and dissenting in part). Justice Brennan felt § 526 was implemented when trademark law was radically different than its present status. *Id.* It was impossible to license a trademark in 1922 and any attempt to do so would result in abandonment of the trademark. *See, e.g.,* *Everett O. Fisk & Co. v. Fisk Teachers Agency*, 3 F.2d 7, 9 (8th Cir. 1924) (holding that trademark rights could not be assigned except in the sale of a business) (superceded by the Lanham Act, Pub. L. No. 87-772, 60 Stat. 443 (codified as amended at 15 U.S.C. §§ 1051-1127 (1982))). Confusion as to the scope of trademark law during this formative period made the implementation of § 526 all the more difficult. With this in mind, Justice Brennan claimed that § 526 did not unambiguously protect a United States trademark holder from gray market competition, thus making the authorized use exception a reasonable interpretation of the statute. *K Mart*, 108 S. Ct. at 1828.

nating ambiguous interpretations of section 526.⁴⁵ He asserted that the Court, therefore, should not defer to the agency's interpretation and find the "authorized use" exception contrary to the purpose of section 526.⁴⁶

This Note identifies the basic problems created by the importation of gray market goods. Next, this Note illustrates the events leading up to the enactment of section 526 and examines the circumstances surrounding the passage of the Tariff Act of 1922. It then examines the United States Customs Service's interpretations of the language of section 526 and how the courts have construed these interpretations. Finally, this Note concludes that, although certain questions pertaining to the validity of the customs regulations have been seemingly laid to rest, the Supreme Court's failure to make a comprehensive and definitive examination of the gray market in *K Mart Corp. v. Cartier, Inc.* perpetuates the problems indigenous to the clouded area known as the gray market.

I. GRAY MARKET GOODS: COMPLEX CONSIDERATIONS FOR PURCHASERS AND MERCHANTS

Gray market goods run the gamut from perfume⁴⁷ to automobiles.⁴⁸ Each year billions of dollars worth of gray market goods are imported into the United States and gray market importation seems to be on the rise.⁴⁹ Purchasers as well as merchants are affected by the voluminous tide of gray market goods and, in many cases, the repercussions of gray market importation are not immediately felt.

A. Gray Market Goods and Considerations of Quality

The gray market appears to benefit consumers by offering brand name goods at reduced prices.⁵⁰ Gray market goods, however, are often of lower

45. *K Mart*, 108 S. Ct. at 1835 (Scalia, J., concurring in part and dissenting in part).

46. *Id.* at 1833.

47. See *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416 (S.D. Fla. 1983). The court held in a memorandum opinion that authentic perfume imported without the consent of the domestic trademark holder was permissible. *Id.* at 420.

48. See *Sturges v. Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931) (superceded by the Tariff Act of 1930, 42 U.S.C. § 1526(a) (1982)). The court held that an automobile imported for personal use without the consent of the domestic trademark holder violated § 526 of the Tariff Act of 1930. *Id.* at 1039.

49. See generally Riley, *supra* note 1, at 1, col. 4 (estimates of gray market importation range from 5 to 10 billion dollars).

50. Authentic goods can, in many instances, be purchased abroad at prices much lower than comparable goods available in the United States. *Id.* These goods can then be profitably resold at prices lower than those offered by authorized distributors. *Id.* For an early example of this situation see *Apollinaris Co. v. Scherer*, 27 F. 18, 26 (C.C.D.N.Y. 1886) (permitting the importation of Hungarian Water without the consent of the domestic trademark holder).

quality than goods sold by authorized distributors.⁵¹ In many cases, gray market goods are subject to different production standards than goods marketed by authorized distributors, thus giving rise to inferior and even unsafe products.⁵² Many gray market products are accompanied by instruction manuals written entirely in a foreign language, thereby causing much confusion and dissatisfaction among consumers.⁵³ Moreover, improper product use due to unintelligible instructions can diminish the longevity of the product and may eventually result in physical injury to the consumer.⁵⁴ Purchasers of gray market goods are also plagued by the fact that numerous authorized dealers do not honor warranties on such products.⁵⁵ Often, only after a product malfunctions do gray market consumers realize that the products they purchased did not include warranties.⁵⁶ While facially attractive to the consumer, gray market goods possess many latent drawbacks that can render gray market shopping more costly than purchasing higher priced goods from authorized distributors.⁵⁷

B. Gray Market Goods and Considerations of Goodwill

Although the importation of gray market goods may cause an immediate pecuniary loss to authorized distributors, damage to the goodwill of a product can be potentially more devastating.⁵⁸ Owners of domestic trademarks spend large amounts of money in an effort to foster the goodwill of their trademarks.⁵⁹ Consumers recognize trademarks as assurances of quality and reliability. Moreover, the goodwill identified with a trademark can be a product's major selling point.⁶⁰ Due to their inferiority and variances in quality from goods that authorized dealers distribute, gray market goods can damage the goodwill that domestic dealers establish.⁶¹ Further, importers of

51. See Note, *Vivitar Corp. v. United States: Protection Against Gray Market Goods Under 19 U.S.C. Section 1526*, 60 S. CAL. L. REV. 179, 190 (1986) (illustrating various peripheral issues pertaining to gray market goods). See generally *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1169 (S.D.N.Y. 1984).

52. Note, *supra* note 51, at 190.

53. *Osawa & Co.*, 589 F. Supp. at 1169.

54. *Id.*

55. *Id.*

56. *Id.*

57. *Id.*

58. 1 J. MCCARTHY, *TRADEMARKS & UNFAIR COMPETITION* § 2.8 (1973). ("Goodwill is a business value which reflects the basic human propensity to continue doing business with a seller who has offered goods and services which the customer likes and has found adequate to fulfill his needs.").

59. Note, *supra* note 51, at 198.

60. See generally Note, *Preventing The Importation and Sale of Genuine Goods Bearing American-Owned Trademarks: Protecting an American Goodwill*, 35 ME. L. REV. 315 (1983).

61. *Osawa & Co.*, 589 F. Supp. at 1172-73.

gray market goods, unlike authorized distributors, do not have the same incentives to ensure the quality and maintenance of goods marketed.⁶² Permitting the importation of gray market goods allows foreign importers to market the product based on the goodwill of the domestic trademark holder.⁶³ The gray market, therefore, offers unjust enrichment to importers of gray market goods with potentially devastating results to holders of domestic trademarks.

Traditionally, gray market litigation involves suits brought against governmental agencies.⁶⁴ Moreover, many courts refuse to hear private actions on gray market issues, thereby limiting the relief available to the domestic trademark holder.⁶⁵ Increasing gray market importation, however, creates a need for private suits to protect the interests of the domestic trademark holder.

Gray market goods pose problems which are not immediately evident to consumers, as well as merchants.⁶⁶ The benefit obtained by consumers is illusory, at best.⁶⁷ Harm suffered by holders of domestic trademarks can also affect consumers by reducing the incentive of the domestic trademark holder to improve upon their product. These problems, combined with issues of international trade and international relations, have generated considerable legislation and litigation.

II. LEGISLATIVE REGULATION OF THE IMPORTATION OF GRAY MARKET GOODS

A. *A. Bourjois & Co. v. Katzel: Perpetuation of the Universality Theory of Trademark Law Prompting Congressional Action*

The gray market did not reach its modern era until the first quarter of the twentieth century.⁶⁸ In *A. Bourjois & Co. v. Katzel*,⁶⁹ the Second Circuit,

62. *Id.* at 1168.

63. *Id.* Some have gone so far as to claim that "[g]ray marketers are parasites who live off U.S. intellectual property owners and suck their blood." Riley, *supra* note 1, at 22, col. 1 (quoting trade specialist Steven P. Kersner).

64. Restani, *An Introduction to the Gray Market Controversy*, 13 BROOKLYN J. INT'L L. 235, 244-47 (1987).

65. The Court of International Trade lacks jurisdiction to hear private gray market litigation. See 28 U.S.C. § 1581(i) (1982). For the pertinent language of the code provision, see *infra* note 277. The Court of Appeals for the Federal Circuit has also indicated that private, gray market suits are better suited to be heard at the district court level. *Vivitar Corp. v. United States*, 761 F.2d 1552, 1570 (Fed. Cir. 1986), *cert. denied*, 474 U.S. 1055 (1986).

