Gray Market Goulash: The Problem of At-The-Border Restrictions on Importation of Genuine Trademarked Goods

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GRAY MARKET GOULASH: THE PROBLEM OF AT-THE-BORDER RESTRICTIONS ON IMPORTATION OF GENUINE TRADEMARKED GOODS*

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I. INTRODUCTION

In its 1983 decision, Bell & Howell: Mamiya Co. v. Masel Supply Co.,¹ the Second Circuit Court of Appeals refused to halt “gray” market sales, i.e., sales of genuine trademarked products made without permission of the U.S. trademark owner.² The Second Circuit required that U.S. trademark owners prove irreparable injury before the court could properly issue an injunction. While the Bell & Howell litigation continued in the lower courts under the new standards

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¹ 719 F.2d 42 (2d Cir. 1983) (the Second Circuit demanded that the plaintiffs prove irreparable injury as a prerequisite to relief from gray market imports and sales). For a detailed discussion of Bell & Howell, as well as a general overview of the problem of gray market sales, see Lipner, The Legality of Parallel Imports: Trademark, Antitrust or Equity?, 19 Tex. Int'l L.J. 553 (1984).

² See generally The $7 Billion Gray Market: Where it Stops Nobody Knows, BUS. WK., April 15, 1985, at 86; Inside the Gray Market, TIME, October 28, 1985, at 76.

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espoused by the Second Circuit,\(^3\) the trademark owners and trade associations shifted the focus of gray market litigation. In several suits brought in a variety of jurisdictions,\(^4\) these groups sought to force the United States Customs Service to strictly enforce the dictates of section 526 of the Tariff Act of 1930,\(^5\) which on its face presents an absolute bar to all nonauthorized gray market imports.\(^6\) Customs, however, has, by both regulation\(^7\) and ad hoc decision-making,\(^8\) long refused literal enforcement of the statute. Instead, Customs selectively enforces section 526 and refuses to bar imports when the same or affiliated companies own the U.S. and the foreign trademark, or when the U.S. trademark owner has authorized the foreign manufacturer to use the trademark.\(^9\) Because a Customs bar would provide a cheap and effective solution to gray market competition, domestic trademark owners sought a change in Customs’ practice.

The circuit courts of appeals recently addressed the legality of the Customs Service's practice in three major cases.\(^10\) The Federal\(^{11}\) and


\(^6\) Section 526 makes it illegal “to import into the United States any merchandise if such merchandise . . . bears a trademark owned by a citizen of [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.” 19 U.S.C. § 1526(a) (1982). Merchandise imported into the United States in violation of § 526 is subject to seizure and forfeiture by the United States Customs Service, the entity charged with enforcing the statute. Id. § 1526(b). In addition to injunctive relief, U.S. trademark owners may bring a private action against the importer of merchandise prohibited under § 526 for damages and lost profits. Id. § 1526(c).

\(^7\) 19 C.F.R. § 133.21(o)(1)-(3) (1985).

\(^8\) See Atwood, Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs, 59 TRADEMARK REP. 301 (1969); see also Vivitar, 593 F. Supp. at 432.

\(^9\) The regulations read, in pertinent part:

The restrictions [on importation] do not apply . . . when:

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

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

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


Second\textsuperscript{12} Circuits upheld the regulations, while the D.C. Circuit\textsuperscript{13} declared the regulations void, but nevertheless refused to enjoin Customs' continued enforcement.\textsuperscript{14} The combined result of these cases is a checkerboard of reasoning and conclusions about legislative history, agency discretion, and implied Congressional ratification.\textsuperscript{15} The Supreme Court denied certiorari in \textit{Vivitar Corp. v. United States},\textsuperscript{16} but granted certiorari in \textit{Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States}.\textsuperscript{17} The Supreme Court's recent grant of certiorari in \textit{COPIAT} may resolve some of the conflicts presented by the cases. This Article will examine the conflicting decisions under section 526 and attempt to devise an analytical framework and a rational solution to the gray market riddle.

\section*{II. THE RECIPE FOR GOULASH}

\subsection*{A. \textit{VIVITAR}}

The first case to reach the court of appeals level was \textit{Vivitar Corp. v. United States}.\textsuperscript{18} Vivitar Corporation brought an action in the U.S. Court of International Trade,\textsuperscript{19} seeking a declaratory judgment that Customs had violated section 526 by allowing importation of gray market photographic equipment bearing the VIVITAR trademark.\textsuperscript{20} Judge Restani of the Court of International Trade held that the Customs regulations were valid despite Vivitar's argument for literal interpretation of section 526\textsuperscript{21} because (1) the history of section 526 indicated a narrow Congressional intent to overturn a judicial decision of the 1920s;\textsuperscript{22} (2) the Customs Service regulations represent a long-

\begin{enumerate}
\item Vivitar, 761 F.2d at 1570-1. See infra text accompanying notes 18-36.
\item Olympus, 792 F.2d at 320; see infra text accompanying notes 58-80.
\item COPIAT, 790 F.2d at 918; see infra text accompanying notes 27-57.
\item COPIAT, 790 F.2d at 918; see infra note 56.
\item See infra note 82.
\item 761 F.2d 1552 (Fed. Cir. 1985), cert denied, 106 S. Ct. 791 (1986).
\item Id. at 422. Vivitar Corporation is a California corporation that licenses foreign manufacturers to apply the VIVITAR trademark to photographic equipment. Vivitar's wholly-owned subsidiary markets the goods outside the United States; unrelated third parties have purchased these goods abroad and imported them into the United States without Vivitar's consent. Customs refused to ban the imports under 19 C.F.R. § 133.21(c)(1)-(3) (1985).
\item Vivitar, 593 F. Supp. at 423.
\item Id. at 426-28. The controversial decision was A. Bourjois & Co. v. Katzel, 275 F.2d 539 (2d Cir. 1921), rev'd, 260 U.S. 689 (1923). Katzel was a trademark infringement action. The plaintiff in Katzel had purchased the U.S. trademark rights of a French manufacturer. The defendant purchased the French manufacturer's product abroad, and imported the goods into the United States without the plaintiff's consent. The Second Circuit in Katzel denied injunctive relief to the U.S. markholder holding that "[i]f the goods
standing section 526 enforcement policy, and should therefore be controlling; and (3) Congress impliedly ratified Customs' practices by not addressing the discrepancy when it amended section 526 in 1977.

Judge Nies, writing for a unanimous five-judge panel of the Court of Appeals for the Federal Circuit, rejected each of Judge Restani's rationales, but nevertheless upheld the regulations as a valid exercise of agency discretion "in initiating administrative enforcement of the statute." The Federal Circuit expressly rejects literal enforcement of section 526, not because of any express or implied indication of Con-

sold are genuine goods covered by the trademark, the rights of the owner of the trademark are not infringed." Id. at 543. Congress enacted § 526 as an amendment to the Tariff Act of 1922 while appeal of the Katzel decision was pending before the Supreme Court. See Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 790 F.2d 903, 909 (D.C. Cir. 1986). For a general discussion of Katzel, see Lipner, supra note 1, at 555-57. Judge Restani's opinion reviewed and excerpted portions of the conference report and floor debate, and concluded that "[t]he history makes very clear that the purpose of [the statute] was to reverse the Second Circuit Katzel decision." Vivitar, 593 F. Supp. at 427.

