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Richard A. Fogel*

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Abstract

This Note argues that the importance of trademark laws to the resolution of the grey goods controversy is outweighed by the overriding public policy considerations of international free trade. Part I discusses the background of the grey goods controversy by examining the history of the controlling statutory and case law and the recent grey goods cases. Part II demonstrates that trademark owners are not significantly injured by the availability of grey goods, but actually gain windfall profits if there is an absolute bar on grey goods. Part III argues that preventing importation of grey goods injures international free trade. This Note concludes that grey marketing is a natural and healthy economic consequence of restrictions on international free trade and should not be discouraged.

GREY MARKET GOODS AND MODERN INTERNATIONAL COMMERCE: A QUESTION OF FREE TRADE

INTRODUCTION

"Grey market goods" or "grey goods" are commodities bearing an authentic trademark that are manufactured under the supervision of the trademark owner, but diverted outside the trademark owner's designated distribution channel.[1] These goods are eventually sold in competition with the merchandise of authorized distributors. For example, a United States retailer who is denied an authorized distributorship by the owner of the United States trademark rights may purchase the same trademarked merchandise from an authorized distributor in another country. This retailer may then import the merchandise into the United States and sell the grey market goods in direct competition with authorized retailers or distributors.[2] If the grey goods are sold retail in a country other than that of their original manufacture as in the example above, they are frequently referred to as parallel imports.[3]

While the economic phenomenon of grey goods is not new,[4] the advancement of modern technology, the growth of international trade, and the disparity in value among national currencies have led to the increasing economic significance of

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1. *See* Olympus Corp. v. United States, 792 F.2d 315, 317 (2d Cir. 1986), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757) ("Gray market goods . . . are goods that are manufactured abroad, are legally purchased abroad from authorized distributors, and are then imported by persons other than the [United States] trademark holder and without the [United States] markholder's permission."); *see also* Victor, *Preventing Importation of Products in Violation of Property Rights*, 53 ANTITRUST L.J. 783, 790 (1984). For a general discussion of the grey goods issue see Lipner, *The Legality of Parallel Imports: Trademark, Antitrust, or Equity?*, 19 TEX. INT'L L.J. 553 (1984); Nolan-Haley, *The Competitive Process and Gray Market Goods*, 5 N.Y.L. SCH. J. INT'L & COMP. L. 231 (1984); Note, *The Greying of American Trademarks: The Genuine Goods Exclusion Act and The Incongruity of Customs Regulation 19 C.F.R. § 133.21*, 54 FORDHAM L. REV. 83 (1985) [hereinafter Note, *Greying*]; Note, *Preventing the Importation and Sale of Genuine Goods Bearing American-Owned Trademarks: Protecting an American Goodwill*, 35 ME. L. REV. 315 (1983) [hereinafter Note, *Preventing*].

2. *See* Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984). *See infra* notes 33-41 and accompanying text.

3. Note, *Preventing*, *supra* note 1, at 318.

4. Nolan-Haley, *supra* note 1, at 232; *see, e.g.*, A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923); Hunyadi Janos Corp. v. Stoeger, 285 F. 861 (2d Cir. 1922); Fred B. Gretsch Mfg. Co. v. Schoening, 238 F. 780 (2d Cir. 1916).

grey market goods.[5] These trends have resulted in burgeoning litigation over the grey goods issue,[6] the resolution of which may drastically affect international commerce.

The grey goods litigants and commentators have focused primarily on the scope of the rights of intellectual property owners.[7] The opinions and commentaries on the subject have failed, however, to address the issues of whether the grey goods dispute is a trademark issue at all, and how public policy affects the grey goods issue.[8] This Note argues that the importance of trademark laws to the resolution of the grey goods

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5. Hamburg, *U.S. Patent and Trademark Law Developments New Case and Statutory Law Designed to Take a Hard Line on Trademark Counterfeiting*, 82 PAT. & TRADE-MARK REV. 466, 478 (1984), discusses a survey conducted by the International Trade Commission which found that grey market sales have a major economic effect on the markets for chemicals and related products, records and tapes, apparel and footwear.

For a dicussion of disparities among national currencies as a primary cause of grey market goods, see Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1166 (S.D.N.Y. 1984). *Accord* Lipner, *supra* note 1, at 554; Nolan-Haley, *supra* note 1, at 232.

6. *See* Coalition To Preserve The Integrity Of American Trademarks v. United States, 790 F.2d 903, 904-05 (D.C. Cir.), *cert. granted sub nom.* K-Mart Corp. v. Cartier, Inc., 107 S. Ct. 642 (1986) (*COPIAT*); *In re* Certain Alkaline Batteries, 6 I.T.R.D. (BNA) 1849 (Int'l Trade Comm'n 1984), 225 U.S.P.Q. (BNA) 822, *disapproved by* President Reagan, 50 Fed. Reg. 1655 (Jan. 11, 1985), 225 U.S.P.Q. (BNA) 862 (1985), *appeal dismissed*, Duracell, Inc. v. Int'l Trade Comm'n, 778 F.2d 1578 (Fed. Cir. 1985) (*DURACELL*). *See also* Hamburg & Pines, *U.S. Patent and Trademark Law Developments: Recent Rulings Regarding Gray Market Goods*, 82 PAT. & TRADE-MARK REV. 511 (1984) (a somewhat dated summary of decisions involving grey goods).

7. *See, e.g.*, Olympus Corp. v. United States, 627 F. Supp. 911 (E.D.N.Y. 1985), *aff'd*, 792 F.2d 315 (2d Cir. 1986), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757); *COPIAT*, 598 F. Supp. 844 (D.D.C. 1984), *rev'd*, 790 F.2d 903 (D.C. Cir.), *cert. granted sub nom.* K-Mart Corp. v. Cartier, Inc., 107 S. Ct. 642 (1986); Callman, *Unfair Competition With Imported Trademarked Goods*, 43 VA. L. REV. 323 (1957) (general discussion of the interaction among the various United States statutes and regulations that pertain to grey market goods); Derenberg, *Territorial Scope and Situs of Trademarks and Good Will*, 47 VA. L. REV. 733 (1961) (the trademark concept of territoriality should not be extended to permit trademark owners to establish monopolistic trading around the world); Note, *Greying*, *supra* note 1 (grey market importing should not be allowed on both statutory and policy grounds); Note, *Preventing*, *supra* note 1.