66. See *infra* notes 263-73 and accompanying text.

67. Note, *supra* note 51, at 198.

68. For purposes of this Note, the starting point for the modern era of the gray market will be attributed to *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923). Prior to 1922, the courts grappled with the concept of the gray market on a number of

relying primarily on the universality theory⁷⁰ and prior authority,⁷¹ adamantly refused to recognize broad protections emanating from trademark law.⁷²

In *Katzel*,⁷³ the plaintiff purchased the rights to use the trademarks and trade names of the French company, E. Wertheimer & Cie., in the United States.⁷⁴ Among these trademarks was the JAVA name, which was attributed to facial powder.⁷⁵ The defendant, Katzel, purchased the JAVA powder marketed by Wertheimer in France, and subsequently imported and sold the powder in the United States.⁷⁶ The district court granted an injunction preventing Katzel from marketing the product⁷⁷ but the Second Circuit, relying on the universality principle,⁷⁸ reversed the district court and refused to bar the importation of the powder because it was, in fact, authentic.⁷⁹ *Katzel* has been credited with prompting congressional action to protect domestic trademark holders from the influx of gray market goods.⁸⁰ The repercussions of the Tariff Act of 1922, however, have been felt for over fifty years.⁸¹ Passage of section 526 of the Tariff Act of 1922 set the stage for the

occasions. In *Apollinaris Co. v. Scherer*, 27 F. 18 (C.C.S.D.N.Y. 1886), the plaintiff contracted for rights to sell Hungarian water in the United States and Great Britain. *Id.* at 19. The defendant, however, purchased the product abroad from third parties and imported it for sale into the United States. *Id.* The court held that a trademark functions only to denote the authenticity of a product, thus upholding the sale of these goods by the defendant. *Id.* at 20; see also *Fred Gretsch Mfg. Co. v. Schoening*, 238 F. 780 (2d Cir. 1916) (upholding the importation of gray market goods and holding that the Trade Mark Act of 1905, Pub. L. No. 58-84, 33 Stat. 724, repealed by Tariff Act of 1922, Pub. L. No. 67-318, § 526(a), 42 Stat. 858, 975, only prohibited the importation of goods which are not genuine, thus permitting the importation of gray market goods because they bear an authentic trademark).

69. 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

70. See *supra* notes 7-11 and accompanying text.

71. *Katzel*, 275 F. at 540-43. The Court considered *Apollinaris*, 27 F. at 18; *Russia Cement Co. v. Frauenhar*, 133 F. 518 (2d Cir. 1904), *cert. denied*, 196 U.S. 640 (1908); and *Fred Gretsch Mfg.*, 238 F. at 780.

72. See *Katzel*, 275 F. at 543.

73. *Id.*

74. *Id.*

75. *Id.*

76. *Id.* at 540.

77. *Id.*

78. For an illustration of the universality principle, see *supra* notes 10-11 and accompanying text.

79. *Katzel*, 275 F. at 543.

80. *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811, 1815 (1988).

81. Section 526 of the Tariff Act of 1922 has been subjected to numerous interpretations by the courts. See, e.g., *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986), *cert. denied*, 108 S. Ct. 2033 (1988); *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 424 U.S. 1089 (1986); *Sturges v. Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931); *United States v. Guerlain*, 155 F. Supp. 77 (D.N.Y. 1957), *vacated*, 358 U.S. 915 (1958).

ensuing controversy over the importation of gray market goods.⁸²

B. Section 526 of the Tariff Act of 1922: Midnight Legislation with Long Term Ramifications

Congress passed section 526 of the Tariff Act of 1922 in response to the Second Circuit's holding in *Katzel* permitting the lawful importation of foreign manufactured goods bearing a trademark registered in the United States.⁸³ Commentators suggest that if the Supreme Court had overruled *Katzel* prior to the passage of the Tariff Act, Congress would have never enacted section 526.⁸⁴ The congressional records pertaining to the enactment of section 526 are sparse.⁸⁵ The legislative history that exists, however, foreshadows the confusion,⁸⁶ dissension,⁸⁷ and displeasure⁸⁸ that would subsequently surround section 526.

The route taken by section 526 to the Senate floor was probably dictated by the seemingly urgent mood set by the *Katzel* decision.⁸⁹ Rather than

82. The confusion of the participating senators was an ominous foreshadowing of the gray market conflict. See *infra* notes 85-105 and accompanying text.

83. *K Mart*, 108 S. Ct. at 1815. *Contra Vivitar*, 761 F.2d at 1561 (stating that *Katzel* was merely one reason prompting the passage of § 526).

84. Kersner & Stein, *supra* note 14, at 255. The failure to enact § 526, however, probably would have made the existence of various merchants, customs officials, lawyers, judges, and legal commentators much easier.

85. *Vivitar*, 761 F.2d 1552, 1562 (Fed. Cir. 1985).

86. 62 CONG. REC. 11,602-05 (statement of Senator McCumber) (1922). Senator McCumber was apparently confused about the scope and purpose of § 526. The Senator misunderstood the facts in *Katzel* and believed the defendant to be in breach of contract with the plaintiff. *Id.* at 11,604. He therefore believed that section 526's prohibition on the importation of goods would pertain to situations where the importation was violative of an existing contract. *Id.*

87. *Id.* at 11,604 (statement of Senator Moses). Senator Moses was opposed to enacting § 526 because "[i]t is a matter particularly of international relations bearing upon our international treaty and trademark conventions and is a proper subject for either the Committee on Foreign Relations or the Committee on Patents to discuss and consider." *Id.* at 11,602. Realizing the potential ramifications of implementing hastily thought out legislation, Senator Moses stated:

[I]f this measure is to be determined at all, if it is to be taken up by the Senate at all, it should not be taken up under conditions such as now confront the consideration of this amendment, when only a few minutes may be permitted to discuss the great constitutional and legal questions involved and when the subject matter of the whole amendment belongs properly to other committees.

Id. at 11,603.

88. *Id.* at 11,603 (statement of Senator Moses). Senator Moses thought that the application of § 526 as initially proposed would conflict with other legislation. *Id.*

89. Section 526 was hurriedly inserted into the Tariff Act of 1922. See *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811, 1823 (1988) (Brennan, J., concurring in part and dissenting in part). "The hastily drafted provision was introduced as 'a midnight amendmen(t)' on the floor of the Senate." *Id.* (quoting 62 CONG. REC. 11,602 (1922) (remarks of Senator Moses)).

waiting for the Supreme Court to overrule the decision, which it did three months later,⁹⁰ Congress inserted section 526 into the Tariff Act of 1922.⁹¹ As introduced, section 526 made it unlawful to import merchandise bearing a trademark registered in the patent and trademark office of the United States unless written consent of the trademark's owner was procured prior to the product's importation.⁹²

During the brief floor debate, however, Senator Lenroot posed the now famous "wonder flour"⁹³ hypothetical which resulted in section 526 only applying to goods of foreign manufacture, rather than to all imported goods bearing a registered United States trademark.⁹⁴ In the course of the hypothetical, Senator Lenroot queried whether section 526 would apply to a person who purchased an American produced bag of flour in Canada, and then subsequently brought the product back into the United States.⁹⁵ The obvious answer was no, and with this in mind, Senator McCumber proposed that the words "of foreign manufacture" be inserted into section 526.⁹⁶ The initial bill also lacked the provision that the trademark be owned by a "citizen of the United States or by a corporation or association created or organized within the United States."⁹⁷ When the House later discovered this oversight, they added the requirement of domesticity.⁹⁸ In its codified version, section 526 of the Tariff Act of 1922 stated:

It 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 association created or organized within the United States, and registered in the patent and trademark office . . . unless written consent of the owner of such trademark is produced at the time of making entry.⁹⁹

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

91. Ch. 356, § 526, 42 Stat. 858, 975, *superceded by* Tariff Act of 1930, ch. 497, § 526, 46 Stat. 590, 741 (codified as amended at 19 U.S.C. § 1526 (1986)).