Judge Restani reviewed Customs' practices and policies and concluded that the "essential thrust of this regulation has remained unchanged since 1936." Id. at 429. In addition, Judge Restani stated that "[c]ustoms, in its own writings, ... has provided persuasive exegesis of the legal justification for this construc-

24. Vivitar, 593 F. Supp. at 432-33. In 1978, Congress amended § 526 to permit travelers to import trademarked goods for their own use. The court found that Congress had examined Customs' practices on all gray market situations, and its decision to leave the administrative policy undisturbed was a "sufficient indication of Congressional acquiescence in Customs' administrative practice." Id. at 433.

25. Vivitar Corp. v. United States, 761 F.2d 1552, 1565, 1568 (Fed. Cir. 1985), cert. denied, 106 S. Ct. 791 (1986). The Federal Circuit rejected the congressional intent argument, stating that "while reversal of the Katzel decision was one purpose of § 526, it was clearly, and we use that word advisedly, not the sole purpose." Id. at 1561 (emphasis in original). The long-standing administrative interpretation argument was disputed. Citing a recent solicitation by Customs for data on the gray market, 49 Fed. Reg. 21,453-56 (1984), and the Customs brief in a recent gray market case, the court held that "it appears that Customs has had continuing questions concerning the reading of the statute." Vivitar, 761 F.2d at 1568. Regarding the implied ratification theory, Judge Nies, after a brief review of the recent legislation, remarked tersely: "[l]egislation by total silence is too tenuous a theory to merit extended discussion." Id.

Judge Davis concurred separately in the result, criticizing his colleagues for extensively delving into questions of the interpretation of § 526 "as [it] applies between private parties," an issue which could not come before the Court of International Trade ("CIT"). Id. at 1572 (Davis, J., concurring). "To me, it is needless and gratuitous for this court, in this international trade case coming from the CIT, to indulge in lengthy dicta bearing on the full scope of § 1526(a), obiter dicta which will not bind any court in a private suit but which simply tends to confuse the trademark bar." Id.

Judge Davis further disagreed with the majority that Customs' regulations did not represent a long-standing administrative interpretation of the statute. Judge Davis found the regulations to be "substantially consistent" since 1936. Id.

26. Id. at 1569. The Vivitar court stated that Customs' regulations do not set the limit of the § 526 exclusion right, but rather "courts must independently determine whether the importation is or is not precluded by the statute." Id. Asserting that "variations of the gray market are myriad," the court stated that "Congress could not have foreseen all possibilities in international trade relationships at the time of enacting the statute." Id. at 1570.
gressional intent, but rather because logic seemed to dictate that the statute might have some "implied limitations." The court concluded that an apparent right to invoke the statute could be defeated by theories such as piercing the corporate veil, sham transactions, estoppel, fraud, and other defenses. Thus, according to the court, case by case analysis, rather than literal enforcement, is required to decide whether the statute should be applied to a given situation.

Because the Customs regulations do not "affect the actual scope of a trademark owner's rights [against] an importer under the statute," the court directed complaining trademark owners to pursue private remedies authorized by the statute in the federal district courts. "To obtain . . . protection [beyond that in the current Customs regulations]," wrote Judge Nies, "Vivitar must first pursue a determination of its alleged rights against persons engaging in parallel importation of VIVITAR photographic equipment in federal district court, and, if successful, [Vivitar] is entitled to have the [goods] excluded by Customs." The Federal Circuit's decision in Vivitar has been criticized for not sufficiently deciding the contours of section 526. This Article will argue, however, that gray market cases must be decided, as the Federal Circuit suggests, through "resolution of [the] complex factual situations" in which these disputes arise. Any attempt at formulating a broad, all-encompassing rule would be both inappropriate and unwise.

B. COPIAT

One year after the Federal Circuit's decision in Vivitar, the Court of Appeals for the D.C. Circuit issued a decision that Customs' regulations regarding gray market imports were invalid. The plaintiff in the case was an association of U.S. trademark owners, the Coalition to Preserve the Integrity of American Trademarks, known by the acro-

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28. Id.
29. Id.
30. Id.
31. Id. at 1569; see supra note 26.
32. Vivitar, 761 F.2d at 1570. These remedies include injunction and damages. 19 U.S.C. § 1526(e) (1982).
33. Ibid., at 1570. But, said Judge Nies, "[t]hat Customs regulations do not provide for exclusion initially in a case where the trademark owner ultimately prevails in federal district court does not mean that regulations must be declared invalid." Id.
35. Vivitar, 761 F.2d at 1570.
36. See infra notes 105-44 and accompanying text.
nym COPIAT. COPIAT sought, as had the plaintiff in Vivitar, a declaratory judgment that Customs' gray market regulations were invalid. The district court upheld the regulations as a "sufficiently reasonable" interpretation of section 526, "supported by the legislative history, judicial decisions, legislative acquiescence, and the long-standing consistent policy of the Customs Service."

After holding that the district court in fact possessed jurisdiction over the subject matter of the suit, the D.C. Circuit, in an opinion by Judge Silberman, held that "the regulations simply cannot be squared with § 526 and are thus invalid." Judge Silberman criticized the district court's deference to the agency's interpretation of the statute, writing that such deference "only comes into play when it is apparent that 'Congress has not directly addressed the precise question at issue'." The D.C. Circuit concluded that deference to Customs' interpretation of the statute was inappropriate because "Congress' intent in § 526 is clear." Reviewing the legislative history of section 526 at the time of enactment, the court noted "that [§ 526] absolutely barred importation of goods bearing an American company's trademark without that company's consent." The D.C. Circuit further found that Congress "consciously drew the line at American companies," and did not adopt the distinctions that Customs now urges, viz. that enforcement depends upon common ownership or authoriza-

38. Id. at 904. COPIAT also sought an injunction prohibiting Customs' continued enforcement of the regulations and "compelling enforcement of the express terms of the statutes." Id.
40. COPIAT, 790 F.2d at 905-07. Jurisdiction was challenged only by 47th St. Photo, an intervenor in the suit. Id. at 905 n.1. The Vivitar court, however, reached a contrary conclusion. Vivitar, 761 F.2d at 1557-60. Judge Restani had held, and the Federal Circuit agreed, that the Court of International Trade possessed exclusive jurisdiction over this type of matter because it was in the nature of a "protest" to exclusion of goods by Customs. Id. at 1558-59. The D.C. Circuit in COPIAT rejected the Vivitar court's analysis and held that because no goods were excluded a case challenging Customs' gray market regulations did not involve a protest to exclusion and federal district jurisdiction was proper. COPIAT, 790 F.2d at 906. While technically correct, the D.C. Circuit's view is apparently in conflict with the congressional policy, expressed in the Customs Court Act of 1980 (which created the Court of International Trade), to consolidate jurisdiction over suits against the government in international trade matters in the new specialized court. H.R. REP. No. 961235, 96th Cong., 2d Sess. 33, reprinted in 1980 U.S. CODE CONG. & ADMIN. NEWS 3729, 3745. But see Olympus Corp. v. United States, 792 F.2d 315, 319 (2d Cir. 1986) (trademark jurisdiction of the federal district courts is controlling).
41. COPIAT, 790 F.2d at 907.
42. Id. at 908, (citing Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 837, 843 (1984)).
43. Id.
44. Id. at 912-13.
45. Id. at 912.
tion. Thus, the D.C. Circuit and the Federal Circuit were in basic accord regarding the legislative history and scope of section 526. The D.C. Circuit in COPIAT went on to hold, again consistent with Vivitar, that Customs' interpretation of the statute "does not display the necessary thoroughness, validity and consistency to merit judicial acceptance." This conclusion was based not only upon the Service's actual practices, but also upon the failure of that agency to offer a consistent and careful explanation of "exactly what purpose the regulations serve." Similarly, the court summarily rejected the "implied ratification" argument, citing the Vivitar court's statement that "[l]egislation by total silence is too tenuously a theory to merit extended discussion."