8. This Note will discuss the grey goods issue as it relates to authentic, trademarked goods. This Note will not address the related issue of counterfeit goods. For a discussion of that problem, see Hamburg, *supra* note 5; Walker, *A Program to Combat International Commercial Counterfeiting*, 70 TRADE-MARK REP. 117 (1980); Note, *The Trademark Counterfeiting Act of 1984: A Sensible Legislative Response to the Ills of Commercial Counterfeiting*, 14 FORDHAM URB. L.J. 115 (1986) [hereinafter Note, *Counterfeiting Act*]; *see also* Kuhn, *Remedies Available at Customs for Infringement of a Registered Trademark*, 70 TRADE-MARK REP. 387 (1980). Selling grey goods is not the common law trademark offense of "passing off." *See* El Greco Leather Prods. Co. v. Shoe World, Inc., 599 F.

controversy is outweighed by the overriding public policy considerations of international free trade. Part I discusses the background of the grey goods controversy by examining the history of the controlling statutory and case law[9] and the recent grey goods cases.[10] Part II demonstrates that trademark owners are not significantly injured by the availability of grey goods,[11] but actually gain windfall profits if there is an absolute bar on grey goods.[12] Part III argues that preventing importation of grey goods injures international free trade.[13] This Note concludes that grey marketing is a natural and healthy economic consequence of restrictions on international free trade and should not be discouraged.[14]

I. *THE BACKGROUND OF THE GREY GOODS DISPUTE*

A section of the Tariff Act of 1930, codified at 19 U.S.C. § 1526 (section 1526), bars the importation of goods bearing the trademark of a United States trademark owner, without the written permission of the trademark owner, as long as the trademark is registered with the United States Customs Service

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Supp. 1380, 1394-95 (E.D.N.Y. 1984), *rev'd* 806 F.2d 392 (2d Cir. 1986); *see also* DEP Corp. v. Interstate Cigar Co., 622 F.2d 621, 622 n.1 (2d Cir. 1980).

For a discussion of grey market goods and the relevant aspects of copyright law, see CBS Inc., v. Sutton, Inc., 1983 Copyright L. Dec. (CCH) ¶ 25,559 (S.D.N.Y. 1983) (Jimmy's Music World); Feingold, *Parallel Importing Under the Copyright Act Of 1976*, 32 J. COPYRIGHT SOC'Y 211 (1985); Lupo, *International Trade Commission Section 337 Proceedings and Their Applicability to Copyright Ownership*, 32 J. COPYRIGHT SOC'Y 193 (1985). For an analysis of patent perspectives as they relate to grey market goods, see Note, *Importation of Articles Produced by Patented Processes: Unfair Trade Practices or Infringement?*, 18 GEO. WASH. J. INT'L L. & ECON. 129 (1984) [hereinafter Note, *Importation*]. *See also* Note, *Litigating Unfair Trade Practices Under Section 337(a) Of the Tariff Act of 1930: Defining the Domestic Industry*, 16 L. & POL'Y INT'L BUS. 597 (1984).

The scope of this Note is limited to United States statutory and case law, although the maintenance of free international commerce is the primary thesis. For a discussion of how grey market goods are treated outside the United States, see Takamatsu, *Parallel Importation Of Trademarked Goods: A Comparative Analysis*, 57 WASH. L. REV. 433 (1982). *See generally* Hawk, *Patents Under EEC Competition Law*, 53 ANTITRUST L.J. 737 (1984) (grey goods in the European Community); Hawk & Victor, *Panel Discussion*, 53 ANTITRUST L.J. 803 (1984) (same); Muratore & Robertson, *The Trade Marks Act 1955 and Parallel Imports*, 7 U. NEW S. WALES L.J. 117 (1984) (grey goods in Australia).

9. *See infra* notes 15-32 and accompanying text.
10. *See infra* notes 33-41 and accompanying text.
11. *See infra* notes 42-89 and accompanying text.
12. *See infra* notes 90-106 and accompanying text.
13. *See infra* notes 107-55 and accompanying text.
14. *See infra* notes 156-75 and accompanying text.

(Customs Service).[15] Since 1936, grey goods have been legally imported into the United States because of a Customs Service regulation which states that section 1526 does not encompass those situations in which the foreign and United States trademark rights are subject to common ownership, or those situations where the trademark on the articles of foreign manufacture is authorized by the United States trademark owner.[16]

A. *The History of the Controlling Statutory and Case Law*

Until 1922, courts held that imported genuine goods bearing a United States trademark do not infringe the rights of the domestic trademark owner.[17] Congress did not become con-

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15. 19 U.S.C. § 1526 (1985) (section 1526):

> (a) *Importation prohibited.* Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trade-mark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent Office [Patent and Trademark Office] by a person domiciled in the United States. . .
> (b) *Seizure and forfeiture.* Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.
> (c) *Injunction and damages.* Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trade-mark and shall be liable for the same damages and profits provided for wrongful use of a trade-mark. . . .

Id. Subsection (d) provides for certain exemptions for articles brought in by persons for personal use. *Id.* § 1526(d). Subsection (e) provides remedies for imports bearing counterfeit trademarks. *Id.* § 1526(e).

16. 19 C.F.R. § 133.21(b)(c)(1-3) (1986), as amended, states:

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

Id.

17. *See, e.g.*, Hunyadi Janos Corp. v. Stoeger, 285 F. 861 (2d Cir. 1922); Fred Gretsch Mfg. Co. v. Schoening, 238 F. 780 (2d Cir. 1916).

cerned about domestic trademark owners' rights until the United States Court of Appeals for the Second Circuit's decision in *A. Bourjois & Co. v. Katzel.*[18] In *Bourjois*, the court held that a United States trademark owner, who bought the United States trademark rights to a face powder from a French manufacturer, had no remedy against a United States importer who had bought the trademarked powder directly from the manufacturer in Europe.[19] The foreign trademark owner defrauded the United States trademark owner by selling its goods to the third party importer, probably with the knowledge that the goods would be sold in the United States in competition with the United States trademark owner's authorized goods.[20]

In response to the Second Circuit's decision in *Bourjois*, Congress enacted section 1526(a)-(c).[21] Initially the proponents of the legislation advanced that the section was neces-

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18. 275 F. 539 (2d Cir. 1921), *rev'g* 274 F. Supp. 856 (S.D.N.Y. 1920).

19. 275 F. at 543.

