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## NOTES

# THE CURRENT STATE OF THE UNITED STATES GRAY MARKET: THE COMMON-CONTROL EXCEPTION SURVIVES, FOR NOW

*K Mart Corp. v. Cartier, Inc.*<sup>1</sup>

### I. INTRODUCTION

In *K Mart Corp. v. Cartier, Inc.*,<sup>2</sup> the United States Supreme Court recently decided that the Customs Service may continue to allow entry into the United States of gray-market imports where the foreign manufacturer and domestic trademark owner are subject to common control. The Court also prohibited importation of gray-market goods in cases where the trademark is applied to the foreign goods merely with the authorization of the United States trademark owner. The decision was an attempt to settle a conflict between federal circuit courts of appeal over the legality of gray-market importation.

A gray market generally arises when merchandise produced and sold abroad bearing a genuine<sup>3</sup> United States trademark is imported into the United States and sold in competition with the United States trademark owner.<sup>4</sup> The size of the United States gray market has been estimated at

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1. 108 S. Ct. 1811 (1988) (together with *47th Street Photo, Inc. v. Coalition to Preserve the Integrity of American Trademarks*, No. 86-624, and *United States v. Coalition to Preserve the Integrity of American Trademarks*, No. 86-625, also on certiorari to the same court).

2. *Id.*

3. The trademark is described as "genuine" to distinguish it from a "counterfeit" trademark. A "genuine" trademark accurately indicates the source of the goods. Counterfeit marks copy and confuse. The Lanham Trademark Act defines a "counterfeit" mark as a "spurious mark which is identical with, or substantially indistinguishable from, a registered mark." 15 U.S.C. § 1127 (1982). See generally 2 J. McCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 30.34 (2d ed. 1984).

4. See *id.* § 30.35; see also *Vivitar Corp. v. United States*, 761 F.2d 1552, 1555 (Fed. Cir. 1985), cert. denied, 474 U.S. 1055 (1986).

greater than six billion dollars a year.<sup>5</sup> The genus of these parallel imports over the last hundred years has ranged from mineral water<sup>6</sup> to Caterpillar excavators.<sup>7</sup>

A trademark is recognized as a symbol of the good will which a business has established over time.<sup>8</sup> Trademark owners contend that gray-market importers are "obtaining a free ride which will eventually destroy" the good will established by the trademark owner.<sup>9</sup> The "free ride" results from the importers' profiting from the public's recognition of the trademark and the advertising effort of the domestic trademark owner. The gray marketeer also misleads consumers to believe the goods are warranted by the domestic firm.<sup>10</sup> Both the consumer and the trademark owner's good will are damaged when the holder of a defective gray-market product discovers that, because the import and sale were not authorized by the trademark owner, his warranty does not cover the product.<sup>11</sup> Because the gray market is a substitution of imports for domestic goods, it also contributes to the trade deficit.<sup>12</sup> Those who support parallel importation, on the other hand, oppose restraints on the influx of gray-market goods because, they contend, there "is no reason to pay unreasonable prices to the manufacturer's United States distributor when you can obtain exactly the same products at lower prices overseas."<sup>13</sup>

## II. KATZEL TO COPIAT: THE GRAY MARKET, CUSTOMS AND THE COURTS

The first statutory attempt to directly confront the gray market was section 526 of the Tariff Act of 1922.<sup>14</sup> Congressional enactment of section 526 came on the heels of a Second Circuit holding that parallel importation of genuine trademarked goods is lawful.<sup>15</sup> The plaintiff in *Katzel* had bought the United States trademark rights for a facial powder from a French company and registered the trademark in its own name with the

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

6. *Apollinaris Co. v. Scherer*, 27 F. 18 (S.D.N.Y. 1886).

7. Goodgame, *Inside the Gray Market*, TIME, Oct. 28, 1985, at 76.

8. 1 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 2.10 (2d ed. 1984).

9. *Vivitar*, 761 F.2d at 1556.

10. Boyer, *supra* note 5, at 89.

11. Goodgame, *supra* note 7, at 76.

12. 36 PAT. TRADEMARK & COPYRIGHT J. (BNA) 709 (1988).

13. Goodgame, *supra* note 7, at 76 (quoting Robert Stevenson, Vice President of K Mart Corp.).

14. Ch. 356, § 526, 42 Stat. 858, 975 (1922) (reenacted as § 526(a) of the Tariff Act of 1930, currently 19 U.S.C. § 1526 (1982)).