The COPIAT and Vivitar courts represent agreement on the history and interpretation of section 526. The two courts, however, disagreed on the propriety of the regulations as an exercise of Customs' enforcement discretion. The Vivitar court held that the regulations lawfully "defined Customs' role in initiating administrative enforcement of the statute." The COPIAT court, however, declared that "the Customs Service has never purported to justify these regulations as an exercise of enforcement discretion. . . . Thus, this case simply does not raise the question of whether the Customs Service could refrain from excluding certain grey market goods as an exercise of enforcement discretion." The COPIAT court found that Customs "regarded the regulations as its interpretation of what the law requires rather than as a decision not to prosecute to the letter of the law."

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46. The court conceded that "the debate [in Congress] does not unequivocally resolve all the questions about the scope of § 526." Id. However, the D.C. Circuit found that the subsequent legislative history, including the reenactment of the statute in identical form, demonstrated Congress's understanding that "[§ 526] applied to all situations literally within its terms." Id. at 913.

47. See Vivitar Corp. v. United States, 761 F.2d 1552, 1561 (Fed. Cir. 1985), cert. denied, 106 S. Ct. 791 (1986). In United States v. 89 Bottles of Eau de Joy, 797 F.2d 767, 770 (9th Cir. 1986), the Ninth Circuit concurred with the D.C. and Federal Circuit views on some aspects of the legislative history debate.


49. Id. at 915; see infra notes 97-103, 136-41 and accompanying text. The COPIAT court was quite critical of Customs, referring to Customs' actions at times as presenting "another curious turn in the sixty years of . . . administration of [§ 526]." Id. at 916. The Court also described Customs' justifications as "poorly articulated and vacillating." Id.

50. Id. at 917.

51. Id. (citing Vivitar Corp. v. United States, 761 F.2d 1552, 1568 (Fed. Cir. 1985).

52. See supra notes 25-36 and accompanying text.


54. COPIAT, 790 F.2d at 918. Because the COPIAT court held that the regulations were not an exercise of enforcement discretion, it left open the extent to which Customs could refrain from excluding certain gray market goods as an exercise of enforcement discretion. Id.

55. Id.
Because the COPIAT court held that Customs' interpretation of section 526 was inconsistent with the statute and found no other rationale for upholding the regulations, the court declared the regulations unlawful.\textsuperscript{56} Several reasons could be advanced for this last aspect of the COPIAT decision. The most logical seems to be a desire to avoid direct conflict with Vivitar, while at the same time demonstrating a commitment to judicial restraint not practiced by the Federal Circuit. The motivation to avoid direct conflict with Vivitar might flow from the Supreme Court's denial of certiorari in Vivitar; the latter motivation (judicial restraint) may stem from the conservative make-up of the COPIAT panel.\textsuperscript{57} In any event, the results in the two cases are clearly at odds.

C. OLYMPUS

One month after the D.C. Circuit decided COPIAT, the Second Circuit Court of Appeals upheld the Customs regulation under section 526, but on grounds rejected in both Vivitar and COPIAT.\textsuperscript{58} In Olympus Corp. v. United States,\textsuperscript{59} Judge Oakes affirmed the judgment of the Eastern District of New York.\textsuperscript{60} The Second Circuit relied heavily on

\textsuperscript{56} Id. The plaintiffs also requested an injunction, barring Customs from enforcing the regulations and ordering them "to enforce the statute its fullest." Id. The D.C. Circuit, however, refused to issue the injunction because of the broad degree of continuing supervision that would be required.

\textsuperscript{57} Two members of the three-judge panel, Judges Silberman and Bork, were appointed by President Reagan. Judge Bork, in particular, is well known for his conservative views.

\textsuperscript{58} Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986). The Second Circuit had previously decided two cases involving gray market goods. The first, Sturges v. Clark D. Pease, Inc., 48 F.2d 1035 (2d Cir. 1931), involved the importation, by an individual, of a trademarked automobile for his personal use. The court in Sturges held that § 526 presented an absolute bar to such importations. In 1978, Congress reversed the particular result of Sturges by amending § 526 to provide an exemption for goods imported into the United States by individuals "when such articles are for his personal use and not for sale." 19 U.S.C. § 1526(d) (1982). The other Second Circuit case involving gray market goods was Bell & Howell: Mamiya Co. v. Masel, 719 F.2d 42 (2d Cir. 1983). In Bell & Howell, a U.S. trademark owner sought to enjoin the sale of gray market goods already imported into the United States. The Second Circuit's reversal of the district court's decision did not address § 526, but rather required the plaintiff to prove irreparable injury before a preliminary injunction could be properly issued. For a discussion of the Second Circuit's decision in Bell & Howell, see Lipner, supra note 1, at 564-65.

\textsuperscript{59} 792 F.2d 315 (2d Cir. 1986).

\textsuperscript{60} Olympus Corp. v. United States, 627 F. Supp. 911 (E.D.N.Y. 1985). The district court, in an opinion written by Judge Sifton, upheld Customs' gray market regulation for much the same reasons advanced by Judge Restani of the Court of International Trade in Vivitar and the District Court opinion in COPIAT. Id. at 920-22. Judge Sifton also declared that the courts, not Customs, should make the initial and ultimate decision about exclusion of gray market goods. Id. at 920-21; see also infra notes 98-133 and accompanying text.
the “implied ratification by Congress” argument, which had been given short shrift by the Vivitar and COPLAT courts. Speaking for a divided court, Judge Oakes adopted the Court of International Trade’s account of section 526 legislative history, but declined to rely on that alone as the basis for his decision. Nor did he base his decision solely on the “long-standing enforcement” theory. Judge Oakes disagreed with the Federal Circuit in Vivitar, concluding that the regulations were sufficiently consistent to constitute a long-standing administrative interpretation of section 526. He noted, however, that reassessment of the regulations was appropriate in light of changes in antitrust policy. Despite Judge Oakes’ view that the regulations were of “questionable wisdom,” the Second Circuit nevertheless upheld them in view of “congressional acquiescence in the long-standing administrative interpretation of [section 526, which] legitimates that interpretation as an exercise of Customs’ enforcement discretion.” The Second Circuit’s rationale thus seems to amalgame the Court of International Trade and the Federal Circuit reasoning in Vivitar. The Second Circuit found that the myriad variations of the gray market, combined with the “administrative difficulties inherent in requiring the Customs Service to exclude gray market goods make clear why Customs has long and consistently interpreted [section 526] to allow it to refuse to exclude the goods.” The Olympus court contended that because exclusion of gray market goods must be based upon adjudication of the merits of individual cases, the Customs regulations represented a valid exercise of enforcement discre-