20. *Id.*

21. Section 1526 was controversial from its inception. The section was proposed by four senators on the finance committee, and added to the Tariff Bill of 1922 without a hearing. 62 CONG. REC. 11602 (1922). The section was removed with the understanding that it would be brought before the committee on patents as a separate bill on its own merits. *Id.* Nevertheless, the section was reinstated by the finance committee after a midnight session along with a large group of other amendments. *Id.* The full senate debated it under a "5 minute rule," *id.* at 11603, during which it was characterized by the senator from New Hampshire as a "midnight amendment." *Id.* at 11602. This criticism was noted by the Federal Circuit in Vivitar Corp. v. United States, 761 F.2d 1552, 1563 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986). The senator from New Hampshire demurred on the grounds that the amendment's subject matter was more properly a matter for the foreign relations or patents committee, rather than for the finance committee. 62 CONG. REC. at 11602-03 (statement of Senator Moses). The senator also strongly objected to consideration of a bill concerning an issue that was currently being litigated before the United States Supreme Court, *id.* at 11603 (referring to A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923)) and predicted that Congress would be besieged by requests from attorneys to change the law in cases currently before the courts. *Id.* at 11603. Notwithstanding this objection, the Senate apparently concluded the new law would not have an effect on the *Bourjois* litigation pending in the United States Supreme Court because that litigation would "be determined by the state of the law as it existed at the time the facts arose. . . ." *Id.* at 11604 (statement of Senator Pomerene). A Senator from Minnesota commented that the amendment might have far-reaching foreign policy effects, interfering with numerous international treaties. *Id.*

Despite the criticism, the amendment passed, 44 to 15. *Id.* at 11605. Thirty-seven senators did not vote. The section eventually passed into law. 42 Stat. 975 (1922). The section was reconsidered by the Senate in 1929. 71 CONG. REC. 3871-74 (1929). It was reenacted as Section 526 of the Tariff Act of 1930, 46 Stat. 741 (1930), without revision. 71 CONG. REC. at 3874.

sary to prevent the sort of fraud that had occurred in *Bourjois*.[22] The Senate debate, however, shows that the primary motive of the section's proponents was to protect the purchasers of German property located in the United States seized during World War I by the United States Government.[23]

During the Senate debate over the proposed law, the Chairman of the Finance Committee,[24] the chief legislative sponsor of the law, explained why the amendment would not prevent a United States corporation from importing a product with a foreign-owned trademark that had been registered in the United States,[25]stating,

> if there has been no transfer of trademark, that presents an entirely different question. But suppose the trademark is owned exclusively by an American firm or corporation. The mere fact of a foreigner having a trademark and registering that trademark in the United States, and selling the goods in the United States through an agency, of course, would not be affected by this provision.[26]

Hence, the original Senate proponents of section 1526 did not intend it to have effect when the trademark rights were not transferred from the foreign entity to the independent domestic entity; that is, section 1526 was never meant to apply where the trademark rights were owned by a "single international entity."[27] The amendment was intended to operate only in factual situations similar to that in *Bourjois*, where a United States corporation purchases the United States trademark rights from a foreign trademark owner and the two corporations are

22. 62 CONG. REC., *supra* note 21, at 11603.

23. During World War I, property belonging to German nationals was seized by the Alien Property Custodian. The property was then auctioned off to the highest bidder. Bayer Co. of New York, a subsidiary of the Bayer Co. of Germany, was seized by the Alien Property Custodian and sold at auction for three million dollars. The New York senator made it clear that he and a number of his colleagues favored the adoption of section 1526 to protect such purchasers; and saw this as the section's primary purpose. *Id.* at 11604.

24. Senator McCumber of North Dakota was Chairman of the Senate Finance Committee in 1922. *See id.* at 11605.

25. *Id.*

26. *Id.*

27. The term "single international entity" refers to a corporation that has partially or wholly owned subsidiaries incorporated in a different country. *See infra* notes 90-106 and accompanying text.

wholly independent of each other.[28] Correspondingly, the House Report recommending passage of the amendment indicated clearly that the provision was intended to change the result in *Bourjois*-type cases.[29]

Meanwhile, the United States Supreme Court independently reversed the Second Circuit's decision in *Bourjois*.[30] In a brief opinion, the Court barred the importation of foreign goods bearing a United States registered trademark without the owner's permission.[31] The Court based its opinion on the theories of territoriality and goodwill; that is, both in law and in public understanding, the goods originated with the United States trademark owner, and not the foreign manufacturer.[32]

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28. See *supra* notes 24-29 and accompanying text.

29. The House of Representatives referred to the section as Amendment No. 2084 of the Tariff Bill of 1922. H.R. REP. No. 1223, 67th Cong., 2d Sess. 158 (1922).

30. A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923) (Holmes, J.).

31. *Id.* at 691.

32. *See id.* at 692. Universality and territoriality are arcane trademark concepts of legal goodwill. The universality concept is that the goodwill associated with a trademark belongs to the manufacturer of the article, even if the article is imported. The territoriality concept provides that the goodwill belongs to the owner of the trademark rights in each country. *See* Derenberg, *supra* note 7, at 733. In *Bourjois*, Justice Holmes relied on the concept of territoriality to establish the independent goodwill of the United States trademark owner. 260 U.S. at 692. Notwithstanding the Court's holding in *Bourjois*, the facts indicate little evidence of United States goodwill independent of the French manufacturer. Lipner, *supra* note 1, at 569. One commentator concluded that *Bourjois* gave United States trademark owners broad authority to ban imports and sales of goods in the United States bearing their trademark. Lipner, *supra* note 1, at 554.

The Court's opinion showed that it was influenced strongly by the particular facts of the case. The Court reasoned that a third party should not be allowed to sell the trademarked goods in the United States if the foreign manufacturer and trademark owner could not sell such goods. *Bourjois*, 260 U.S. at 691. Justice Holmes clearly indicated that he thought Bourjois had suffered an injustice and so he supplied relief. *Id.* It seems presumptuous to enunciate a novel legal theory based on a three-page decision. *See* Lipner, *supra* note 1, at 569; Victor, *supra* note 1, at 793. In addition, the Court's opinion should be cautiously viewed in light of judicial activism, the protectionist fervor of the twenties, and the Court's probable knowledge of the Senate debate on the statute. Recent judicial opinions have disagreed with the proposition that *Bourjois* gave trademark owners a remedy separate from section 1526, *Olympus*, 627 F. Supp. at 911; *COPIAT*, 598 F. Supp. at 844, because such an idea ignores the legislative history of the section. *Accord* Kuhn, *supra* note 8, at 393; Note, *Preventing*, *supra* note 1, at 319; *see supra* note 21 and acccompanying text (discussion of the legislative history of section 1526). Further, such a hypothesis disregards Congress' intent to establish the law in this area following the *Bourjois* decision in the form of section 1526. *See supra* note 21.