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

Patent and Trademark Office.<sup>16</sup> The defendant imported and sold similarly trademarked face powder made by the same French firm.<sup>17</sup> In refusing to enjoin such importation and sale, the court reasoned that no infringement existed because the powder was genuine, that is, manufactured by the firm which the trademark indicated.<sup>18</sup> Congress responded to *Katzel* with the enactment of section 526.<sup>19</sup>

Section 526 of the Tariff Act, as originally enacted in 1922, remains unchanged today and does not provide for exceptions to its ban on parallel importation.<sup>20</sup> The Customs Service regulation promulgating section 526, however, included common-control and authorized-use exceptions which allowed the importation of gray-market goods depending on the relationship between the foreign manufacturer and domestic trademark owner.<sup>21</sup>

In recent years courts have struggled with the Customs Service's interpretation. In *Vivitar Corp. v. United States*,<sup>22</sup> Vivitar, owner of a registered United States trademark as applied to photographic equipment,

16. *Id.* at 539.

17. *Id.* at 540.

18. *Id.* at 543. The Supreme Court reversed, without reference to section 526, holding that there was infringement because the public understood the powder to come from the plaintiff, even though not made by the plaintiff. *A. Bourjois & Co., Inc. v. Katzel*, 260 U.S. 689, 692 (1923).

19. Senator McCumber, one of the bill's sponsors, stated that "[a]s shown, the courts have held that we cannot prevent any product being shipped into the United States if it is in violation of a trade-mark where the foreign maker has sold trade-mark and all, patent and everything, in the United States." 62 CONG. REC. 11,604 (1922).

20. Ch. 356, § 526, 42 Stat. 858, 975 (1922). This was reenacted as § 526(a) of the Tariff Act of 1930, currently 19 U.S.C. § 1526 (1982), which provides, in part: (a) it 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 and Trademark Office by a person domiciled in the United States . . . unless written consent of the owner of such trademark is produced at the time of making entry.

21. 19 C.F.R. § 133.21 (1987) provides in part:

(b) *Identical trademark.* Foreign made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (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 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 (see §§ 133.2(d) and 133.12(d));
- (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner.

22. 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986).

sought to have the Customs Service refuse entry of goods bearing its trademark without its consent.<sup>23</sup> Vivitar argued that the Customs Service regulation was unlawful and contrary to section 526.<sup>24</sup> The Court of Appeals for the Federal Circuit, in affirming the Court of International Trade,<sup>25</sup> concluded that the regulation was merely the agency's determination of what goods will automatically be refused entry into the United States.<sup>26</sup> The regulation, according to the court, did not determine Vivitar's rights under the Tariff Act, and therefore Vivitar could seek a declaration in federal district court directing the Customs Service to exclude the parallel imports.<sup>27</sup>

While Vivitar was losing its case in the Federal Circuit, Olympus Corporation was challenging the same regulation in the Second Circuit.<sup>28</sup> Olympus, like Vivitar, was the owner and registrant of its namesake as a United States trademark applied to photographic equipment.<sup>29</sup> Olympus' complaint also alleged that the Customs Service regulation was inconsistent with the Tariff Act.<sup>30</sup> The district court held,<sup>31</sup> the court of appeals affirmed,<sup>32</sup> that the agency interpretation of the statute was valid. The court echoed *Vivitar*<sup>33</sup> and stated that despite this holding, the trademark holder may still have rights against the importer under the Tariff Act.<sup>34</sup> The Customs Service regulation was merely a choice, based on consideration of administrative burden, not to exclude certain gray-market goods.<sup>35</sup>

Consideration of the administrative burden, however, as the dissent convincingly pointed out, compels a contrary conclusion.<sup>36</sup> Under its interpretation, Customs must determine the nature of the underlying relationship, if any, between the importer and the United States trademark owner before deciding whether to exclude the goods. Different relationships will require different results upon entry at Customs.<sup>37</sup> If the agency were

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23. *Id.* at 1555.

24. *Id.* at 1568-69.

25. *Vivitar Corp. v. United States*, 593 F. Supp. 420 (Ct. Int'l Trade 1984).

26. *Vivitar*, 761 F.2d at 1569-70.

27. *Id.* at 1570.

28. *Olympus Corp v. United States*, 627 F. Supp. 911 (E.D.N.Y. 1985).

29. *Id.* at 913.

30. *Id.*

31. *Id.* at 922.

32. *Olympus Corp. v. United States*, 792 F.2d 315, 320 (2d Cir. 1986), *cert. denied*, 108 S. Ct. 2033 (1988).