62. See supra notes 25, 50-51 and accompanying text.
63. Olympus, 792 F.2d at 319 (citing Vivitar Corp. v. United States, 593 F. Supp. 420, 426-28 (Ct. Int’l Trade 1984)).
64. Id. Judge Oakes’ decision is thus consistent with Second Circuit precedent. See Sturges v. Clark D. Pease, Inc., 48 F.2d 1035, 1037 (2d Cir. 1931).
65. Olympus, 792 F.2d at 319-20. Although one purpose in enacting § 526 was to reverse the Katzel decision, the scope of § 526 was not limited to the Katzel facts.
66. Id. at 319; see supra note 25. It is interesting to note that the Second Circuit adopted by reference the Federal Circuit’s statement of the factual history of the regulations, while disagreeing with that court’s conclusions regarding consistency. Olympus, 792 F.2d at 319.
67. Olympus, 792 F.2d at 319-20. But see infra notes 98-104 and accompanying text.
68. Olympus, 792 F.2d at 320.
69. Id.
70. The Olympus Court cited the Federal Circuit’s description in Vivitar of the numerous variations of the gray market:
United States claim to foreign trademark rights may be owned by the same entity, by related companies, or by wholly separate companies; imported goods may be identical to or different from the parallel import; the goods may be produced abroad; service and warranties may or may not be the same; foreign licensees may not be subject to U.S. control.
Id. at 320 (citing Vivitar Corp. v. United States, 761 F.2d 1552, 1570 n.24 (Fed. Cir. 1985)).
71. Id.
tion.\textsuperscript{72} An absolute rule of exclusion would cause Customs to “expend resources excluding goods [which should not be excluded] . . . [and] place the Customs Service ‘in the position of having to determine at the time of border crossing’ whether the [U.S.] trademark holder [could prove the requisites of trademark infringement].”\textsuperscript{73} Accordingly, Judge Oakes held that regulations “only limit[ed] Customs obligation to enforce [section 526] by excluding goods” and did not define the scope of section 526 protection.\textsuperscript{74} Notwithstanding Customs failure to exclude gray market goods, the domestic markholder could pursue a private right of action against the importer under section 526.\textsuperscript{75}

The court in \textit{Olympus} was split 2-1 with Judge Ralph Winter dissenting.\textsuperscript{76} Judge Winter agreed generally with the D.C. Circuit’s views in \textit{COPIAT}.\textsuperscript{77} He criticized his brethren for relying on “administrative difficulties,”\textsuperscript{78} stating that literal enforcement of section 526 “is simplicity itself.”\textsuperscript{79} He then criticized all concerned:

The fact is that the Customs Service has over the years justified this regulation with arguments of opportunity tailored to whatever audience it happened to be addressing at the time. This is hardly unusual administrative behavior, although the degree of vacillation in this case is somewhat exceptional. The fact that courts may indulge in fiction in the area of administrative law more often than in any other field does not mean, however, that we cannot insist upon coherent fiction.\textsuperscript{80}

On December 8, 1986, the U.S. Supreme Court granted certiorari to \textit{COPIAT}. The Supreme Court’s decision in \textit{COPIAT} will likely resolve the conflicts among the circuits regarding legislative history, implied ratification, and the bona fides of the Custom Service’s practice. The Supreme Court can, however, avoid becoming embroiled in the details of the controversy while at the same time resolving the conflicts among the circuits by reversing \textit{COPIAT} without opinion. Although that result would leave open the jurisdictional question as well as the appropriate rationale underlying Customs’ practices, \textit{COPIAT}’s requirements that Customs literally enforce section 526 would be overturned, thereby allowing the lower courts to get on with

\textsuperscript{72} Id.
\textsuperscript{73} Id. (quoting Olympus Corp. v. United States, 627 F. Supp. 911, 921 (E.D.N.Y. 1985); see also infra notes 129-40 and accompanying text.
\textsuperscript{74} \textit{Olympus}, 792 F.2d at 320.
\textsuperscript{75} Id.
\textsuperscript{76} Id. at 322 (Winter, J., dissenting).
\textsuperscript{77} Id. Judge Winter did, however, find the “legislative history to be somewhat more ambiguous than [did Judge Silberman in \textit{COPIAT}].” \textit{Id}.
\textsuperscript{78} Id. Judge Winter stated that these “purported administrative difficulties appear to be recently created . . . to defend litigation in the 1980’s.” \textit{Id}.
\textsuperscript{79} Id. “Difficulties stemming from variations in grey market relationships or from a supposed need to find a mark’s existing domestic goodwill arise only after determining that [§ 526] does not exclude all grey market goods.” \textit{Id}.
\textsuperscript{80} Id.
the real merits of gray market litigation. For reasons discussed in this Article, a broad decision upholding COPIAT would be unwise and might even spur Congressional action. Rather than addressing the likely resolution of the technical legal issues of section 526 enforcement, this Article will instead turn to the problem of devising a logical and rational approach to at-the-border enforcement of gray market infringement.

III. A RATIONAL ANALYTICAL FRAMEWORK

A. THE NEED FOR A RATIONAL SOLUTION

In 1984, in an article about the trademark and antitrust issues involved in parallel import cases, this author observed that "for the most part, the courts have declined to decide . . . cases based upon an interpretation of [section 526]."81 The past, however, is not always a valid basis upon which to forecast the future. In the two years since that statement was made, the courts of appeals have issued three major, and apparently contradictory, decisions directly bearing upon the interpretation of section 526. The Federal Circuit’s decisions in Vivitar, the D.C. Circuit’s in COPIAT, and the Second Circuit’s in Olympus, are facially inconsistent, but worse yet, inconclusive. Very little has been settled, and even the question of which tribunal has jurisdiction to decide the issue remains murky at best.

The various rationales advanced by these courts present a checkerboard of conflicting answers.82 For example, the Customs Service’s rationale for its current regulations were adopted by the Court of International Trade, but were rejected by both the Courts of Appeals

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81. Lipner, supra note 1, at 575.
82. The following chart represents the dispositions of the various theories and the ultimate outcomes:
for the Federal Circuit and the District of Columbia.\textsuperscript{83} The D.C. Circuit rejected the Federal Circuit's rationale for upholding the Customs Service's regulations on the grounds that Customs never advanced such an argument.\textsuperscript{84} The Second Circuit, on the other hand, upheld the regulations, seemingly combining elements of the rationales offered by the Court of International Trade and the Court of Appeals for the Federal Circuit.\textsuperscript{85}

In condemning the regulations in \textit{COPIAT}, Judge Silberman of the D.C. Circuit was the only judge to recite the public policy arguments of the gray market sellers.\textsuperscript{86} Judge Silberman conceded that

\begin{table}
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\begin{tabular}{|c|c|c|c|c|c|}
\hline
Theories/Cases & Legislative history & long-standing agency practice & implied ratification by Congress & agency discretion & regs. upheld? \\
\hline
Vivitar CIT (1 judge) & yes (1) & yes (1) & yes (1) & not discussed & yes (1) \\
Vivitar Fed. Cir. (5 judges) & no (4) & not proper to go into (1) & yes (1) & no (4) & yes (5) \\
COPIAT D.D.C. (1 judge) & yes (1) & yes (1) & yes (1) & not discussed & yes (1) \\
COPIAT D.C. Cir. (3 judges) & no (3) & no (3) & no (3) & no (3) & no (3) \\
OLYMPUS E.D.N.Y. (1 judge) & yes (1) & yes (1) & yes (1) & not discussed & yes (1) \\
OLYMPUS 2d Cir. (3 judges) & no (3) & yes (2) & yes (2) & yes (2) & yes (2-1) \\
(14 judges total) & yes (3) & yes (6) & yes (5) & yes (7) & yes (10) \\
\hline
\end{tabular}
\end{table}

As the chart indicates, three judges (all trial level) upheld the regulations on the basis of the legislative history of the statute, while four rejected this theory. Thirty-eight percent (5 out of 13) of the judges who addressed the implied ratification issue accepted it. The long-standing agency practice argument fared slightly better. See \textit{supra} note 25. A majority, 64 percent, of the judges accepted the agency discretion argument. Finally, a majority of the judges, 71 percent, upheld the regulations.