B. *Recent Cases Involving Section 1526 and the Customs Regulation*

In recent cases, United States trademark owners have tried to prevent the grey marketing of their goods by bringing court actions challenging the Customs Service's interpretation of section 1526 as conflicting with the plain meaning of the statute and therefore ultra vires.[33] In addition, opponents of the Customs Service regulation claim that the regulation has varied over the years[34] and is therefore entitled to little weight.[35] The United States Court of Appeals for the Second Circuit rejected these arguments in *Olympus Corp. v. United States*.[36] The United States Court of Appeals for the Federal Circuit also rejected these arguments in *Vivitar Corp. v. United States*,[37] agreeing with the United States District Court for the District of Columbia in *Coalition To Preserve The Integrity Of American Trademarks v. United States*,[38] (*COPIAT*) that the Customs Service's interpretation has been substantially consistent for fifty years, despite some literal changes in the language of the regulation.[39] However, the United States Court of Appeals for the District of Columbia Circuit reversed the District Court in *COPIAT* and granted a declaratory judgment that the Customs

33. *See, e.g.*, Olympus Corp. v. United States, 792 F.2d 315, (2d Cir. 1986), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757); Vivitar Corp. v. United States, 761 F.2d 1552, 1571 (Fed. Cir. 1985), *aff'g* 593 F. Supp. 420 (Ct. Int'l Trade 1984) (upholding Customs Service regulation) *cert. denied*, 106 S. Ct. 791 (1986).

34. *Vivitar*, 761 F.2d at 1565-71; *see also* Note, *Greying*, *supra* note 1, at 98-101. These opponents point out that the United States Customs Service did not propose a "relation exception" until 1936, fourteen years after the statute was enacted. *Vivitar*, 761 F.2d at 1566; Note, *Greying*, *supra* note 1, at 99. This "exception" was not followed by the Customs Service in practice, *Vivitar*, 761 F.2d at 1567; Note, *Greying*, *supra* note 1, at 99-100, until United States v. Guerlain, 155 F. Supp. 77 (S.D.N.Y. 1957) (antitrust violation because of exclusive distributorship arrangement), *action dismissed*, 358 U.S. 915 (1958). After *Guerlain*, the Customs Service broadly interpreted the relation concept, *Vivitar*, 761 F.2d at 1567, and slightly modified the regulation in 1972 by adding a parent and subsidiary clause (T.D. 72-266, 37 Fed. Reg. 20678, Oct. 3, 1972). *Vivitar*, 761 F.2d at 1567; Note, *Greying*, *supra* note 1, at 100.

35. *See* Note, *Greying supra* note 7, at 98 (citing Federal Election Comm'n v. Democratic Senatorial Campaign Comm'n, 454 U.S. 27, 37 (1981)).

36. 792 F.2d 315, (2d Cir. 1986), *aff'g* 627 F. Supp. 911, (E.D.N.Y. 1985) *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757).

37. 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986).

38. *COPIAT*, 598 F. Supp. 844, 852 (D.D.C. 1984).

39. *Vivitar*, 761 F.2d at 1565-66.

Regulation was invalid.[40] The recent cases are distinguishable

40. *COPIAT*, 790 F.2d 903 (D.C. Cir.), *rev'g* 598 F. Supp. 844 (D.D.C. 1984), *cert. granted*, K-Mart Corp. v. Cartier, 107 S. Ct. 642 (Dec. 8, 1986).

In *COPIAT*, a group of manufacturers and distributors of United States trademarked goods, such as tires, crystal, perfumes, photographic equipment and electronics, 598 F. Supp. at 846, petitioned the United States District Court for the District of Columbia for a declaratory judgment holding the Customs Service regulation inconsistent with section 1526, and for a writ of mandamus ordering the Customs Service to enforce section 1526 notwithstanding the Customs Service regulation. *Id.* The district court denied the petition, holding that the Customs Service regulation was reasonable and consistent with the statute's legislative and judicial history. *Id.* at 852.

On appeal, the United States Court of Appeals for the D.C. Circuit reversed, holding that the Customs regulation conflicted with section 1526. *COPIAT*, 790 F.2d at 907. The opinion, however, is inconsistent because the court initially rejected the appellees' contention that the extrinsic indicia of legislative intent should be used to analyze the meaning of section 1526, *id.* at 908, but subsequently proceeded to rely on extrinsic indicia that supported its holding.

The court discussed *A. Bourjois & Co. v. Katzel*, explaining that *Bourjois* was the impetus for section 1526, *id.* at 909-10, but the court failed to distinguish the facts of that case from the *COPIAT* facts. The United States trademark owner in *Bourjois* was a separate and unrelated entity from the foreign manufacturer and trademark owner. *Bourjois*, 275 F. at 539. The appellants in *COPIAT* are United States trademark owners that are either wholly-owned subsidiaries or closely related corporate entities of the foreign manufacturers and trademark owners.

The court also discussed the legislative history of section 1526 but it dismissed the remarks of the primary legislative proponent of the law which clearly distinguished the situation where the United States trademark owner is controlled by the foreign trademark owner. *See COPIAT*, 790 F.2d at 912. The *COPIAT* court dismissed these remarks as typical understatement and exaggeration by a proponent of legislation. *Id.* If this view is taken to its logical conclusion, all remarks made during a legislative debate over a bill would be disregarded as biased, because they were made by either a proponent or an opponent. The court also rejected the district court's view that Congress tacitly approved of the Customs Service regulation. *Id.* at 917.

The court's remarks about the purpose of the Customs Service regulation are particularly interesting because the court tacitly recognized that section 1526 is a vertical restraint that allows the foreign manufacturer to have more direct control over the final destination of its trademarked goods. *Id.* The vertical restraints issue is irrelevant to the *COPIAT* declaratory judgment action because this issue does not relate to the statutory interpretation that is challenged by the plaintiff. The court's consideration of this issue strongly suggests that the imbroglio over the Customs Service regulation is really an attempt by foreign trademark owners to use section 1526 of the United States trademark laws as a vertical restraint. *See infra* notes 116-75 and accompanying text.

The court makes a fundamental misstatement when it calls the Customs regulation an "exception" to section 1526. *COPIAT*, 790 F.2d at 904, 907. That statement alone is enough to declare the regulation ultra vires because a regulation is not a law, and it cannot limit a law. *Vivitar*, 761 F.2d at 1569. The regulation merely reflects the Customs Service's view that section 1526 does not encompass factual situations where the United States trademark owner is related to the foreign trademark owner.

from *Bourjois*[41] in that the United States trademark owners are not independent from the foreign entity and hence neither section 1526 nor *Bourjois* apply.