92. 62 CONG. REC. 11,603 (1922).

93. For further discussion of Senator Lenroot's "wonder flour" hypothetical see *K Mart*, 108 S. Ct. at 1811; *Vivitar Corp. v. United States*, 761 F.2d 1552, 1563 (1985), *cert. denied*, 424 U.S. 1985 (1986); Kersner & Stein, *supra* note 14, at 259.

94. 62 CONG. REC. 11,603 (1922) (statement of Senator Lenroot).

95. *Id.*

96. *Id.*

97. Compare *id.* at 11,602-05 with H.R. REP. NO. 1223, 67th Cong., 2d Sess. 158 (1922) (The initial bill did not contain the requirement that the trademark holder be a United States citizen.).

98. H.R. REP. NO. 1223, 67th Cong., 2d Sess. 158 (1922).

99. The current version is codified at 19 U.S.C. § 1526(a) (1982).

Although the floor debate lasted only ten minutes,¹⁰⁰ it demonstrated the unsettled scope of section 526. Senator Sutherland believed the bill would function only to prevent fraud.¹⁰¹ Senator McCumber, on the other hand, viewed the bill as a remedy to the harms that American manufacturers suffered resulting from the universality theory of trademark law.¹⁰² The legislative history of section 526 has been described as a convoluted mess that offers no palpable explanation of the act.¹⁰³ Others described the legislative history as conferring absolute and unqualified property rights upon holders of American trademarks.¹⁰⁴ The floor debate illustrated the confusion over the scope and purpose of section 526. The brief debate and Senator McCumber's proposals, however, failed to clarify its purpose, causing the Customs Service and the courts to reach conflicting interpretations of section 526.¹⁰⁵

C. Interpretations of Section 526 by the United States Customs Service

The Tariff Act of 1930¹⁰⁶ reenacted section 526 of the 1922 Tariff Act without revision.¹⁰⁷ Beginning in 1923, the United States Department of Treasury issued Customs Service regulations as a method of enforcing sec-

100. *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811, 1823 (1988) (Brennan, J., concurring in part and dissenting in part).

101. 62 CONG. REC. 11,603 (1922). Circuit Judge Silberman, in *COPIAT II*, makes an interesting observation in regard to Senator Sutherland's comments during the floor debate. 790 F.2d 903, 911 (D.C. Cir. 1986), *aff'd in part and rev'd in part sub nom. K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811 (1988). Senator Sutherland, upon being informed that an American product purchased in Canada and then brought back into the United States would be illegal, exclaimed "and it ought to be." *Id.* Judge Silberman claimed that this revealed a broader goal than articulated by Senator Sutherland, and his stated goal of merely eradicating fraud should be taken with a "grain of salt." *Id.*

102. 62 CONG. REC. 11,604 (1922) (statement of Senator McCumber). Senator McCumber gave an illustration dealing with an American company which purchased the patent and trademark rights of Bayer aspirin from a German company. Senator McCumber stated that the American trademark holder would have a remedy against subsequent importation of Bayer aspirin due to the protections of patent law. *Id.* If the patent expired, however, the trademark would offer no protection to such importation. *Id.* Senator McCumber claimed that: "American purchasers of these rights are entirely unprotected, and this [bill] is to give the opportunity to protect the American purchaser [of the trademark]. That is all there is to it and there is no treaty against it." *Id.*

103. *See Vivitar Corp. v. United States*, 761 F.2d 1552, 1563 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1065 (1986). The court, in *Vivitar*, could not identify limitations on the provisions as a result of the unclear congressional intent. *Id.* at 1565.

104. *See COPIAT II*, 790 F.2d at 910. The court did concede, however, that the debate did not "unequivocally resolve all questions about the scope of section 526." *Id.* at 912.

105. *Compare id.*, (stating that § 526 did not contain implied exceptions) with *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1985), *cert. denied*, 108 S. Ct. 2033 (1988) (holding that the exceptions promulgated by the Customs Service were reasonable).

106. Ch. 497, 46 Stat. 590 (codified at 19 U.S.C. § 1526 (1986)).

107. *Id.* § 526, 46 Stat. at 741. *Compare id.* with Tariff Act of 1922, ch. 356, § 526, 42 Stat. 858, 975 (reenacted by the Tariff Act of 1930).

tion 526.¹⁰⁸ Originally, the content of the regulations and section 526 were identical.¹⁰⁹ Between 1936 and 1972, however, the Customs Service promulgated exceptions to the literal wording of section 526.¹¹⁰ Some commentators have suggested that the constant vacillation by the Customs Service on these exceptions caused the Customs Service to interpret its own regulations in an inconsistent manner.¹¹¹

The first Customs Service regulations were issued almost contemporaneously with the passage of section 526.¹¹² The 1923 regulations merely restated section 526's ban on the importation of foreign goods bearing a trademark registered in the United States.¹¹³ Due to the reenactment of section 526 in the Tariff Act of 1930, the Customs Service again issued regulations identical to the wording of section 526.¹¹⁴ In 1936, the Treasury Department promulgated regulations deviating from the literal wording of section 526.¹¹⁵ Goods possessing both a foreign and domestic trademark could be imported if both trademarks were owned by the same person, partnership, association or corporation.¹¹⁶ In 1953, the Customs Service expanded this "same company" exception to incorporate an exception for companies that were in some way related.¹¹⁷ In 1959, the Customs Service deleted the related company exception¹¹⁸ and the regulations stood as they had in 1936.

In 1972, the Customs Service issued the current set of regulations to codify the exceptions to the ban on gray market importation.¹¹⁹ The 1972 regulations again permitted the importation of foreign goods bearing trademarks registered in the United States if the foreign company and the domestic

108. Kersner & Stein, *supra* note 14, at 253.

109. See *infra* notes 111-13 and accompanying text.

110. See T.D. 48,537, 70 Treas. Dec. 336 (1936) (adding the same company exception); see also T.D. 53,399, 88 Treas. Dec. 383-84 (1953) (expanding the same company exception to include related companies).

111. Note, *The Gray Market Case: Trademark Rights and Consumer Interests*, 61 NOTRE DAME L. REV. 838, 842 (1986); see also Note, *supra* note 11, at 101.

112. Kersner & Stein, *supra* note 14, at 261.

113. Cust. Reg. art. 476 (1923) (stating that "trademarks owned by an American citizen or by a corporation or association created or organized within the United States are entitled to the protection of section 526 of the Tariff Act of 1922 if the mark has been registered within the United States by a person . . . domiciled within the United States. . .").

114. Cust. Reg. art. 517 (1931).

115. T.D. 48,537, 70 Treas. Dec. 336 (1936).

116. *Id.*

117. See T.D. 53,399, 88 Treas. Dec. 383-84 (1953), amended by T.D. 54,932, 94 Treas. Dec. 433-34 (1959). (The regulation stated that the term "related company pertained to any person, partnership association, or corporation which legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality").

118. See T.D. 54,932, 94 Treas. Dec. 433-34 (1959).

119. 19 C.F.R. § 133.21 (1988); see *supra* note 19.

trademark holder were the same company, in a parent-subsidiary relationship or under common ownership or control.¹²⁰ Moreover, these regulations allowed importation of goods manufactured abroad bearing a registered United States trademark authorized by the domestic trademark holder.¹²¹

The Customs Service, in issuing these exceptions to the ban on gray market importation, continued to deviate from the literal language of section 526.¹²² As a result of challenges to these exceptions, the courts were called upon to determine the validity of the Customs Service regulations culminating in the Supreme Court's decision in *K Mart Corp. v. Cartier, Inc.*¹²³

III. JUDICIAL INTERPRETATIONS OF SECTION 526 AND ATTEMPTS TO JUSTIFY THE GRAY MARKET EXCEPTIONS PROMULGATED BY THE CUSTOMS SERVICE

A. Pre-1972 Litigation

Before the customs regulations created exceptions to section 526 of the Tariff Act of 1930, the statute was narrowly interpreted in *Sturges v. Clark D. Pease, Inc.*¹²⁴ The Court of Appeals for the Second Circuit examined section 526 to determine if it barred importation of automobiles for personal use.¹²⁵ The plaintiff purchased a used Hispano-Suiza automobile in France and attempted to import it into the United States.¹²⁶ The car bore the H-S trademark registered domestically to Clark D. Pease, Inc., of New York.¹²⁷ Judge Augustus Hand, writing for the court, stated that section 526 was not limited to facts analogous to *Katzel*.¹²⁸ He stated, however, that although section 526 was a reaction to *Katzel*, that fact alone did not settle the scope of the Tariff Act of 1930.¹²⁹ Reading section 526 literally, the court barred the importation of the automobile even though it was not intended to be

120. 19 C.F.R. § 133.21(c) (1), (2).