33. 761 F.2d at 1570.

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

35. *Id.*

36. *Id.* at 322.

37. The Supreme Court discussed five such relationships in *K Mart*: Importer-independent domestic purchaser of trademark rights, foreign parent-domestic subsidiary, domestic parent-foreign subsidiary, domestic firm-foreign manufacturing division, and domestic firm-foreign firm authorized to use the United States trademark abroad. *K Mart*, 108 S. Ct. at 1812.

to enforce the trademark holder's rights, which the *Olympus* majority conceded to exist,<sup>38</sup> it would automatically refuse entry to goods bearing American trademarks. It would not be necessary to inquire whether any affiliation exists between the foreign manufacturer and the domestic trademark owner. The burden would then be on the potential importer to produce written consent from the trademark owner to import the goods, as specifically provided for in the Tariff Act.<sup>39</sup>

In *Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States*,<sup>40</sup> the plaintiffs, an alliance of manufacturers and distributors of trademarked goods, sued the Commissioner of Customs, the Secretary of the Treasury and the United States seeking an order directing the Customs Service to ban the importation of gray-market goods.<sup>41</sup> K Mart Corporation and 47th Street Photo, opposed to any ban on parallel imports, intervened as defendants.<sup>42</sup>

K Mart operates over 2,000 discount stores retailing a variety of gray-market goods while 47th Street Photo sells gray-market electronic equipment in New York City.<sup>43</sup> Licensed foreign subsidiaries manufactured goods bearing the plaintiffs' trademarks.<sup>44</sup> The plaintiffs claimed to suffer damage when parties other than the foreign affiliates bought the trademarked goods abroad, imported them into the United States, and sold them in direct competition with the plaintiffs.<sup>45</sup> COPIAT argued that the Customs Service regulation,<sup>46</sup> which allowed parallel importation in some instances, was inconsistent with the Tariff Act of 1930<sup>47</sup> and section 42 of the Lanham Trademark Act of 1946.<sup>48</sup> The district court held that section 42 of the Lanham Act<sup>49</sup> was inapplicable in that it only prohibits importation of *counterfeit*<sup>50</sup> trademarked goods.<sup>51</sup> The court further held

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

39. 19 U.S.C. § 1526 (1982) provides that importation of goods bearing a registered United States trademark are prohibited "unless written consent of the owner of such trademark is produced at the time of making entry."

40. 598 F. Supp. 844 (D.D.C. 1984).

41. *Id.* at 846.

42. *Id.* K Mart and 47th Street Photo also intervened in *Olympus*, 627 F. Supp. at 916. 47th Street Photo intervened in *Vivitar Corp. v. United States*, 585 F. Supp. 1415, 1418 (Ct. Int'l Trade 1984), while K Mart was denied intervention therein. *Id.* at 1419.

43. *Id.*

44. *Id.*

45. *Id.*

46. 19 C.F.R. § 133.21 (1987). For the pertinent text of the regulation, see *supra* note 21.

47. 19 U.S.C. § 1526 (1982). For the text of the Act, see *supra* note 20.

48. *COPIAT*, 598 F. Supp. at 846.

49. 15 U.S.C. § 1124 (1980). The Act provides in part that "no article of imported merchandise which shall copy or simulate the name of . . . any domestic manufacture or manufacturer . . . shall be admitted to entry . . ."

50. For an explanation of the difference between genuine and counterfeit trademarked goods, see *supra* note 3.

51. *COPIAT*, 598 F. Supp. at 848. Claims under this section of the Lanham Act Published by University of Missouri School of Law Scholarship Repository, 1989

for the defendants that the Customs Service regulation was not inconsistent with the Tariff Act.<sup>52</sup>

On appeal, the Court of Appeals for the District of Columbia Circuit reversed the district court and held that the regulatory exceptions to the gray-market ban were unlawful.<sup>53</sup> With that holding, the regulation became simultaneously valid in the Federal Circuit under *Vivitar*, valid pending appeal in the Second Circuit under *Olympus*, and invalid in the District of Columbia Circuit under *COPIAT*.