II. *AN ANALYSIS OF THE "INJURIES" TO TRADEMARK OWNERS ALLEGEDLY CAUSED BY GREY MARKET GOODS*

The United States trademark owners want to stop the sale of their trademarked goods as grey goods by using section 1526. Notwithstanding the various arguments concerning whether the customs regulation is ultra vires or whether section 1526 encompasses the grey goods situation, trademark owners have argued that grey market goods cause them irreparable economic harm and therefore should be barred on public policy grounds.[42] In *Osawa & Co. v. B & H Photo*,[43] Osawa (United States), the registered owner of the United States trademark for "Mamiya" cameras, succeeded in obtaining a preliminary injunction barring several New York discount camera dealers from independently importing and selling MAMIYA cameras.[44] The court held that Osawa (United States) had demonstrated irreparable harm in the form of consumer confusion, damage to reputation and injury to busi-

Id. This is a very reasonable view in light of the fact that the chief legislative proponent of the law stated as much. *See supra* notes 21-24 and accompanying text.

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

42. *See* Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984); Nolan-Haley, *supra* note 1; Note, *Greying, supra* note 1.

43. Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984) (Leval, J.). Previously Osawa (United States) had brought a similar action in its former corporate form, Bell & Howell : Mamiya, in the Eastern District of New York, and won in the district court but lost on appeal. The United States Court of Appeals for the Second Circuit ruled that Bell & Howell failed to show the equitable requirement of irreparable harm that is necessary to grant a preliminary injunction barring the grey goods. Bell & Howell : Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983), *vacating and remanding* 548 F. Supp. 1003 (E.D.N.Y. 1982).

44. The court disregarded the substantial relationship between Osawa (United States) and the foreign corporations, and dismissed the Customs Service regulation as a simplistic antitrust regulation, 589 F. Supp. at 1177, based on the trademark concept of universality discarded in *Bourjois*. *Id.* at 1172 (citing A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923)). Furthermore, the court indicated the Customs Service may have exceeded its authority in promulgating the regulations. 589 F. Supp. at 1177.

ness.[45] Most of these alleged economic injuries do not withstand closer analysis,[46] and whatever valid concerns there are may be more appropriately addressed by measures that are less drastic than an absolute bar against grey goods.[47]

The *Osawa* court held, and several commentators have argued, that grey market goods irreparably harm trademark owners and therefore grey goods should not be permitted on policy grounds.[48] However, a more substantial analysis of these alleged injuries shows that any injuries to trademark owners are insubstantial compared to the injuries to international free trade caused by an absolute bar of grey goods.[49]

A. *Domestic Unemployment*

Osawa claimed that grey marketing causes domestic unemployment.[50] While an authorized importer will probably do less business if it faces increased competition in the form of parallel imports, it does not necessarily follow that parallel imports cause domestic unemployment. Many small, unauthorized importers and retailers are likely to employ at least as many people as a few authorized importers.[51]

B. *Deprivation of Trademark Owners' Ability to Control the Distribution of Their Trademarked Goods*

An influential aspect of the trademark owners' argument against grey goods is the lack of quality control in the market-

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45. 589 F. Supp. at 1168. For a discussion of the alleged injuries of Osawa, see *infra* notes 46-89 and accompanying text.

46. *See infra* notes 50-89 and accompanying text.

47. *See infra* notes 56-57, 157-59 and accompanying text.

48. *See Osawa*, 589 F. Supp at 1163-1170; Nolan-Haley, *supra* note 1; Note, *Greying*, *supra* note 1.

49. *See infra* notes 107-75 and accompanying text.

50. *See Osawa*, 589 F. Supp. at 1168; *see also* Nolan-Haley, *supra* note 1, at 233.

51. It is unlikely that four importers will employ fewer people than two importers, even if each of the two importers is larger than any of the individual importers in the subsequent four, because parallel importers do not cause a loss in the trademark's market share. *See infra* notes 65-89, 156-75 and accompanying text. Parallel imports cause increased competition among a product's distributors, *see id.*, and the laws of supply and demand dictate that increased competition leads to lower prices, which in turn creates greater demand for a product. *See infra* notes 170-75 and accompanying text. The irony of the domestic unemployment argument is that parallel imports lead to greater economic activity which creates more rather than fewer jobs. *See id.* This effect is multiplied by the fact that unauthorized distributors and retailers usually charge less for a product than an authorized distributor.

place in terms of both retail service and the actual physical condition of the goods sold.[52] The trademark owners allege that the lack of quality control reflects on the goodwill of their trademark.[53] These assertions were raised in *Osawa*, but the plaintiff did not identify any specific instance of inferior merchandise.[54] In *Selchow & Righter Co. v. Goldex Corp.*,[55] however, the claimant demonstrated the inferiority of grey market Canadian TRIVIAL PURSUIT games because the game's questions were designed for the Canadian market.[56] The trademark owners assert that grey market sales of their product should be barred in such situations. A more appropriate solution, however, is to disclose any possible defects in the goods to the consumer and allow the consumer the option and benefit of purchasing the less expensive product. The trademark owner will not suffer any illwill because the defect is not dangerous to the consumer, and the consumer is forewarned of its presence.[57]

C. *Free Riding on the Goodwill of a Single International Entity*

The trademark owners' central argument is that grey marketers take a "free ride" on the goodwill of their trademarks, and are therefore competing unfairly.[58] Specifically, the trade-

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52. *See Osawa*, 589 F. Supp. at 1166-67; Nolan-Haley, *supra* note 1, at 240; Note, *Greying*, *supra* note 1, at 85 n.7.

53. *See Osawa*, 589 F. Supp. at 1166-67; Nolan-Haley, *supra* note 1, at 240; Note, *Greying*, *supra* note 1, at 85 n.7.

54. *See* Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984). A similar argument of inferior goods was rejected in El Greco Leather Prods. Co. v. ShoeWorld, Inc., 599 F. Supp. 1380, 1383-87 (E.D.N.Y. 1984), *rev'd*, 806 F.2d 392 (2d Cir. 1986), where an importer rejected CANDIES shoes, that later showed up on the grey market. No actual defects were shown by the plaintiff. *See also* Monte Carlo Shirt, Inc. v. Daewoo Int'l (America) Corp., 707 F.2d 1054 (9th Cir. 1983).

There are situations where grey goods such as automobiles are imported that do not meet the requirements of United States safety standards. In such consumer safety situations, the trademark owners have a valid complaint, because it is a problem of safety and not quality control. This Note does not address these consumer safety situations.

55. 612 F. Supp. 19 (S.D. Fla. 1985).

56. *Id.* at 24.

57. For example, if the questions in a grey market TRIVIAL PURSUIT game are designed for Canadian players, the retailer would be required to disclose this fact to the consumer. The consumer then has the option of purchasing the "defective" product, in much the same way a consumer purchases "seconds" from clothing manufacturers. *See infra* notes 157-59 and accompanying text.