121. *Id.* § (c) (3).

122. Compare T.D. 53,399, 88 Treas. Dec. 383 (1953); T.D. 54,932, 94 Treas. Dec. 433 (1959); T.D. 48,537, 70 Treas. Dec. 336 (1936) (exceptions to the ban on gray market goods) with Tariff Act of 1930, 19 U.S.C. § 1526 (1986) (literal wording of section).

123. 108 S. Ct. 1811 (1988).

124. 48 F.2d 1035 (2d Cir. 1931).

125. *Id.* at 1036.

126. *Id.*

127. *Id.*

128. *Id.* at 1037. See *supra* text accompanying notes 72-79. Counsel for the plaintiff in *Sturges* argued that the term merchandise, under §§ 141, 142 and 143 of chapter 3, title 19 of the United States Code only applied to goods intended for sale. *Id.* at 1036-37. Judge Hand replied that a resale would be possible, thus interfering with the "right to control the use of the mark in this country which was the apparent purpose of the congressional legislation." *Id.* at 1037.

129. *Id.* at 1037.

resold.¹³⁰ The *Sturges* case signifies that, prior to the issuance of the Customs Service's exceptions, the courts interpreted section 526 as a total ban on the importation of gray market goods.

United States v. Guerlain, Inc.,¹³¹ a case brought on anti-trust grounds, involved a French company and three American associate companies that distributed trademarked toiletries.¹³² The French company granted to its American associates the exclusive right to distribute Guerlain products in the United States¹³³ and the Guerlain trademark was subsequently registered in the United States.¹³⁴ The government, however, claimed that the defendant's invocation of section 526 to prevent importation of Guerlain goods by third parties violated section 2 of the Sherman Antitrust Act.¹³⁵ The suit alleged that such use of section 526 constituted an attempt to monopolize the sale of trademarked products within the United States.¹³⁶ The court determined that an American company that is part of a single international enterprise is offered no protection under section 526 from the importation of goods that the foreign parent company sold abroad.¹³⁷ In arriving at this conclusion, the court viewed previous gray market decisions¹³⁸ and the legislative history of section 526¹³⁹ as indicative of an intent to protect American manufacturers who dealt at arms length with foreign companies, not those who were part of an international business conglomerate.¹⁴⁰

The *Guerlain* court ultimately approved the prevailing Customs Service regulations recognizing the related company exception to section 526's ban on gray market importation.¹⁴¹ The court, however, based its decision pri-

130. *Id.* at 1037-38.

131. 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated*, 358 U.S. 915 (1958).

132. *Id.* at 79.

133. *Id.*

134. *Id.*

135. 15 U.S.C. § 2 (1982).

136. *Guerlain*, 155 F. Supp. at 79.

137. *Id.* at 82-83.

138. The court examined the reasoning and rationale behind *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923); *Fred Gretsch Mfg. Co. v. Schoening*, 238 F. 780 (2d Cir. 1916) (superceded by the Tariff Act of 1930, 42 U.S.C. § 1326(a) (1982)); and *Apollinaris v. Scherer*, 27 F. 18 (C.C.S.D.N.Y. 1886).

139. *Guerlain*, 155 F. Supp. at 81. The court reviewed the brief legislative history of § 526 and concluded that "[n]evertheless, it appears from that debate that the purpose of the section was to protect the rights of Americans who bought foreign trademarks and that it was aimed at the *Katzel* decision in the Court of Appeals" *Id.*

140. *Id.* at 91. The issue in *Guerlain* was not settled, however, because appeal was taken to the Supreme Court. 358 U.S. 915 (1958). The government subsequently made a motion to vacate claiming that a motion to dismiss would be filed in the district court. *Id.* The Customs Service, however, viewed the lower court ruling in regard to § 526 as controlling. *Id.*; *Kersner & Stein*, *supra* note 14, at 269.

141. 155 F. Supp. at 80.

marily on antitrust grounds, limiting the persuasiveness of its examination and approval of the related company exception.¹⁴² *Guerlain* has been credited as the impetus for the Customs Service's promulgation of the 1972 regulations.¹⁴³ The court's approval of the regulations in a case primarily concerned with violations of antitrust law perpetuated the tension between the Customs Service regulations and section 526 of the Tariff Act of 1930.

*B. Vivitar Corp. v. United States and Olympus Corp. v. United States:
Picture Perfect Illustrations of the Conflict Between Customs
Service Regulations 19 C.F.R. § 133.21(c)(1), (c)(2),
(c)(3) and Section 526 of the Tariff
Act of 1930*

After *Guerlain*, over a quarter of a century passed before the gray market issue was the subject of major litigation.¹⁴⁴ *Vivitar Corp. v. United States*¹⁴⁵ and *Olympus Corp. v. United States*¹⁴⁶ illustrate the diverse problems in the gray market while indicating that interpretation of the Customs Service regulations remained unsettled.

In *Vivitar*, the plaintiff, a California corporation, challenged the 1972 Customs Service regulations as contrary to section 526 of the Tariff Act of 1930.¹⁴⁷ Vivitar Corporation, a worldwide distributor of photographic equipment, registered the Vivitar trademark in the United States in 1966.¹⁴⁸ Vivitar asserted that authentic Vivitar products were being purchased abroad and imported without Vivitar's consent, thus undercutting the com-

142. The court viewed the dispute as whether it would be a violation of antitrust law for an unauthorized manufacturer to exclude imported goods by attempting to invoke section 526 of the Tariff Act of 1930. *Id.*

143. *COPIAT I*, 598 F. Supp. 840, 849 (1984), *aff'd in part and rev'd in part*, *COPIAT II*, 790 F.2d 903 (1986), *aff'd in part and rev'd in part sub nom.*, *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811 (1988).

144. For a foreshadowing of the gray market litigation that would occur in the mid 1980's, see *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 548 F. Supp. 1063 (E.D.N.Y. 1983), *vacated*, 719 F.2d 42 (2d Cir. 1983). In *Mamiya*, the plaintiff claimed that § 32 of the Lanham Trademark Act of 1946 barred the importation of authentic, foreign manufactured goods that the plaintiff had exclusive rights to market and distribute in the United States. *Id.* at 1065. The defendant alleged that the Mamiya company and another company, Osawa of Japan, were actually doing business worldwide. *Id.* at 1068. The court, however, found that the supposedly controlling corporation owned only seven percent of the company's stock, thus, the common control exception was not applicable. *Id.* at 1079. Subsequently, the court of appeals vacated the district court injunction against Masel Supply Co. because the plaintiff failed to prove damages sufficient to justify a preliminary injunction. 719 F.2d at 42.

145. 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986).

146. 792 F.2d 315 (2d Cir. 1986), *cert. denied*, 108 S. Ct. 2033 (1988).

147. 761 F.2d at 1555.