\textsuperscript{83} See \textit{supra} notes 25, 46, 49.


\textsuperscript{85} See \textit{supra} notes 58-62 and accompanying text.

\textsuperscript{86} \textit{COPIAT}, 790 F.2d at 917. Arguments advanced by gray market sellers are lower consumer prices, lack of reciprocity in trade laws of other countries, and the change in business conditions since 1922. \textit{Id.} at 917-18.
gray market sellers might have valid concerns, but he insisted that these arguments could be addressed only by Congress; any court role in that decision would be improper. Furthermore, he termed Customs' attempts to develop a selective policy "dubious," and suggested that the exercise of agency discretion might be an unlawful "abdication." The Second Circuit also suggested that a change in Customs' practices might be wise in light of recent antitrust developments, but concluded that "change is a matter for the legislative or executive branch not the judiciary." Yet, history has demonstrated that Congress is highly unlikely to act on major gray market issues. Unfortunately, legal battles about gray market issues will continue into the foreseeable future. It therefore seems up to the judiciary, whether it likes to or not, to fashion a sound approach to this subject.

B. THE STARTING POINT: Vivitar

Throughout the confusion, the most rational opinion concerning section 526 remains that of the Federal Circuit in Vivitar. That court's decision that the Customs Service's regulations are a proper exercise of agency discretion is a realistic view of a difficult situation.

It is hard to fault Customs for its years of wavering enforcement of section 526. Businesses, judges, and commentators have long had difficulty defining the issues, let alone resolving the gray market situ-
tion. The *Vivitar* holding that district courts must decide gray market disputes on a "case-by-case basis" is a rational and proper solution to a complex problem.96

The D.C. Circuit in *COPIAT* criticized the Federal Circuit's conclusion in *Vivitar* that the regulations represented a valid exercise of enforcement discretion by Customs. Judge Silberman rejected the Federal Circuit's rationale because "the Customs Service has never purported to justify these regulations as an exercise of enforcement discretion..."97 It is difficult to fault Customs for not asserting that rationale more forcefully, even after its adoption by the Federal Circuit in *Vivitar*, because that would present only yet another inconsistency in a scheme Customs has long tried to represent as being consistent.

C. ANTITRUST CONCERNS

The real reason for Customs' selective enforcement of section 526 is based on antitrust law, an area in which Customs has no real jurisdiction.98 For a variety of reasons, Customs no longer chooses to justify its actions based on antitrust policy.99 However, by attempting to justify its regulations without regard to antitrust, Customs reduced its chances of persuading the appellate courts, even though the other arguments had been accepted by a handful of lower courts.100

The Customs regulations make sense from an antitrust viewpoint. An absolute bar to gray market imports would create an outright restricted distribution scheme at the expense of independents—a result that may be illegal even after the Supreme Court's decision in *Continental T.V., Inc. v. G.T.E. Sylvania, Inc.*101 In particular, an illegal

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98. *Id.* at 916-17.

99. *Id.* at 916. Among these reasons are: (1) the antitrust rationale is very similar to Customs' practices criticized in *United States v. Guerlain*, 155 F. Supp. 77 (S.D.N.Y. 1957), vacated and remanded 358 U.S. 915 (1958), *action dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959); and (2) antitrust doctrine has changed since the *Guerlain* decision. The Supreme Court's decision in *Continental T.V., Inc. v. G.T.E. Sylvania, Inc.*, 433 U.S. 36 (1977), rejected the previous per se analysis of domestic vertical non-price restraints in favor of a rule-of-reason approach. In light of these changes in antitrust doctrine, the district court in *Osawa* stated that "[a]ntitrust questions are far too complex to be reasonably decided [by the simple criteria contained in the Customs regulations]." *Osawa & Co. v. B. & H. Photo, Inc.*, 589 F. Supp. 1163, 1177 (S.D.N.Y. 1984). See generally Lipner, *supra* note 1, at 557-60; see also *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986).

100. *See supra* note 82.

101. 433 U.S. 36 (1977). This decision changed antitrust law regarding restrictive distribution systems from a per se approach to a more lenient rule-of-reason approach. *See supra* note 99. Nevertheless, in certain situations, restrictive or exclusive distribution
restricted distribution scheme might result if the distributor seeking exclusivity is owned or controlled by some firm higher up in the distribution system.\textsuperscript{102} Regardless of whether one agrees with this conclusion, further factual analysis is required to determine whether antitrust concerns truly exist.\textsuperscript{103} Because of the complex antitrust issues involved, it is clear that Customs cannot and should not undertake that analysis.\textsuperscript{104} Rather, a detailed analysis by a court of competent jurisdiction is necessary to determine whether antitrust concerns are implicated in a particular gray market case.

D. The Product Approach: Goodwill and Ownership

The question of whether to exclude gray market imports raises other complex issues. Trademark infringement and the likelihood of product confusion in gray market cases require detailed and rigorous factual analysis.\textsuperscript{105} Neither section 526 nor the applicable regulations remains unlawful. See Lipner, Restricted Distribution at the FTC: Rule of Reason or Reign of Chaos?, 17 J. MARSHALL L. REV. 309 (1984); U.S. Dep't of Justice, Vertical Restraints Guidelines, 50 Fed. Reg. 6264 (1985) [hereinafter Guidelines].

\textsuperscript{102} See, e.g., Graphic Products Distrib., Inc. v. ITEK Corp., 717 F.2d 1560 (11th Cir. 1983); see also Battle v. Lubrizol Corp., 673 F.2d 984 (8th Cir. 1982); Note, Dual Distribution and The Horizontal-Vertical Dichotomy of Nonprice Restrictions, 17 TULSA L.J. 306 (1981). But see Guidelines, supra note 101, at 6265.

\textsuperscript{103} This author has previously argued that insufficient attention is paid to antitrust aspects of these cases particularly in the way costs and benefits of legal restrictions on gray market importations are evaluated. See Lipner, supra note 1, at 569-71; see also Guerlain, 155 F. Supp. 77 (S.D.N.Y. 1957); Vandenburgh, The Problem of Importation of Genuinely Marked Goods Is Not a Trademark Problem, 49 TRADEMARK REP. 707 (1959) (parallel import problem involves antitrust issues more than trademark issues); cf. Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 790 F.2d 903, 916 (D.C. Cir. 1986), cert. granted, 55 U.S.L.W. 3411 (U.S. Dec. 8, 1986) (No. 86-625) (“we express no view as to how antitrust analysis bearing on domestic vertical arrangements applies to the extraterritorial arrangements present in this case”); Model Rectifier Corp. v. Takachiho Int'l, 709 F.2d 1517 (9th Cir. 1983), 221 U.S.P.Q. (BNA) 502 (May 18, 1983) (insufficient proof of relevant market to make antitrust determination); see also Note, supra note 34, at 104-06; Note, Importation Control Under Tariff Act Section 526: Trademark Privileges and Antitrust Policy, 67 YALE L.J. 1110 (1958); cf. Olympus Corp. v. United States, 792 F.2d 315, 319-20 (2d Cir. 1986) (recent developments in antitrust “would seem to make reassessment of [§ 133.21(c)] appropriate at least insofar as those regulations rest on antitrust considerations”); Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063, 1077 (E.D.N.Y. 1982) (criticizing Guerlain, but not addressing directly the antitrust aspects of the case before it.).