58. *See* Vivitar Corp. v. United States, 761 F.2d 1552, 1556 (Fed. Cir. 1985), *aff'g*

mark owners assert that grey marketers are taking a "free ride" on the owners' advertising,[59] product information supplied to the consumer[60] and warranty on the product.[61]

There are three objections to the free ride theory. First, it is debatable whether the specific injuries that are allegedly caused by free riding actually occur.[62] Second, where there is a single international entity stretching across several national borders, the entity should not be compensated for its goodwill more than once.[63] Third, notwithstanding any alleged free riding injuries, it is more economically efficient to let the consumers decide what they want.[64]

1. The Alleged Specific Free Riding Injuries

In *Osawa*, the plaintiff asserted that grey marketers do not advertise, or maintain the manufacturer's image or proclaim the product's quality.[65] Actually, grey marketers spend substantial amounts of money on advertising[66] and have as strong a motive for maintaining the manufacturer's image as any other retailer.[67] The fact that grey marketers may spend less on advertising than authorized distributors does not make grey marketers free riders, as the proper comparison is between grey marketers and other retailers. Since the distributor is part of a single international entity, his advertising costs have already been recovered, when the grey marketer purchased its

593 F. Supp. 420 (Ct. Int'l Trade 1984), *cert. denied*, 106 S. Ct. 791 (1986); Olympus Corp. v. United States, 627 F. Supp. 911, 921 (E.D.N.Y. 1985), *aff'd*, 792 F.2d 315 (2d Cir. 1986), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757); *COPIAT*, 598 F. Supp. 844, 850 (D.D.C. 1984), *rev'd*, 790 F.2d 903 (D.C. Cir.), *cert. granted*, K-Mart Corp. v. Cartier, 107 S. Ct. 642 (Dec. 8, 1986) (COPIAT); *Osawa*, 589 F. Supp. at 1168; Lipner, *supra* note 1; Nolan-Haley, *supra* note 1; Note, *Greying*, *supra* note 1.

59. *Osawa*, 589 F. Supp. at 1167; Nolan-Haley, *supra* note 1, at 235.

60. *Osawa*, 589 F. Supp. at 1166-67.

61. *Id.* at 1166-68.

62. *See infra* notes 65-89 and accompanying text.

63. *See infra* notes 90-106 and accompanying text.

64. *See infra* notes 108-75 and accompanying text.

65. *Osawa*, 589 F. Supp. at 1166-67. The court dismissed the defendant's substantial outlays on advertising, merely stating that the purported advertising did not advertise the quality of the goods.

66. *Id.* at 1167; Wysocki, *Resale Price Maintenance and the Mass Market: A 'Repeat Business' Rebuttal to Professor Baxter*, 14(3) ANTITRUST L. & ECON. REV. 91, 99-100 (1982).

67. Wysocki, *supra* note 66, at 100.

products from another division of the entity overseas. Furthermore, by being part of a single international entity, the authorized distributor will benefit from any sales made by the grey marketer.[68] It is likely that advertisements extolling the product's quality would be handled more efficiently by the manufacturer, because mass media advertising is likely to have a far greater overall impact than any advertising done by a retailer.[69] The fact that customers are satisfied and continue to purchase the manufacturer's goods is the ultimate proof of goodwill.[70]

The free rider model is incorrect in equating traditional stores with discounters except for services. The discounter is actually supplying new and different services, and is able to undersell the traditional authorized dealers primarily because the discounter is more economically efficient.[71] For example, many discounters offer mail order services, thereby exploiting markets that had been previously ignored by traditional retailers.[72] Discounters are also able to charge less for the goods they sell because their salesmen do not earn sales commissions on the products,[73] and discounters often use "zero" inventory techniques[74] and minimal interior decorating.[75]

The trademark owners' most persuasive argument is that grey marketers are free riding on the product and service war-

68. *See infra* notes 90-106 and accompanying text.

69. Steiner, *RPM, Distribution Restraints, and the Growth of Discounting: The Importance of Vertical Competition*, 15(2) ANTITRUST L. & ECON. REV. 73, 78 (1983). That is because most products involved in grey goods have mature markets. *See infra* notes 143-45 and accompanying text.

70. Mattioli, *Resale Price Fixing and the Hi-Tech Discounters Consumer Electronics in Madison*, 14(3) ANTITRUST L. & ECON. REV. 11, 31 (1982); Milley, *The High Cost of RPM: Discounting, Manufacturing, And The Scale-Economy Problem* (pt. 2), 15(2) ANTITRUST L. & ECON. REV. 35, 46-47 (1983); Wysocki, *supra* note 66, at 27-28.

71. Steiner, *supra* note 69, at 85.

72. *Id.* at 86. For example, mail order services have brought new products to vast regions of small towns. *Id.*

73. Milley, *The High Cost of RPM: Discounting, Manufacturing, and the Scale-Economy Problem* (pt. 1), 14 (3) ANTITRUST L. & ECON. REV. 101, 107 (1982).

74. *See, e.g.*, *Osawa*, 589 F. Supp. at 1181. A commonly used technique in Japan, "zero inventory" means that inventory is kept at a minimum, with the ability to order whatever is necessary at a moment's notice. Stockpiling goods that a retailer could get quickly conveys no benefit to the consumer and only increases the seller's costs. In the current age of overnight deliveries, computerized inventory management, and modern communications, there is no reason why products cannot be shipped quickly.

75. *See* Mattioli, *supra* note 70, at 18 (referring to full service "traditional" retailers as "dinosaurs").

ranties offered by the authorized distributors. For example, the defendant in *Osawa* advertised that his Mamiya cameras carried the warranty of the manufacturer.[76] This action did not injure the authorized distributor, however, because it billed the manufacturer for all the repair costs, and the manufacturer's costs must have been included in the price paid by the defendant.[77] Even if the authorized distributor had not directly billed the manufacturer, it would not have been injured because the primary economic advantage of being a single international entity is the ability to spread costs.[78] Moreover, many discounters warranty everything they sell at their own expense.[79] However, the court in *Osawa* dismissed warranties supplied by grey marketers as insufficient as compared to the manufacturer's warranties because the grey marketer has no incentive to uphold the value of the trademark.[80] This conclusion ignores the fact that any retailer, especially a volume seller, has the greatest economic incentive of selling more by upholding the trademark's goodwill.[81] Moreover, the judge should not substitute his judgment for that of the consumer, as long as serious consumer protection concerns do not exist.[82]

In *Osawa*, the plaintiff alleged that its goodwill was harmed by the defendant's failure to stock a full line of Osawa's goods.[83] This alleged injury was not an injury to Osawa's goodwill but, rather, to Osawa's pocketbook.[84] The market,

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76. *Osawa*, 589 F. Supp. at 1168.