148. *Id.* at 1556.

pany's United States sales.¹⁴⁹ Moreover, Vivitar alleged that its goodwill was at stake and that unauthorized sales of Vivitar products would be detrimental to the reputation of the company.¹⁵⁰

Vivitar originally sued in the United States Court of International Trade,¹⁵¹ which subsequently upheld the customs regulations.¹⁵² On appeal, the United States Court of Appeals for the Federal Circuit explored whether section 526 provided an American company holding a United States trademark with an absolute right to demand that the Customs Service bar the unauthorized importation of goods bearing a trademark registered in the United States.¹⁵³ The court examined the unique circumstances surrounding the enactment of section 526 and determined that the statute did not require the Customs Service to exclude all gray market goods.¹⁵⁴ Although upholding the validity of the customs regulations, the court indicated that the regulations did not control the scope and protection of section 526.¹⁵⁵ In doing so, the *Vivitar* court shied away from a definitive ruling on the scope of section 526,¹⁵⁶ thereby suggesting that this battle would best be fought at the district court level.¹⁵⁷ Rather than thrusting themselves into the midst of the problem, the *Vivitar* court left the determination of the limits of section 526 to future courts.¹⁵⁸

In *Olympus*, the plaintiff, a wholly owned subsidiary of Olympus Optomia Company of Japan, sought declaratory and injunctive relief against the enforcement of the authorized use exception promulgated by the Customs Service.¹⁵⁹ K Mart and 47th Street Photo imported and offered for sale, at reduced prices, authentic Olympus products¹⁶⁰ obtained via the gray mar-

149. *Id.*

150. *Id.*

151. *Vivitar Corp. v. United States*, 585 F. Supp. 1419 (Ct. Int'l Trade 1984), *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986). Judge Restani found that the court had jurisdiction to hear the case under 28 U.S.C. § 1581(i)(3), (4) (1982), because the case was a dispute arising out of the laws of international trade. *Id.* at 1427.

152. *Id.* at 1420.

153. *Vivitar*, 761 F.2d at 1552.

154. *Id.* at 1569-70.

155. *Id.* at 1570.

156. See Note, *supra* note 51, at 190.

157. 761 F.2d at 1572 (Davis, J., concurring).

158. See Note, *supra* note 51, at 190.

159. *Olympus Corp. v. United States*, 627 F. Supp. 911 (S.D.N.Y.), *aff'd*, 792 F.2d 315 (2d Cir. 1986).

160. Besides electronic products the gray market has a range of goods analogous to the "regular" trade markets. Items available on the gray market range from cosmetics to automobiles. See Comment, *Olympus Corp. v. United States: The Second Circuit Comes Full Circle on Trademark Law: Allowing The Gray Market to Thrive on Ultra Vires Customs Regulations*, 13 BROOKLYN J. INT'L L. 337 (1987); see also *supra* notes 47-48 and accompanying text.

ket.¹⁶¹ Olympus argued that section 526 should be read literally and that the authorized use exception was inconsistent with the plain language of section 526.¹⁶² Appeal to the Second Circuit was taken from the United States District Court for the Eastern District of New York to determine the validity of the customs regulations.¹⁶³ The Second Circuit found that the regulations the Customs Service had promulgated were consistent with the Tariff Act of 1930.¹⁶⁴ Rather than upholding the customs regulations based on a literal reading of the statute, the court instead extracted from the statute's brief legislative history the congressional intent to allow exceptions to the ban on gray market importation.¹⁶⁵ The court thus determined that this intent, coupled with Congressional acquiescence, supported the regulations.¹⁶⁶

Vivitar and *Olympus* illustrate a renewed judicial reluctance to question the validity and limits of the Customs Service regulations.¹⁶⁷ *Vivitar* has been credited with destroying the barrier that the legislative and administrative history erected barring related corporations from the protections of section 526.¹⁶⁸ Since 1936, the courts have attempted to rectify the tension¹⁶⁹ between the literal wording of section 526¹⁷⁰ and the exceptions to the ban on gray market imports promulgated by the Customs Service.¹⁷¹

Once the opinions upholding the customs regulations are examined, however, it becomes clear that each opinion failed to adequately justify the regulations. The *Guerlain* court approached the problem from an antitrust point of view,¹⁷² thus offering superficial support for the Customs Service regulations. The *Vivitar* court upheld the 1972 regulations,¹⁷³ but indicated that they were not determinative and were open to further examination.¹⁷⁴ The

161. *Olympus*, 627 F. Supp. at 913.

162. *Id.* at 913-14.

163. *Olympus*, 792 F.2d at 316.

164. *Id.* at 320.

165. *Id.* at 321. Judge Oakes, however, espouses what is ultimately the point of this Note by stating that "in light of the long acceptance of the regulations, change is a matter for the legislative or executive branch and not the judiciary." *Id.*

166. *Id.*

167. Note, *supra* note 51, at 190.

168. *Id.* at 185.

169. Judicial attempts at quelling the fires of the gray market include *United States v. Guerlain*, 155 F. Supp. 77 (D.N.Y. 1957), *vacated* 358 U.S. 915 (1958); *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1085 (1988); *Olympus*, 792 F.2d at 315.

170. 15 U.S.C. § 1526; *see also supra* note 12.

171. 19 C.F.R. § 133.21(c) (1)-(3).

172. *Guerlain*, 155 F. Supp. at 80-83.

173. 19 C.F.R. § 133.21(c) (1)-(3).

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

Olympus court also upheld the 1972 regulations,¹⁷⁵ but failed to identify convincing justifications for the Customs Service exceptions to the ban on gray market importation. Thus, prior to *K Mart Corp. v. Cartier, Inc.*,¹⁷⁶ the gray market exceptions that the Customs Service had promulgated stood virtually unscathed, but essentially unjustified.

IV. *K MART CORP. V. CARTIER, INC.*: THE CONTINUATION OF FIFTY YEARS OF UNCERTAINTY

In *K Mart Corp. v. Cartier, Inc.*,¹⁷⁷ the Supreme Court explored for the first time the validity of the 1972 Customs Service exceptions to the ban on gray market goods.¹⁷⁸ Writing for the Court, Justice Kennedy found the common control exceptions to be consistent with section 526 of the Tariff Act of 1930, and thus valid.¹⁷⁹ As to the authorized use exception, Justice Kennedy, writing for a different majority,¹⁸⁰ held this exception to be inconsistent with section 526 of the Tariff Act of 1930.¹⁸¹

A. *The Common Control Exceptions*

1. *Justice Kennedy: A cursory examination of an Ambiguous Statute*

Justice Kennedy's terse opinion¹⁸² upheld the customs regulations allowing the importation of foreign manufactured goods bearing a trademark registered in the United States where the foreign and domestic trademark holders were subject to common control.¹⁸³ He based his conclusion purely on grounds of statutory interpretation.¹⁸⁴ Justice Kennedy stated that if a regulation is consistent with the original statute, the Court must defer to an

175. *Olympus Corp. v. United States*, 792 F.2d 315 (2d. Cir. 1986), *cert. denied*, 108 S. Ct. 2033 (1988).

176. 108 S. Ct. 1811 (1988).

177. *Id.*

178. The common control, same company, and authorized use exceptions are codified in 19 C.F.R. § 133.21(c) (1)-(3).

179. *K Mart*, 108 S. Ct. at 1817. In this part of the opinion, Justice Kennedy was joined by Justice White. Justice Brennan, joined by Justices Marshall and Stevens, concurred in a separate opinion. Justice Scalia, joined by Chief Justice Rehnquist and Justices Blackmun and O'Connor, dissented from this part of the majority opinion.

180. *Id.* at 1818. Chief Justice Rehnquist and Justices Scalia, Blackmun, O'Connor, and Stevens joined Justice Kennedy in a separate opinion invalidating the authorized use exception.

181. *Id.* at 1819.

182. Justice Kennedy utilized less than six pages in wading through over 50 years of case law and interpretations of § 526. *Id.* at 1814-19.

183. *Id.* at 1819.