\textsuperscript{104} Olympus, 792 F.2d at 320 (Customs would have to expend a great amount of resources to determine if a manufacturer “was merely engaging in price discrimination or other behavior questionable as a matter of antitrust law”); COPIAT, 790 F.2d at 917 (Customs does not possess “the authority to infuse antitrust concerns into Section 526 ...”).

\textsuperscript{105} See Olympus Corp. v. United States, 627 F. Supp. 911, 921 (E.D.N.Y. 1985); see also, e.g., Weil Ceramics & Glass, Inc. v. Dash, 618 F. Supp. 700, 711 (D.N.J. 1985), appeal docketed, Nos. 85-5187 & 86-5207 (3d Cir. July 7, 1986) (“I do not believe that the percentage of ownership should determine whether a separate goodwill [a key to trademark infringement] has been developed. ... The question is a factual one”); Osawa & Co. v. B. & H. Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984) (In reaching its decision the court delved deeply into particular facts that demonstrated harm to the plaintiff and consumer confusion); see generally infra notes 108-36 and accompanying text.
make any attempt even to address these important issues.\textsuperscript{106} Although logical and straightforward analysis of trademark infringement and consumer confusion issues are difficult to achieve, two district court cases have presented a rational analytical framework.\textsuperscript{107} In \textit{Osawa & Co. v. B \& H Photo},\textsuperscript{108} Judge Leval of the Southern District of New York emphasized the point-of-sale efforts of the authorized United States sellers of trademarked medium-format cameras, and the injuries that would result from free-riding by gray-marketeers.\textsuperscript{109} The authorized sellers in \textit{Osawa} engaged in advertising, promotion, and product servicing that caused the public to identify the trademarks in question with those dealers, independent of any public association with the foreign manufacturer.\textsuperscript{110} Judge Leval stated that the authorized seller's conduct created "factually independent goodwill."\textsuperscript{111} As a result of this "factually independent goodwill," the court found that the authorized sellers actually and directly incurred consumer ire because of purchases made from certain gray market sellers, and that this consumer ire was sufficient to produce redressable injury.\textsuperscript{112}

In \textit{Weil Ceramics \& Glass, Inc. v. Dash},\textsuperscript{113} Judge Debevoise relied

\begin{footnotesize}
\begin{enumerate}
\item Nor should they, as the resolution of such issues is properly within the province of the judiciary. \textit{See Olympus}, 627 F. Supp. at 921; \textit{see also infra} text accompanying notes 141-42.
\item \textit{Id.} at 1166-68. For a detailed discussion, \textit{see Lipner, supra} note 1, at 565-66, 572-75.
\item \textit{Osawa}, 589 F. Supp. at 1173-74.
\item \textit{Id.} at 1174. Judge Leval discussed briefly the principle known as trademark "exhaustion," under which a trademark owner may not control marked goods after releasing them into the stream of commerce. \textit{Id.} at 1173-74. After the initial sale by the trademark owner, his rights are deemed exhausted; downstream sellers are free to advertise, display, and otherwise sell the goods, so long as they do not represent themselves as authorized. Judge Leval held, however, that if the U.S. trademark owner has developed its own goodwill, independent of the foreign seller, "whatever exhaustion occurred with the original release into commerce was the exhaustion of a legally distinct and factually different mark." \textit{Id.} at 1174. It is worth examining whether the exhaustion doctrine should apply in spite of the presence of local goodwill when the U.S. trademark owner is owned or controlled by the foreign seller. The cases, unfortunately, make no mention of this question; its answer therefore seems problematic at best. \textit{Cf. Parfums Stern, Inc. v. United States Customs Service}, 575 F. Supp. 416, 419 (S.D. Fla. 1983) (holding, \textit{inter alia}, that "since [p]laintiff's international enterprise" was originally compensated for the goods, no trademark rights should be enforced). \textit{Weil}, 618 F. Supp. at 711 (local goodwill is the determining factor, and the "relationship of different markholders does not, in and of itself, preclude them from developing independent goodwill).
\item \textit{Osawa}, 589 F. Supp. at 1168; \textit{see also}, \textit{Lipner, supra} note 1, at 568-69, wherein it was suggested that factually independent goodwill might have become analogized to the concept of secondary meaning, a concept which trademark law has long known. As will be demonstrated, the standards for determining the existence of "factually independent goodwill" are not well developed, and the secondary meaning concept might be a useful tool in that regard. Nevertheless, the goodwill concept can be developed fully along lines herein suggested. \textit{See infra} text accompanying notes 133-36.
\item 618 F. Supp. 700 (D.N.J. 1985).
\end{enumerate}
\end{footnotesize}
on the Osawa decision in holding that the plaintiff in Weil had established the right to a Customs ban on gray market imports of LLADRO porcelain figurines. Judge Debevoise framed the issue before the court as "whether the United States markholder has developed the goodwill of the product in the United States or whether it has merely relied upon the mark's international goodwill." Where the domestic markholder has developed a domestic goodwill, gray market goods could confuse purchasers, injure the authorized sellers, and thus infringe upon the U.S. markholder's rights. Judge Debevoise reasoned, however, that if no independent goodwill exists, then consumers would not be confused if they associated authorized and nonauthorized (gray market) goods with the same source, i.e., the foreign manufacturer. In the latter cases, the local authorized seller would sustain no independent injury. The court found that LLADRO products were virtually unknown in the United States when Weil, the authorized seller, began to import them. Weil made considerable promotional efforts and used its own name in promoting LLADRO products. The court concluded that Weil "stands behind the porcelain which it sells by exchanging any piece having an imperfection. . . . It is the entity which insures their quality." The authorized seller had thus established local, independent goodwill. Although a trial was arguably warranted, Judge Debevoise ruled that "no genuine issue of material fact was raised," and granted Weil's motion for summary judgment on the issue of infringement. Unfortunately, the Weil opinion stressed that although Lladro S.A. (the manufacturer of the imported products) owned Weil, that

114. Id.
115. Id. at 711. Judge Debevoise, like Judge Leval in Osawa, reached this conclusion through application of the exhaustion doctrine. See supra note 111.
117. Id.
118. Id. at 712.
119. Id.
120. Id. at 713. Dash argues that even though Weil may insure the quality of LLADRO products in the U.S., it is not the only organization which does so. Brief for Appellant, at 32, Weil Ceramics & Glass, Inc. v. Dash, appeal docketed, Nos. 86-5187 & 86-5207 (3d Cir. July 7, 1986).
122. Dash argues, with enough logic to merit a full trial, and perhaps even to prevail as a matter of law, that Weil's efforts establish no customer recognition of Weil as the sole U.S. source of LLADRO products. Brief for Appellant, supra note 120, at 28-36, 39-40.
123. Weil, 618 F. Supp. at 713.
124. Id. at 718. Judge Debevoise's analysis has been cited approvingly by the Third Circuit. See Premier Dental Products Co. v. Danby Dental Supply Co., appeal docketed, No. 85-1468 (3d Cir. June 24, 1986).
fact "should [not] determine whether a separate goodwill has been developed."\textsuperscript{126} This assertion seems dubious, however, not because of section 526, its legislative history, or the recent judicial decisions interpreting it, but rather because common ownership or control suggests an attempt to create a single, global goodwill.