77. *Id.* at 1180. Judge Leval apparently withdrew his warranty objection on reargument but further obscured the issue by declaring the warranty relationship between Osawa (U.S.) and Osawa (Japan) "unclear." *Id.*

78. *See infra* notes 90-106 and accompanying text.

79. *See, e.g.*, *Osawa*, 589 F. Supp. at 1168; Mattioli, *supra* note 70, at 32; Milley, *supra* note 70; Walton, *Antitrust, RPM, and the Big Brands: Discounting in Small-Town America* (pt. 2), 15(2) ANTITRUST L. & ECON. REV. 11, 12-13 (1983); Wysocki, *supra* note 66, at 27-28. *Cf. RPM, Discounting, And Public Policy: A Panel Discussion*, 15(2) ANTITRUST L. & ECON. REV. 51 (1983) [hereinafter *RPM, Panel Discussion*].

80. *Osawa*, 589 F. Supp. at 1169.

81. Walton, *Antitrust, RPM, and the Big Brands: Discounting in Small-Town America* (pt. 1), 14(3) ANTITRUST L. & ECON. REV. 81, 99-100 (1982).

82. *Accord* Mattioli, *supra* note 70, at 31; Milley, *supra* note 70, at 46-47; *RPM, Panel Discussion*, *supra* note 87, at 66-67; Walton, *supra* note 79, at 13; Wysocki, *supra* note 66, at 27-28. For a discussion of the appropriate remedy for consumer protection concerns, see *supra* notes 56-57 and accompanying text.

83. *Osawa*, 589 F. Supp. at 1166-67.

84. Osawa's reasoning follows a circuitous route. Osawa terminated the defendant's authorized distributorship. It then argued that the defendant should stock a full

not Osawa, should be allowed to determine whether full line stores are required.[85] If a manufacturer is allowed to force its inventory upon a retailer without market demand, the effect will be to raise the ultimate cost of products purchased by the consumer.[86] This imposed inventory can best be described as built-in economic inefficiency.[87] Moreover, the grey marketer defendants in *Osawa* demonstrated that they could fulfill requests for merchandise very quickly.[88] In fact, the defendants had sold all of Osawa's products at one time or another.[89]

2. The Windfall Received by a Single International Entity

A single international entity will include its overhead costs in the initial sale price of the product. The entity is receiving a windfall if it receives a second compensation for its overhead costs merely because the product was resold in another country.[90] Notwithstanding trademark legal fictions of a separate

line of its goods, while concurrently refusing to sell it any stock. Osawa concluded that the defendant should not be allowed to sell any of its goods since it does not sell them all. Clearly, Osawa was complaining of an injury it in fact caused. *See generally id.*

85. Osawa's argument was that it should be allowed to force every retailer of Osawa's products to stock a complete inventory of all the products Osawa sells, so that consumer demand can always be satisfied instantaneously. However, if there is little or no demand for some of Osawa's products, forcing a retailer to buy these products does not benefit the consumer or protect Osawa's goodwill. A retailer should not be forced to accept Osawa's judgment rather than that of the consumers. *See generally id.*

86. If there is no demand for a full line of accessories, then the full line of accessories that a retailer is forced to stock simply becomes excess inventory. The retailer must borrow extra money to buy this inventory, and he must make a greater profit on the products for which there is consumer demand, in order to repay the extra amount of money borrowed and interest costs.

87. *See infra* notes 122-55 (discussion of vertical restraints and economic efficiency).

88. *See Osawa*, 589 F. Supp. at 1181. *But see* Nolan-Haley, *supra* note 1, at 234-35.

89. *Osawa*, 589 F. Supp. at 1167.

90. For example, a large multinational manufacturing and distributing enterprise incorporates separate subsidiaries in several different countries. The manufacturing subsidiary and the subsidiary that owns the worldwide trademark and distribution rights are both incorporated in the same country. The subsidiary that owns the worldwide trademark and distribution rights "sells" the trademark and distribution rights for a particular country to a particular subsidiary of the entity incorporated in that country. Each time the product moves from the manufacturing-subsidiary to the worldwide-distributing-subsidiary to the local-distributing-subsidiary, the only real increase in overhead costs to the entity is the cost of shipping the product. The costs of shipping must also be paid by parallel importers, so this cost is of no consequence to the trademark owners' argument. The overhead costs of warranty and advertising

local goodwill owned by the importer,[91] there is no actual increase in costs to the entity because the good crossed a national border.[92] The trademark owners contend that doing business in the United States is more expensive than doing business in some other countries in which the grey market goods are purchased.[93] This contention may possibly be true, but it is immaterial in the case of a single international entity, because the cost of doing business is distributed throughout the entity.[94]

A parallel importer who purchases "x-brand" cameras in Europe would technically be paying a local authorized dealer or wholesaler, but that supplier in turn purchased the wares from a local subsidiary of the parent corporation, if not from the parent corporation itself.[95] Either the parent corporation included the operating expenses in calculating the contract price with the local subsidiary or dealer, or the local subsidiary or dealer included the expenses in the sale price to the retailer. It is economically inconsequential whether the cost of developing a market in Europe was included in the costs of the parent corporation or included instead in the costs of the dealer because the parent corporation and the dealer are one economic

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can be included in any of the subsidiaries' costs in the chain of distribution. In *Osawa*, for example, the local distributor was reimbursed by the manufacturer for all warranty repair costs. *Osawa*, 589 F. Supp. at 1180. Therefore the overhead costs for warranty repairs must have been included in the manufacturing-subsidiary's overhead costs. If the entity chooses to include the warranty costs and advertising costs in the local-distributing-subsidiary's overhead costs, it is true that the parallel importer and grey marketer will, *technically*, avoid directly compensating the entity for these costs because the parallel importer and grey marketer bypass the local-distributor-subsidiary in the chain of product distribution. This is precisely the injury that the trademark owners allege, but this injury is really a "paper" injury because the grey marketers and parallel importers indirectly compensate the entity for all its overhead costs. *See infra* notes 98-100 and accompanying text.

91. *See supra* note 32 and accompanying text.

92. *See supra* note 90.

93. *Osawa*, 589 F. Supp. at 1166; Nolan-Haley, *supra* note 1, at 233.

94. *See generally supra* note 90.