184. *Id.* at 1817-18.

agency's interpretation, and render that interpretation valid.¹⁸⁵ The courts, obviously, may not alter the unambiguously expressed intent of Congress.¹⁸⁶ Realizing that the Court was not blessed with interpreting an unambiguous statute, however, Justice Kennedy explored whether the Customs Service's interpretation of section 526 was permissible.¹⁸⁷

In Justice Kennedy's view, section 526 was ambiguous about actual ownership of a United States trademark when the domestic trademark holder is closely related to a foreign company.¹⁸⁸ Justice Kennedy also found the phrase "of foreign manufacture" equally ambiguous.¹⁸⁹ According to Justice Kennedy, this phrase could be interpreted as meaning "(1) goods manufactured in a foreign country, (2) goods manufactured by a foreign company or (3) goods manufactured in a foreign country by a foreign company."¹⁹⁰ Emphasizing the imprecision prevalent in the statute, Justice Kennedy stated that it would be reasonable for the Customs Service to assert that "goods manufactured by a foreign subsidiary or division of a domestic company," are not goods which are deemed to be of foreign manufacture, and therefore not protected by section 526.¹⁹¹

2. *Justice Brennan's Concurrence: More Depth but Still Inadequate*

In his concurring opinion, Justice Brennan agreed with the majority that the common control exceptions were consistent with section 526, but he reached that conclusion through a radically different analysis from that employed by Justice Kennedy.¹⁹² Justice Brennan agreed that courts should defer to an agency's interpretation which did not conflict with the statute.¹⁹³ Rather than simply agreeing with the majority's facial statutory interpretation, however, Justice Brennan examined the congressional history to uphold the interpretation promulgated by the Customs Service.¹⁹⁴

The sole purpose of section 526, in Justice Brennan's view, was to overrule the *Katzel* decision.¹⁹⁵ Justice Brennan asserted that Congress intended section 526 to apply to *Katzel*-type situations; situations in which an independent American company purchased trademark rights from a foreign

185. *Id.* at 1817.

186. *Id.*

187. *Id.* at 1817-18.

188. *Id.* at 1817.

189. *Id.*

190. *Id.* at 1818.

191. *Id.*

192. *Id.* at 1819 (Brennan, J., concurring in part and dissenting in part).

193. *Id.* at 1821-23.

194. *Id.*

195. *Id.* at 1824.

manufacturer.¹⁹⁶ Any intent concerning the applicability of section 526 to affiliates of foreign manufacturers reflected an intent to exclude such manufacturers from the protections of section 526.¹⁹⁷ Justice Brennan supported this reasoning by contending that the authors of section 526 realized that an independent domestic business would not possess the same remedies to rectify gray market importation problems that a subsidiary company does.¹⁹⁸ In his view, the differences between an independent business and a related business might have prompted Congress to exclude an affiliated company from the protections of section 526.¹⁹⁹

Justice Brennan also viewed the infamous floor debate as evincing congressional intent to exclude foreign affiliates from the protections of section 526.²⁰⁰ Justice Brennan noted that Senator Lenroot posed the question of section 526's applicability to foreign firms with subsidiaries in the United States.²⁰¹ The response of Senator McCumber,²⁰² in Justice Brennan's view, indicates that section 526 would only apply where there had been a transfer at arms length by an exclusively American firm.²⁰³

Justice Brennan also attested to the validity of the common control exceptions because of the Customs Service's promulgation and long-standing use of such exceptions.²⁰⁴ Tracing the common control exceptions from their genesis in 1936²⁰⁵ to the most recent codification,²⁰⁶ Justice Brennan emphasized that the exceptions had been an accepted practice for the better part of fifty years.²⁰⁷ In upholding the validity of the exceptions, Justice Brennan reiterated the age-old premise that section 526 is not a flat ban on all gray

196. *Id.*

197. *Id.* at 1830.

198. *Id.* Justice Brennan maintained that independent companies, unlike affiliated companies, usually will lose all of the benefits obtained from the trademark which they purchased when severe parallel importation occurs. *Id.* Justice Brennan stated further that if gray market goods were actually detrimental to the American arm of a multinational affiliate, an agreement could be reached within the affiliation to curb the gray market importation, a remedy unavailable to an independent purchaser of a foreign trademark. *Id.*

199. *Id.*

200. *See id.* at 1824-27.

201. *Id.*

202. 62 CONG. REC. 11,603-05 (1922).

203. *K Mart*, 108 S. Ct. at 1823 (Brennan, J., concurring in part and dissenting in part). Justice Brennan acknowledged that the floor debate constantly referred to a foreign company's agent, not a subsidiary. Justice Brennan stated that "even if both Senators meant subsidiary when they used the word 'agent,' Senator McCumber's answer squarely negated any suggestion that § 526 would apply" *Id.*

204. *Id.* at 1827.

205. T.D. 48,577, 70 Treas. Dec. 336 (1936).

206. T.D. 72, 266, 6 Cust. Bull. 550 (1972); 19 C.F.R. § 133.21(c)(1), (2).

207. *K Mart*, 108 S. Ct. at 1828 (Brennan, J., concurring in part and dissenting in part).

market goods.²⁰⁸ As an alternative argument, he proposed that even if his interpretation is incorrect, it is at least reasonable, therefore making the common control exceptions valid.²⁰⁹

3. *Justice Scalia's Dissent: An Unambiguous Statute Yielding Unambiguous Results*

Disagreeing with the majority over the validity of the common control exceptions, Justice Scalia questioned the majority's reading of the statute as ambiguous.²¹⁰ Justice Scalia read the statute as clear in determining whether a parent company or a domestic subsidiary actually owned a particular trademark.²¹¹ A parent company may, or may not, own the assets of a subsidiary, but a trademark registered and owned by a United States corporation could not be said to be owned by "anyone other than a United States corporation."²¹² Justice Scalia also viewed the phrase "of foreign manufacture" as equally unambiguous.²¹³ If the phrase is read in the proper context, it can only be understood to refer to goods manufactured abroad.²¹⁴

The majority's interpretation was extraordinary to Justice Scalia, not because it was illogical, but because it would eliminate the protection offered to the "prototypical gray market victim."²¹⁵ As the majority read the statute, an American firm, which purchased the rights to use a foreign company's trademark in the United States, would not be able to bar the importation of goods produced by another American company possessing foreign rights to that same trademark because the goods would not be "of foreign manufacture."²¹⁶ Justice Scalia viewed the majority's attempt to save the regulation as promoting results antithetical to the basis of the statute.²¹⁷ Justice Scalia

208. *Id.* at 1827.

209. *Id.* at 1826-27.

210. *Id.* at 1831 (Scalia, J., concurring in part and dissenting in part).

211. *Id.*

212. *Id.*

213. *Id.* at 1831-32.

214. *Id.* at 1832. Justice Scalia stated:

Words, like syllables, acquire meaning not in isolation but within their context. While looking up the separate word "foreign" in a dictionary might produce the reading the majority suggests, that approach would also interpret the phrase "I have a foreign object in my eye" as referring, perhaps to something from Italy. The phrase "of foreign manufacture" is a common usage, well understood to mean manufactured abroad.

Id. at 1831.

215. *Id.* at 1832. The prototypical gray market victim is usually a domestic firm that purchases, at arms length, the right to use and market a trademark from an autonomous foreign company. See *id.* at 1814 (Kennedy, J., majority opinion).

216. *Id.* at 1832 (Scalia, J., concurring in part and dissenting in part).

217. *Id.*

also contended that even the Customs Service only intended the regulations to encompass foreign-made goods.²¹⁸

Justice Scalia concluded that the common control exceptions were an impermissible construction of section 526.²¹⁹ Further revealing the insufficiency of the regulations, Justice Scalia pointed out that the current regulations do not contain an effective enforcement mechanism.²²⁰ If the government did not intend the results reached by the Court, then the Customs Service should amend the regulations or create a viable means of enforcement.²²¹ Justice Scalia acknowledged that courts routinely defer to agency interpretations due to the expertise which the agency's possess.²²² It would burden the agency with a Sisyphean task, however, to require it to utilize an interpretation that it never envisioned.²²³

B. The Authorized Use Exception

1. Justice Kennedy: Continued Superficiality

Writing for the majority in regard to the authorized use exception, Justice Kennedy briefly stated that the regulation could not be squared with the literal wording of section 526.²²⁴ The authorized use exception allows the importation of gray market goods when the domestic trademark owner has authorized a foreign company to use its trademark abroad.²²⁵ Justice Kennedy viewed this exception as directly conflicting with section 526.²²⁶ Justice Kennedy did not expound on his reasoning, he merely stated that the authorized use exception is in "conflict with the unequivocal language of the statute."²²⁷

218. *Id.* at 1832-33. Justice Scalia asserted that in the government's petition for writ of certiorari, the government claimed that § 526 dealt only with "goods manufactured abroad." *Id.*

219. *Id.* at 1833.

220. *Id.*

221. *Id.*

222. *See id.*

223. *See id.*

224. *Id.* at 1814 (Kennedy, J., majority opinion).