When common ownership or control is present, a single, global goodwill may, in fact, be cheaper and easier to develop. Certainly there would be no need to maintain the sometimes burdensome indicia of corporate and marketing separateness. Additionally, a global goodwill could be especially valuable in some situations. For example, a certain manufacturer might wish to stress global product consistency;\textsuperscript{127} alternatively, a manufacturer might wish to emphasize the foreign or international character of the goods or organizations involved.\textsuperscript{128}

Because the essence of a trademark is that goods so represented come from "a single, albeit anonymous source,"\textsuperscript{129} it is unclear why a single, global enterprise would feel the need to create a separate, local goodwill.\textsuperscript{130} Genuine products sold under a single trademark are usually substantially the same whether they are intended to be sold here or abroad.\textsuperscript{131} In contrast to such product characteristics, ancillary point-of-sale services, provided by markholders, may vary from country to country or from seller to seller. The only logical explanation for development of a separate goodwill, aside from a desire to impress courts in gray market cases, is that the U.S. authorized distributor wishes to stress to consumers that it will provide point-of-sale services that are not offered by the foreign manufacturer or foreign authorized sellers.\textsuperscript{132} Unless the U.S. authorized seller can prove that the gray market products are truly different from the authorized ones, advertising that merely stresses product characteristics cannot suffice to establish local goodwill. On the other hand, the provision and advertising

\textsuperscript{126} Id. at 711. Judge Debevoise then added, parenthetically, "To the extent that Parfums may be read to require such a simplistic analysis, I would disagree." Id.

\textsuperscript{127} For example, the manufacturer may want to stress that the goods are the same as those sold in Europe.

\textsuperscript{128} Perfumes are an example of such a product. See, e.g., Parfums Stern, Inc. v. United States Customs Service, 575 F. Supp. 416, 420 (S.D. Fla. 1983).

\textsuperscript{129} Weil, 618 F. Supp. at 712.

\textsuperscript{130} Because the fate of the U.S. authorized seller is inextricably tied to that of the foreign manufacturer, it is unclear why the U.S. entity would wish to distance itself from the foreign seller.

\textsuperscript{131} In some cases, such as automobiles, there may be some differences between the foreign and U.S. products. But in general, with the exception of warranties, the authorized and gray market products are physically the same. Furthermore, one needs to take care that any differences are not fabricated attempts to curtail gray market sales. See, e.g., Stu- art, Auto Group Fights Anti-Theft Plan, N.Y. Times, Aug. 22, 1985, at D4 , col. 1.

\textsuperscript{132} Such an argument is being made by Dash in its pending appeal of the Weil case. See Brief for Appellant, supra note 120, at 37.
of point-of-sale services such as warranty repair, maintenance of an inventory of spare, auxiliary or complimentary parts, employment of trained sales personnel, or detailed inspection for defects of all products sold would logically be relevant to the establishment of a separate goodwill.

To determine whether an independent goodwill had been established, the nature of the product is thus an important factor for courts to consider. Development of a local goodwill makes business sense where the product consists of a combination of hardware and service, i.e., where the nature of the product dictates the need for an inventory of spare, auxiliary or complimentary articles, or employment of trained sales personnel; or where the product is such that subsequent repair services might be needed. But, where the product is a simple article of commerce, where point-of-sale services are not demanded by consumers nor provided by sellers, development of a local goodwill would be superfluous. Cameras, autos, and dental equipment are examples of products that will probably require local goodwill. On the other hand, perfume, clothing, batteries, and even porcelain figurines generally will not need point-of-sale service. In the latter types of products, because point-of-sale services are generally unnecessary, free-riding by gray market sellers is unlikely to exist. The likelihood of damage to the U.S. trademark owner appears remote in those cases, and a bar to gray market imports is therefore unnecessary. Judge Debevoise’s opinion in Weil, while laudable in many other respects, falls short on this aspect of the analysis.

133. This mode of analysis is analogous to analyzing, in an antitrust context, whether a given product is subject to the free-rider effect. See Lipner, supra note 101, at 332-33.
134. See Premier Dental Products Co. v. Danby Dental Co., appeal docketed, No. 85-1468 (3d Cir. June 24, 1986); see also Model Rectifier v. Takachiho Int'l, 709 F.2d 1517 (9th Cir. 1983) (radio-controlled model cars).
135. See, e.g., El Greco Leather Products Co. v. Shoe Work, Inc., 623 F. Supp. 1038, 1392-94 (E.D.N.Y. 1984); Monte Carlo Shirt, Inc. v. Daewoo Int'l, 707 F.2d 1054, 1058 (9th Cir. 1983). A word of caution might be necessary where high-priced perfumes are involved. Image-enhancing advertising can produce protectable goodwill, especially when the unauthorized imports are being sold through discount sellers. This fact, in itself, can hamper sales to image-conscious consumers.
136. The opinion does, however, delve into the question of quality control, and point-of-sale services, which logic dictates to be necessary when dealing with porcelain figurines. Weil Ceramics & Glass, Inc. v. Dash, 618 F. Supp. 700, 711-12 (D.N.J. 1985), appeal docketed, Nos. 85-5187 & 86-5207 (3d Cir. June 7, 1986). There seemed to be some issue, however, about the quality of Weil's actual inspection efforts. But see Brief for Appellant, supra note 120. Nevertheless, the Weil decision, like that in Osawa, tended to concentrate more on questions of warranty. See Weil, 618 F. Supp. at 712-14; Osawa & Co. v. B. & H. Photo, 589 F. Supp. 1163, 1166-69, 1180 (S.D.N.Y. 1984). One must be careful not to make the determination of the nature of the product from its price alone. For example, film is a relatively inexpensive product, yet if it is not handled and stored properly, it can quickly lose its valuable properties. This is also a case where a warranty is largely irrelevant. If the film does not take quality photographs, the user will nevertheless be upset even if a warranty (to return the purchase price) is ultimately honored.
Product nature is not the only issue involved in this analytical framework. In situations where common ownership or control is present, a different kind of solution to the gray market riddle is possible. The trademark owner in the gray market setting is merely trying, for whatever reason, to enforce a restricted distribution scheme. If the trademark owner also owns or controls the foreign source, the most efficient solution is for the U.S. entity to privately enforce its scheme. Rather than rely on the U.S. Customs Service to exclude genuine goods, the trademark owner should have the burden of tracking down the diverters, and requiring the foreign distributors to stop selling goods to them. Alternatively, the trademark owner could bring a private suit under section 526, alleging damages caused by gray market sales. But regardless of the outcome of such suits, it would be an unwise expenditure of scarce government resources for Customs to expend public funds to police a private worldwide distribution scheme that could instead be policed privately.