### III. THE *K MART* DECISION: GRAY SKIES FOR UNITED STATES TRADEMARK OWNERS

*COPIAT* was appealed to the United States Supreme Court and ultimately decided as *K Mart Corp. v. Cartier, Inc.*<sup>54</sup> The Court decided whether the federal regulation that permitted gray-market importation under certain circumstances was a reasonable agency interpretation of section 526 of the Tariff Act of 1930.<sup>55</sup> A majority<sup>56</sup> of the Court reversed the court of appeals and upheld the common-control exception<sup>57</sup> of the Customs Service regulation.<sup>58</sup> A different majority<sup>59</sup> affirmed the court of appeals and held that the authorized-use exception<sup>60</sup> was inconsistent with section 526.

The Court in *K Mart* analyzed the Customs Service regulation by considering how it dealt with the various situations in which a gray-market exists.<sup>61</sup> The first situation [hereinafter case 1] arises when an American firm purchases the rights to use a foreign firm's trademark and registers it with the Patent and Trademark Office.<sup>62</sup> This American firm then becomes a gray-market victim when the foreign firm or third parties import goods bearing the same trademark and sell them in direct

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were also raised unsuccessfully in *Vivitar Corp. v. United States*, 585 F. Supp. 1415, 1419 (Ct. Int'l Trade 1984), and *Olympus Corp. v. United States*, 627 F. Supp. 911, 921-22 (E.D.N.Y. 1985).

52. *COPIAT*, 598 F. Supp. at 851.

53. *Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States*, 790 F.2d 903, 918 (D.C. Cir. 1986), *aff'd in part, rev'd in part sub nom. K-Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 188 (1988). Because the court of appeals found the regulation invalid in view of the Tariff Act, it did not need to consider whether it also violated the Lanham Act. *Id.* at 907.

54. 108 S. Ct. 1811 (1988).

55. *Id.* at 1814.

56. Justices White, Brennan, Marshall, Stevens and Kennedy.

57. 19 C.F.R. § 133.21(c)(1)-(2) (1987).

58. *K Mart*, 108 S. Ct. at 1817.

59. The Chief Justice, Justices Blackmun, O'Connor, Scalia and Kennedy.

60. 19 C.F.R. § 133.21(c)(3) (1987).

61. *K Mart*, 108 S. Ct. at 1814-15.

62. *Id.* at 1814.

competition with the domestic firm.<sup>63</sup> Another parallel import context [hereinafter case 2] considered by the Court arises when the domestic holder of the registered trademark is affiliated with the foreign manufacturer who is the source of the gray-market goods.<sup>64</sup> As in case 1, the foreign manufacturer or third parties import the goods into the U.S. market. The Court examined three variations in the nature of the affiliation in this context: foreign parent-domestic subsidiary (case 2a), domestic parent-foreign subsidiary (case 2b), and foreign division of a domestic firm (case 2c). Yet another gray-market situation [hereinafter case 3] exists when a domestic firm authorizes an unaffiliated foreign firm to use the former's trademark abroad.<sup>65</sup> Again, the foreign firm or third parties import the goods into the U.S. market.

The entire Court agreed that section 526 of the Tariff Act prohibited parallel importation of trademarked goods in the case 1 context, where an American firm purchased the rights to use the foreign firm's trademark in the United States.<sup>66</sup> Allowing this gray market to exist effectively would deprive the domestic firm of full enjoyment of its investment. Justice Scalia pointed out, however, that by allowing the common-control exception to stand, the majority denied case 1 trademark holders protection.<sup>67</sup> He indicated that an independent American firm that had purchased exclusive rights to use and register a foreign firm's trademark in the United States was helpless to prevent importation of goods manufactured by another American firm that had purchased the same trademark rights in another country.<sup>68</sup> By upholding the common-control exception, the majority would seemingly allow an affiliation of this variety to produce a case 1 victim.

Though section 526 prohibited importation of goods "of foreign manufacture" that bear a United States trademark,<sup>69</sup> the majority concluded that this did not include such goods manufactured abroad by a

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63. *Id.*

64. *Id.* at 1815.

65. *Id.*

66. The Court stated that "(i)f the foreign manufacturer could import the trademarked goods and distribute them here, despite having sold the trademark to a domestic firm, the domestic firm would be forced into sharp intrabrand competition involving the very trademark it purchased." *Id.* The Court further stated:

There is no dispute that § 526 protects the trademark holder in the first of the three gray-market contexts identified by the Court — the prototypical gray-market situation in which a domestic firm purchases from an independent foreign firm the rights to register and use in the United States a foreign trademark (case 1).

*Id.* at 1820.

67. *Id.* at 1832.