225. 19 C.F.R. § 133.21(c) (3); *see also supra* note 19.

226. *K Mart*, 108 S. Ct. at 1818.

227. *Id.* at 1819. Justice Kennedy stated in a rather conclusory fashion that "[u]nder no reasonable construction of the statutory language can goods made in a foreign country by an independent foreign manufacturer be removed from the purview of the statute." *Id.* at 1818-19.

2. *Justice Brennan's Dissent: Continued Ambiguity*

In his dissent,²²⁸ Justice Brennan determined the authorized use exception to be consistent with section 526.²²⁹ Noting the uncertainty surrounding trademark law when Congress enacted section 526,²³⁰ Justice Brennan opined that section 526 did not unambiguously protect a company that authorized the use of its trademark abroad from the importation of gray market goods.²³¹ Having found the statute ambiguous, Justice Brennan sought to ascertain whether the interpretation of the Customs Service was worthy of judicial deference.²³² Justice Brennan explored the differences between the prototypical gray market victim and a victim of the authorized use exception.²³³ In his view, a company that authorizes the use of its trademark has less at stake than a typical purchaser of a foreign trademark.²³⁴ Moreover, a company that authorizes the trademark's use has more control over the trademark than one who has purchased rights to the trademark.²³⁵ Justice Brennan viewed the authorizing company as being able to refuse to license the use of their trademark, thus eliminating the possibility of becoming embroiled in a gray market imbroglio.²³⁶ Further buttressing his opinion, Justice Brennan stated that the Treasury Department, since 1951, has refused to protect manufacturers who have authorized the use of their trademarks abroad.²³⁷

3. *Justice Scalia's Concurrence: A Vituperative Retort to Justice Brennan's Dissent*

While concurring with the majority that the authorized use exception was wholly inconsistent with section 526, Justice Scalia leveled a blast at the logic Justice Brennan employed in his dissent.²³⁸ Justice Scalia argued that

228. Dissenting, Justice Brennan was joined by Justices Marshall, and Stevens, and joined in part by Justice White.

229. *Id.* at 1828 (Brennan J., concurring in part and dissenting in part).

230. *Id.* at 1828-29. Justice Brennan revealed that there was much disagreement as to whether a trademark holder could authorize a third party to use its trademark. *Id.* at 1828. With this fact in mind, Justice Brennan asserted that Congress failed to address the authorized use issue any more clearly than it addressed other gray market issues. *Id.* at 1829. The regulation promulgated by the Customs Service, therefore, cannot be in clear conflict with an ambiguous statute. *Id.* at 1830-31.

231. *Id.* at 1828.

232. *Id.* at 1829-30.

233. *Id.* at 1830.

234. *Id.*

235. *Id.*

236. *Id.*

237. *Id.* 1830-31.

238. *Id.* at 1833-34 (Scalia, J., concurring in part and dissenting in part).

the statute was not ambiguous because, when Congress enacted section 526, trademark law recognized that trademarks could be bought or licensed.²³⁹ With this fact in hand, Justice Scalia asserted that Congress did appreciate the possibility of transferability and chose not to allow the importation of this type of gray market good.²⁴⁰ Justice Scalia also claimed that Justice Brennan sanctioned the power to rewrite the United States Code in order to effectuate the unenacted purposes of Congress.²⁴¹ This, however, would require much extrapolation and would not achieve the results that Congress had envisioned in formulating the statute.²⁴²

Justice Scalia could only justify disregarding the plain application of a statute when "(1) it is clear that the alleged changed circumstances were unknown to, and unenvisioned by, the enacting legislature, and (2) it is clear that they cause the challenged application of the statute to exceed its original purpose."²⁴³ In Justice Scalia's view, none of these requirements were met, thus rendering Justice Brennan's theory erroneous and warranting the majority's invalidation of the authorized use exception to the ban on the importation of gray market goods.²⁴⁴

4. *A Melange of Opinions Leaving Many Questions Unanswered*

The Court, in constructing the methodology of the opinion, locked itself into an analysis of typical gray market situations.²⁴⁵ Questions remain, however, about unanticipated situations. If the domestic subsidiary of a corporation becomes larger than its foreign parent, it will then become the center of operations.²⁴⁶ This would be, in effect, an American firm that purchased the trademark of a foreign manufacturer.²⁴⁷ Moreover, by failing to explore the possibilities beyond the typical gray market scenarios, the Court left many gray market questions open to further litigation.

Commentators speculated that the Supreme Court, in *K Mart*, would allow the merits of the case to influence the decision.²⁴⁸ The Court, however, failed to fulfill the prophecy, and by focusing narrowly on the validity of the

239. *Id.* at 1835.

240. *Id.*

241. *Id.* at 1834.

242. *Id.* at 1834-35.

243. *Id.* at 1835.

244. *Id.* at 1836.

245. Palladino, *supra* note 1, at 19, col. 1.

246. *Id.*

247. *See id.*

248. Hensen, *Gray Market Goods: A Lighter Shade of Black*, 13 BROOKLYN J. INT'L L. 249, 256 (1987). In cases where straightforward, statutory analysis is employed, the end result can often conflict with the legislative intent. *Id.* at 256 n.28.

customs regulations pertaining to section 526, the ambiguity and confusion prevalent in the gray market remains untouched.

V. *K MART*: A FAILURE TO RESOLVE THE DIVERSE PROBLEMS
CAUSED BY GRAY MARKET IMPORTATION

Prior to *K Mart*, commentators expressed the view that only a Supreme Court decision would alter the Customs Service regulations.²⁴⁹ Neither Congress nor the executive branch were enthusiastic²⁵⁰ about the prospect of grappling with the gray market, and individual suits at the federal district court level proved ineffective in establishing consistency within the gray market.²⁵¹ The Supreme Court in *K Mart* was burdened with the task that many courts have failed to carry out, the issuance of a definitive ruling on the validity of the exceptions to section 526 that the Customs Service had promulgated.

A. *K Mart*: *Superficial Support for the Common Control Exceptions, Invalidation of the Authorized Use Exception, and the Effect on the Importation of Gray Market Goods*

1. *The Common Control Exceptions*

The *K Mart* Court was, understandably, preoccupied with determining the validity of the customs regulations, therefore leaving larger problems posed by gray market importation untouched.²⁵² In doing so, however, the Court failed to make a thorough analysis of section 526, thereby upholding the customs regulations on tenuous grounds. Justice Kennedy's facial examination of the common control exceptions²⁵³ essentially begged the question as to the meaning of section 526. In doing so, Justice Kennedy, perpetuated

249. *Id.* at 254.

250. *Id.*

251. See generally Note, *Vivitar Corp. v. United States: Where the Gray Market Goods Controversy Began and Where it Might End*, 13 BROOKLYN J. INT'L. L. 375, 407 (1987).

252. Even in focusing narrowly on the validity of the customs regulations, *K Mart* resulted in numerous opinions employing radically different modes of analysis. See *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811 (1988). Compare the separate opinions of Justices Kennedy, Brennan, and Scalia. Justice Kennedy views the problem solely from the point of statutory interpretation. *Id.* at 1815. Justice Brennan proceeds on an examination of legislative history. *Id.* at 1819-31 (Brennan, J., concurring in part and dissenting in part). The majority of Justice Scalia's opinion is spent criticizing Justice Brennan's analysis. *Id.* at 1833-36 (Scalia, J., concurring in part and dissenting in part). More pressing issues of the gray market discussed in this Note appear to have been obscured by the narrow focus and divergent methods of analysis employed by the Court.

253. *Id.* at 1815-18 (Kennedy, J., majority opinion).

an uncertain interpretation of an ambiguous statute, thus leaving the regulations open to further attack.

Justice Brennan, concurring, delved more deeply into the intent of Congress in the enactment of section 526.²⁵⁴ Justice Brennan's interpretation of section 526, however, simply represented another attempt at adapting archaic legislation to unforeseen circumstances. In upholding the common control exceptions, Justice Brennan failed to establish the meaning of section 526, thereby offering weak support for the validity of the regulations and perpetuating the confusion over the scope of section 526 and the exceptions promulgated by the Customs Service. The opinion of Justice Brennan did, however, deal with the effect of the gray market on domestic merchants.²⁵⁵ Due to the authorization of the common control exceptions, this may be indicative of the analysis future courts will employ.