Accordingly, the regulations represent the type of enforcement discretion that a prudent government would want Customs to make. The agency discretion argument is therefore quite persuasive. On the other hand, Customs' strict enforcement of section 526 is probably proper where common ownership and control do not exist. In situations where common ownership and control are lacking, enforcement of a restricted distribution scheme would become more difficult, if not impossible. In these instances, government intervention is the only way to protect authorized U.S. sellers. The factual situations in Katzel and Osawa are good examples of situations where government intervention would be proper. However, common ownership or control occurs with much greater frequency. Therefore, to merit government intervention, a complaining U.S. trademark owner must meet three conditions. First, a U.S. trademark owner must demonstrate that it has no power to discipline the foreign diverters through private enforcement. Second, the U.S. trademark owner must then prove that it does have a local goodwill, independent of the public's association with the foreign trademark. By proving these two elements, the U.S. trademark owner has shown not only that injury is likely, but also that

137. See supra text accompanying notes 101-03; Lipner, supra note 1, at 569-71, 573-75.
138. See Lipner, supra note 1, at 576 n.188; Vandenburgh, supra note 103.
140. See supra text accompanying notes 26-36, 53-56, 69-75.
141. A. Bourjois & Co. v. Katzel, 275 F.2d 539 (2d Cir. 1921), rev'd, 260 U.S. 689 (1923). In Katzel, the U.S. trademark owner had purchased, for a considerable sum, the trademark and goodwill of the foreign manufacturer, and was truly an independent entity. Id. at 539. Osawa & Co. v. B. & H. Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984). In Osawa, there was found to be only 7 percent common ownership. See Bell & Howell: Mamiya Co. v. Masel, 548 F. Supp. 1063 (E.D.N.Y. 1982); see also Lipner, supra note 1, at 563 n.78.
he needs government assistance in combatting the problem. Third, before the court can grant relief, the trademark owner must persuade the court that no antitrust concerns exist. Only after all these conditions have been met should Customs be enlisted to protect the U.S. trademark owner.

The district courts, not Customs, should make the determination whether to exclude gray market goods. Customs' regulations regarding common ownership and control would play a proper role at the outset of the determination. The courts, however, have properly refused to allow Customs to make the difficult factual determinations on antitrust and trademark issues.\(^{142}\)

With the exception of the D.C. Circuit Court of Appeals, almost all courts have held that section 526 protection in most situations is not available until trademark infringement has been established.\(^{143}\) Although the D.C. Circuit in \textit{COPIAT} held that section 526 was an absolute bar to gray market imports, that court's decision did not preclude judicial review of the merits of a particular exclusion.\(^{144}\) One of the potential results of a literal enforcement of section 526 is the possibility of an extreme variant in gray market litigation: the gray market importers will be the plaintiff, and the authorized sellers the defendants, with the gray market goods resting outside our borders during the pendency of the litigation. The troublesome aspect of that scenario is that exclusion would automatically result merely from trade-

\(^{142}\) See Olympus Corp. v. United States, 627 F. Supp. 911, 920-21 (E.D.N.Y. 1985). However, the D.C. Circuit in \textit{Coalition to Preserve the Integrity of American Trademarks (COPIAT)} v. United States, 790 F.2d 903 (D.C. Cir. 1986), \textit{cert. granted}, 55 U.S.L.W. 3411 (U.S. Dec. 8, 1986) (No. 86-625), in effect mandated that Customs make yet another interpretation of its role under § 526. The \textit{COPIAT} court appears to ask Customs to make a decision in favor of literal enforcement of § 526 that it is obviously unprepared and unwilling to make. Customs had solicited economic data on the gray market in 1984, but the submissions were sparse and no action was taken. Furthermore, literal enforcement of § 526 seems to be unpalatable to the Reagan Administration, as the \textit{Duracell} case suggests. Literal enforcement would be unfortunate, because § 526 makes no reference to either trademark or antitrust principles, thus providing a remedy where no real injury necessarily exists. The Supreme Court's forthcoming decision in \textit{COPIAT} may resolve this issue. However, in view of the Supreme Court's refusal to review the Federal Circuit's decision in \textit{Vivitar}, a reversal of \textit{COPIAT} may be likely. While some of the members of the Rehnquist court may be sympathetic to the viewpoints of Judges Silberman and Winter, \textit{see supra} note 57 and accompanying text, they could not muster the four votes required to take certiorari in \textit{Vivitar}, and presumably overturn that decision. The best prediction is, therefore, that \textit{COPIAT} will, in some form or another, be overturned.


\(^{144}\) The D.C. Circuit, for instance, expressly stated that it was making no findings on how antitrust bears on gray market issues. \textit{COPIAT}, 790 F.2d at 916 n.15. Similarly, it left open the question of the extent of permissible agency enforcement discretion under § 526. \textit{Id.} at 918.
mark registration, even though that registration does not require the existence of a factually independent goodwill.

The courts, in contrast, require proof of a factually independent goodwill as a prerequisite to exclusion.\textsuperscript{145} The burden of proof rests with the U.S. trademark owner. It seems anomalous that the authorized seller (the defendant under \textit{COPIAT}) will receive the benefit of the doubt at the border by obtaining automatic exclusion, but will nevertheless have to carry the burden of proof in court that the exclusion was proper. Such a situation might be analogized to receiving a temporary injunction without prior proof of a likelihood of success on the merits, a result which must be viewed as untenable. In cases where a court will ultimately find the exclusion unwarranted, Customs will have incorrectly spent scarce funds, distorted the marketplace and caused unnecessary hardship on importers, retailers and consumers.\textsuperscript{146} For these reasons, the Supreme Court should reverse the D.C. Circuit's decision in \textit{COPIAT}. Failing Supreme Court reversal of the decision, Congress should ratify Customs' practices as a prudential response to the complex gray market situation.

\textbf{IV. CONCLUSION}

Even in the face of the Supreme Court grant of certiorari in \textit{COPIAT}, the recent flurry of judicial activity indicates that a solution to the gray market riddle is not certain. One can only hope that the lower courts will now avoid deciding cases based upon section 526 and its regulations, and return to individual factual determinations of the issues in each gray market case. As numerous cases, as well as logic, demonstrate, creation of any kind of sweeping bar to gray market imports is unwise and is likely to produce inequitable results. Nevertheless, Customs' regulations, which take into account questions of ownership or control, present a rational approach to at-the-border enforcement.\textsuperscript{147} Put simply, it would be difficult for the Customs Ser-

\textsuperscript{145}. See Olympus Corp. v. United States, 792 F.2d 315, 320 (2d Cir. 1986); Osawa, 589 F. Supp. at 1174.

\textsuperscript{146}. During the pendency of the litigation, consumers could be deprived of the benefits of gray market competition such as lower prices. Retailers who sell gray market goods might not be able to operate their businesses, and might even fail. Finally, if such failures did occur, consumers who had previously purchased goods from those sellers might be deprived of valuable warranties.

\textsuperscript{147}. In situations of common ownership or control, Customs' current regulations are effective in the area of trademark and antitrust while taking into account both fiscal and budget policies. Customs will enforce § 526 when the regulations so indicate. For example, in United States v. 89 Bottles of Eau de Joy, 797 F.2d 767 (9th Cir. 1986), Customs seized and destroyed certain gray market perfume. The lower court had found that there was no common ownership of effective control between the U.S. licensee and the foreign manufacturer. The court was careful to express no view on the validity of the Customs regulations. \textit{Id.} at 770 n.2. The Ninth Circuit did, however, reject the district court's view
vice to do better, and unwise for it to go further. The courts also seem to be on the right track in many respects, although refinement of the test for local goodwill, by including the “product nature” test, would be most welcome. But in any event, all concerned should avoid being sidetracked on section 526, and instead continue to examine the merits of the unique and confounding riddle known as “the gray market.”

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that the statute barred only the importation of counterfeit goods, and did not reach genuine, gray market goods. *Id.* at 770.

148. *See supra* notes 110-16 and accompanying text.