68. *Id.*

69. 19 U.S.C. § 1526(a) (1983). *See supra* note 20.



domestic company's affiliate.<sup>70</sup> A Chrysler built in Taiwan would not be considered a foreign car, and one could therefore buy such cars off a lot in Taipei and import them into the United States notwithstanding protestations from Chrysler or its distributors.

Justice Kennedy concluded that "owned by"<sup>71</sup> in section 526 was ambiguous when applied to the case 2a situation involving a foreign parent and domestic subsidiary.<sup>72</sup> The Customs Service could therefore reasonably determine that a trademark held by a domestic subsidiary was in fact "owned by" the foreign parent.<sup>73</sup> The agency was entitled to except goods bearing this trademark from the importation ban, since foreign firms are not entitled to the protection of section 526.<sup>74</sup> Justice Kennedy found no conflict between the regulation and the statute in the foreign parent-domestic subsidiary context.<sup>75</sup>

Justice Brennan, writing for the rest of the majority that upheld the common control exception,<sup>76</sup> stated that Congress did not intend to protect a case 2a foreign parent against parallel importation and therefore the Customs Service may reasonably except these goods from exclusion.<sup>77</sup> These Justices overlooked the fact that Customs need not create a broad common-control exception to exclude foreign parent companies from the protection of the Tariff Act. Customs could still allow the goods to enter because a foreign parent could be considered to "own" the assets, including the trademark, of its American subsidiary. Therefore, a foreign company that set up a shell subsidiary in the United States only to register the trademark could still be denied the protection of section 526 because the trademark would not be "owned by" the American firm, but by its foreign parent. This operation of the Tariff Act would be consistent with the legislative intent as the majority saw it, namely, to deny protection to foreign interests. Most importantly, the agency could further this intent without use of the overbroad common-control exception because it could find authority to deny protection in the Tariff Act.

Justice Scalia, with the Chief Justice and Justices Blackmun and O'Connor, agreed with Justice Kennedy that "owned by" in the statute

70. *K Mart*, 108 S. Ct. at 1818. Justice Kennedy, joined by Justice White stated that "the agency is entitled to choose any reasonable definition and to interpret the statute to say that goods manufactured by a foreign subsidiary or division of a domestic company are not goods 'of foreign manufacture.'" *Id.* Justice Brennan, joined by Justices Marshall and Stevens stated that "[s]urely a domestic firm that establishes a manufacturing facility abroad (case 2c) is not in any sense a foreigner, and it is at the very least reasonable to view as 'American' the foreign subsidiary of a domestic firm [case 2b]." *Id.* at 1821.

71. 19 U.S.C. § 1526(a) (1982). *See supra* note 20 and accompanying text.

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

73. *Id.*

74. *Id.*

75. *Id.*

76. Section 133.21(c)(1)-(2); *see supra* note 20.

77. *Id.* at 1820-21.

was sufficiently ambiguous so that the agency may deny foreign parent companies the protection of the statute.<sup>78</sup> Nonetheless, these Justices would invalidate the sections of the agency regulation creating the common-control exception in that they unjustifiably exclude trademarked products in the case 2b (domestic parent-foreign subsidiary) and case 2c (domestic firm-foreign manufacturing division) situations from section 526's prohibition.<sup>79</sup> A problem arose, however, because the regulation's broad clauses granted entry to case 2a, 2b and 2c imports,<sup>80</sup> thereby allowing case 2b and 2c imports over the statute's ban. Justice Scalia asserted that the trademarks in case 2b and 2c were unambiguously "owned by" domestic firms and therefore imports bearing these trademarks were expressly covered by the statute.<sup>81</sup> The common-control exception as it exists, however, freely allows entry of these goods.

But the majority upheld the common-control exception as it related to cases 2b and 2c on the grounds that "of foreign manufacture" in section 526 may be interpreted so as not to include goods manufactured by a foreign subsidiary or division of an American company.<sup>82</sup>

The Court also relied on an inferred congressional intent not to extend import prohibition to affiliates of foreign manufacturers.<sup>83</sup> Justice Brennan stated that case 2 victims do not need the prohibition of section 526 because they have more control over the trademark.<sup>84</sup> Yet the remedies that Brennan suggested are either impractical or, as Justice Scalia pointed out, ignore the reality that it is not the foreign affiliates, but third parties, that are doing the damage.<sup>85</sup> Justice Brennan's first proposition,<sup>86</sup> that the affiliates stipulate that the foreign entity will not import the goods to anyone other than its domestic counterpart, does not address third party importation. His second suggestion,<sup>87</sup> that restrictions on the articles' resale be imposed, is of questionable legality and enforceability. His final proposition was that sales abroad be curtailed entirely.<sup>88</sup> In light of the Tariff Act's solution to the gray-market problem at the point of entry, the most efficient chokepoint, it is absurd to ask United States companies to forego lucrative foreign markets because Customs Service and the courts refuse to enforce the Tariff Act.