2. *The Authorized Use Exception*

The Court's invalidation of the authorized use exception did not elicit the confusion prevalent in the common control exceptions. Once again taking a narrow view, Justice Kennedy opined that the ambiguous language of section 526 did not pertain to the authorized use exception.²⁵⁶ In his view, authorization of this regulation would allow importation of foreign goods bearing a domestic trademark by companies that were truly independent of the domestic trademark holder, thus clearly conflicting with the wording of section 526.²⁵⁷

In concurring, Justice Scalia conducted a more comprehensive examination of the gray market.²⁵⁸ His examination of the authorized use exception concluded that domestic merchants would be adversely affected by the exception, therefore warranting the invalidation of the regulation.²⁵⁹ The Court's bifurcated invalidation of the authorized use exception contains strands of the comprehensive examination warranted by gray market problems. It does not, however, rectify the shortcomings of the Supreme Court's opinion in *K Mart Corp v. Cartier, Inc.*

Due to the rejuvenation of the common control exceptions, the *K Mart* decision has been heralded as a great victory for the importers of gray mar-

254. *Id.* at 1819-28 (Brennan, J., concurring in part and dissenting in part).

255. Justice Brennan considered the economic ramifications of gray market importation on those parties that license their trademark. *Id.* at 1830. Economic considerations, a crucial aspect of the gray market, demand increased attention in the future.

256. *Id.* at 1818 (Kennedy, J., majority opinion).

257. *Id.*

258. *Id.* at 1833-36 (Scalia, J., concurring in part and dissenting in part).

259. *Id.* at 1836.

ket goods, essentially opening the flood gates to gray market importation.²⁶⁰ *K Mart*, however, is a double-edged sword because the invalidation of the authorized use exception will accordingly limit the importation of gray market goods.²⁶¹ Due to the convoluted decision handed down by the Court, commentators suggest that "there may be more gray market goods imported into the United States and, then again, there may not."²⁶²

B. *K Mart and Considerations of Quality and Goodwill*

While authentically trademarked, gray market goods are not necessarily of the same quality as "regular goods."²⁶³ Often the goods are produced in exactly the same manner, but factors such as quality control and shipping can affect the quality of a product, essentially causing gray market goods to be of a different caliber than non-gray market goods.²⁶⁴ Consumers, therefore, may be receiving goods inferior to those which were purchased from authorized distributors.²⁶⁵ Moreover, gray market goods may be inferior to domestic goods with respect to United States safety requirements,²⁶⁶ potentially the most devastating drawback to gray market shopping. The Supreme Court, in viewing gray market goods solely in light of section 526 and by tenets of statutory interpretation, failed to explore pertinent issues of the gray market, thus leaving the problems to smolder until ignited by a more volatile situation.

In *K Mart*, the Court also failed to consider what effect the authorization of the common control exceptions would have on the goodwill associated with trademarks.²⁶⁷ Goodwill, which is said to be an inseparable part of a product, has a synergistic effect when combined with a trademark that enhances the products marketability.²⁶⁸ In gray market cases, an actionable suit must contain the assertion that a domestic product has developed sepa-

260. Joelson & Griffen, *Gray Market Goods: U.S. Supreme Court Decides*, 16 INT'L BUS. LAW, 346, 346 (1988).

261. See *K Mart*, 108 S. Ct. at 1818 (Justice Kennedy's invalidation of the authorized use exception).

262. Palladino, *supra* note 1, at 19, col. 1.

263. Note, *supra* note 51, at 190; see also *Osawa Co. v. B & H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984).

264. Note, *supra* note 51, at 190.

265. *Id.*

266. *Id.*

267. See *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811 (1988) (The Court viewed the validity of the customs regulations from the point of statutory interpretation and legislative history).

268. See generally 1 J. MCCARTHY, *supra* note 58, at § 3:5.

rate and recognizable goodwill that is, in fact, associated with the product.²⁶⁹

It is true that mere expenditure of money in the quest of goodwill does not give rise to an interest that can be protected.²⁷⁰ Many domestic trademark holders, however, spend millions of dollars in developing and facilitating separate and distinct goodwill.²⁷¹ With the assertion of goodwill, there also must be a strong likelihood of confusion as to the origin of a product.²⁷² The Supreme Court obviously did not consider how the authorization of common control, gray market goods will bear on the millions of dollars invested yearly by companies who have established and are maintaining goodwill.²⁷³ The issue, due to economic reasons, warrants congressional exploration as gray market importations steadily rise.

C. K Mart and the Ability to Bring Private Actions Under Section 526

Most actions arising under section 526 are not private actions, but rather, involve a suit against the United States, thus further limiting the relief available to domestic merchants.²⁷⁴ Some companies, however, have chosen to challenge the gray market by directly confronting the gray market importers.²⁷⁵ Businesses have used claims such as trademark infringement and violation of contractual provisions to thwart the gray market tide, but the results have been inadequate.²⁷⁶

Moreover, private actions are not entertained in the United States Court of International Trade,²⁷⁷ and the United States Court of Appeals for the Federal Circuit has revealed that the district courts are better suited to deal

269. Note, *The Gray Market Controversy: Is a Resolution Necessary?*, 13 BROOKLYN J. INT'L L. 279, 303 (1987).

270. 1 J. MCCARTHY, *supra* note 58, § 2:10; see also *Fleetwood v. Mende*, 298 F.2d 797, 799 (C.C.P.A. 1962).

271. See Note, *supra* note 51, at 198-201 (The author generally deals with harm suffered by trademark holders due to gray market importation.).

272. *Id.*

273. See *supra* note 252; see also *supra* notes 58-63 and accompanying text.

274. Restani, *supra* note 64, at 237.

275. *Id.* at 243.

276. *Id.*

277. The text of 28 U.S.C. § 1581(i), which deals with the jurisdiction of the Court of International Trade, reads:

In addition to the jurisdiction conferred upon the Court of International Trade by subsections (a)-(h) of this section and subject to the exception set forth in subsection (j) of this section, the Court of International Trade shall have exclusive jurisdiction of any civil action commenced against the United States, its agencies, or its offices

. . . .

Id. (emphasis added).

with the problem.²⁷⁸ Although *K Mart* may not have been the perfect forum to litigate questions of private action, commentators viewed the *K Mart* decision as potentially broad enough to eradicate the confusion of private action in the gray market.²⁷⁹ Alternately, they saw *K Mart* as having the potential to skim over the issue of private action.²⁸⁰ The Supreme Court, in its cursory opinion, has opted for the latter leaving the question of private action under section 526 unanswered.

VI. CONCLUSION

The gray market has posed troublesome questions for the government, merchants, and consumers for over a century. Congress, pressured by the Second Circuit's holding in *A. Bourjois & Co. v. Katzel* hastily implemented Section 526 of the Tariff Act of 1922 in an attempt to protect the interests of American merchants. Beginning in 1936, the United States Customs Service began to make exceptions to section 526's draconian ban on the importation of foreign goods bearing a registered United States trademark. The courts have reached conflicting decisions as to the validity of these exceptions, thereby causing greater confusion over the importation of gray market goods.

In *K Mart Corp. v. Cartier, Inc.*, the Supreme Court faced the validity of the customs regulations, as well as domestic and economic issues that are inevitably implicated by gray market importation. The Court failed to effectively examine the former, and it ignored the latter. Rather than relying on the Supreme Court's superficial interpretation of an archaic, inoperative statute, new legislation is required to effectively deal with the diverse problems posed by the gray market. Congressional impulsiveness instigated the confusion prevalent in the gray market. Congressional compulsiveness is warranted to comprehensively examine the diverse problems presented by the importation of gray market goods.

John J. McNamara

278. *Vivitar Corp. v. United States*, 761 F.2d 1552, 1570 (Fed. Cir. 1985), *cert. denied*, 424 U.S. 1055 (1986).

279. *See Restani, supra* note 64, at 242.

280. *Id.*