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78. *Id.* at 1831.

79. *Id.*

80. 19 C.F.R. § 133.21(c)(1)-(2) (1987). *See supra* note 21 and accompanying text.

81. *K Mart*, 108 S. Ct. at 1831.

82. *Id.* at 1818-19.

83. *Id.* at 1822.

84. *Id.* at 1823.

85. *Id.* at 1836.

86. *Id.* at 1823.

87. *Id.*

88. *Id.*

Where gray-market goods are actually imported by the foreign subsidiary or division, and the foreign and domestic entities are actually under common-control, the foreign importer could get consent from its domestic counterpart and the goods would be admitted as specifically allowed by the Tariff Act. The Customs Service, therefore, does not need the common-control exception to admit goods where the foreign and domestic firms are actually working together to provide imports.

The Court struck down the authorized-use exception of the Customs Service regulation as contrary to the statute.<sup>89</sup> It deemed the section to deprive a domestic trademark holder of the statute's protection in a context unaffected by the perceived ambiguities of "owned by" and "of foreign manufacture."<sup>90</sup> The Court decided, therefore, that a United States trademark holder may exclude gray-market imports in the case 3 situation, *i.e.* where the domestic firm has authorized the use of the trademark abroad by an independent foreign firm.<sup>91</sup>

The Supreme Court's validation in *K Mart* of the common-control exception leaves domestic trademark owners unprotected against goods manufactured by a foreign affiliate which eventually make their way into the gray market. The decision even denies the protection of the Tariff Act when the gray marketeer is a third party unrelated to the United States trademark owner or its foreign affiliate.

#### IV. THE TRADEMARK PROTECTION ACT OF 1988

In response to *K Mart*, on October 14, 1988, Senators Hatch, DeConcini, Bradley and Mikulski introduced the Trademark Protection Act of 1988 "to take into account the recent Supreme Court decision . . ."<sup>92</sup> This proposed amendment to the Lanham Trademark Act expressly forbids importation of "any good that is manufactured outside the United States if such good . . . bears a trademark that is identical to a trademark . . . owned by a person that is a citizen of the United States or by a corporation or other entity created within the United States . . . registered by such person with the Patent and Trademark Office . . ."<sup>93</sup> The proposal does not contain the ambiguity "of foreign manufacturer" as does the Tariff Act and further states that the restrictions apply regardless of any affiliation the trademark owner has with foreign entities.<sup>94</sup>

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89. *Id.* at 1819.

90. *Id.* at 1818-19.

91. *Id.*

92. 134 CONG. REC. S16,095 (daily ed. Oct. 14, 1988).

93. S. 2903, 100th Cong., 2d Sess. § 51(a) (1988).

94. *Id.*

## V. CONCLUSION

The proposed Trademark Protection Act should be received favorably by Congress. It directly addresses the problems the gray market poses for consumers and United States trademark owners. Such goods may not meet quality standards imposed on goods made for sale in the United States.<sup>95</sup> This can result in hazardous situations when the goods are, for example, foods, pharmaceuticals or cosmetics.<sup>96</sup> The goods may also lack manufacturers' warranties because their import and sale are not authorized by the manufacturer.<sup>97</sup> A thriving gray market also contributes to the trade deficit.<sup>98</sup> The gray-market importer profits substantially from the consumer acceptance and good will that the trademark owner has established in this country.<sup>99</sup> Because the Customs Service and the judiciary have expressed an unwillingness to use the Tariff Act to protect consumers and trademark owners from these dangers of the gray market, enactment of the Trademark Protection Act is essential.

PAUL I. J. FLEISCHUT

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95. 134 CONG. REC. S16,096 (daily ed. Oct. 14, 1988).

96. *Id.*

97. *Id.* See also Boyer, *supra* note 5, at 89.

98. 134 CONG. REC. S16,096 (daily ed. Oct. 14, 1988); 36 PAT. TRADEMARK & COPYRIGHT J. (BNA) 709 (1988).

99. 134 CONG. REC. S16,096 (daily ed. Oct. 14, 1986); *Vivitar Corp. v. United States*, 761 F.2d at 1552, 1556 (3d Cir. 1985).