95. This hypothetical uses "subsidiary" in the more general sense. For example, even though Osawa (United States) was not a wholly owned subsidiary of Osawa (Japan), the latter did own 93% of the former. Even Osawa could not rationally claim the two were not commonly controlled. Moreover, the other 7% of Osawa (United States) was owned by the Japanese manufacturer, Mamiya. Osawa (Japan) owned 30% of Mamiya, undoubtedly enough to control that corporation. This definition ignores the corporate structure. The corporate "veil" is irrelevant, because the issue is control, not liability.

entity.[96] The only difference is the name of the subsidiary-corporation that lists the costs on its balance sheets.[97]

Thus, parallel importers and grey marketers have already indirectly paid the costs of developing a United States market as that expense must have been included in the sales price of the goods. Indeed, one of the major advantages of being a single international entity involved in several markets is the ability to control local fluctuations in costs by spreading these costs among several markets, thereby maximizing overall profits.[98] The profits and losses in the local market will eventually be reflected in the parent corporation's profits or losses.[99] Thus, if the local supplier is forced to lower its selling price, the single international entity will simply use a high profit operation elsewhere to subsidize the local entity's losses.[100]

The single international entity will experience an actual decline in profits caused by an influx of grey market goods only if it has been price discriminating against the local market[101] or the local subsidiary enjoys monopoly conditions. The local entity could maintain higher prices without a decrease in

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96. *See generally supra* note 90.

97. *See generally id.*

98. *See infra* note 100. It is possible that even if all the various operating entities were totally unrelated, in a mature market (one that is well developed with little room for expansion of the market), the separate entities may act similarly to a single international entity, because the entities are all logically dependent on one another. Obviously the overhead costs of the manufacturing entity will depend on how many sales it can make to the retailing entity in each market. In addition, the manufacturer will desire stability and overall growth. To accomplish this, it may use the currency differences between different markets or its relative strength in each market to raise the price it charges one retailer in order to lower the prices for another. The effect is that one arm will end up subsidizing the other.

99. *See generally supra* note 90.

100. A parent corporation will use a profitable operation to subsidize a losing operation if it wants to maintain its market share in the losing market and effectively compete. The major advantage of becoming a multinational entity is to be able to use profits from a less competitive market to subsidize operations in a more competitive market. The net result is greater economic efficiency because local cost and profit fluctuations are absorbed by a much larger market. This benefits the consumer by bringing stability to the price and supply of the good. Price and supply stability is the major benefit of international free trade.

101. In this situation, the fact that costs may be higher is irrelevant, because the company will continue to raise prices beyond cost plus reasonable profit, until it starts to lose demand. The higher price charged by an authorized distributor cannot be explained by greater demand, because demand should level off as consumers switch to lower priced competitors. If demand does not level off it indicates there is no real competition and consequently a monopoly exists.

demand only under these two circumstances. Trademark owners would never admit that they enjoy a monopoly in the local market,[102] and in *Osawa* the plaintiff disputed the contention that the single international entity was discriminating against the United States market.[103]

Clearly, the parallel importer and the grey marketer[104] are not "free riding" because the single international entity is fairly compensated for its overhead costs. If the entity is price discriminating or has a monopoly in the local market,[105] the entity should not be permitted to use the trademark laws to perpetuate its monopoly, price discrimination or economically inefficient operations. Grey marketers and parallel importers are simply following the laws of economics.[106]

III. *INTERNATIONAL FREE TRADE CONSIDERATIONS*

The grey market issue should be judged by international free trade considerations rather than trademark law. Trademark owners have attempted to frame the grey goods issue in terms of consumer confusion,[107] the classic element of trademark infringement.[108] This contention is based on the trademark idea of territoriality.[109] Territoriality is irrelevant to the grey goods issue because the fact that a foreign corporation establishes a local subsidiary should not obscure the economic reality of interdependence between the local entity and the foreign entity.[110] The abstract idea of territoriality is appropriate

102. 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), might be an example of how section 1526 may be used to result in a monopoly situation, but this situation is more likely the exception rather than the rule.

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

104. A retailer in grey market goods is also not free riding because the parallel importer's costs are passed down to the grey marketer-retailer.

105. The existence of either price discrimination against United States consumers or a monopoly in the United States is *prima facie* evidence that a United States law or international treaty has been violated.

106. *See generally supra* note 100.

107. *See Osawa*, 589 F. Supp. at 1168; Note, *Greying*, *supra* note 1, at 85 n.6 (confusion caused by instruction manuals in foreign languages).

108. *See* 15 U.S.C. § 1124 (1982).

109. Note, *Greying*, *supra* note 1, at 108; *see, e.g.*, *Osawa*, 589 F. Supp. at 1165. Judge Leval overly emphasized the separate legal existence of Osawa (United States). *Id. See generally* Derenberg, *supra* note 7.

110. For example, consider the concept of "piercing the corporate veil," the application of which prevents a parent from avoiding substantial liability when it uses

for determining the jurisdiction of national trademark laws, but it is absurd to apply the principle so as to hinder international free trade and commerce, and such an extreme result raises questions about extraterritorial application of national laws.[111]

In *Bourjois v. Katzel*, the Court employed the concept of territoriality to explain why a local independent corporation had developed a goodwill separate from that of the unrelated foreign manufacturer from which it had purchased the trademark.[112] The United States corporation had spent large sums of money developing goodwill in the United States.[113] In *Osawa*, *Vivitar*, and *Olympus* the complainants were large multinational companies that distributed their products all over the world. They created a local entity for the sole purpose of holding the United States trademark rights. Unlike *Bourjois*, the United States entities in these cases complained that their trademarked merchandise was purchased from a foreign counterpart of their multinational entity. In many cases the United States entity would not have sold the particular merchandise directly to the grey marketer.[114] The situation seems akin to a dual distribution situation, because the local entities sought to use trademark laws to cut off horizontal competition from their foreign counterparts.[115] In essence, the entities want to use

an undercapitalized subsidiary as its functioning entity. The concept of "piercing the corporate veil" to reach the shareholders of an undercapitalized subsidiary is discussed in DeWitt Truck Brokers, Inc. v. W. Ray Flemming Fruit Co., 540 F.2d 681 (4th Cir. 1976) (court permits "piercing"), and Bartle v. Home Owners Cooperative, Inc., 309 N.Y. 103, 127 N.E.2d 832 (1955) (court refuses to "pierce"). *See generally* Note, *Jurisdiction Over Alien Corporations Based on the Activities of Their Subsidiaries in the Forum: Whither the Doctrine of Corporate Separateness?*, 9 FORDHAM INT'L L.J. 540 (1986).

111. The main question is whether United States laws should govern behavior in other countries. *See generally* Debate, *Extraterritorial Application of U.S. Antitrust Law (Economic Imperialism or Protecting Competition Against Foreign Invasion)*, 50 ANTITRUST L.J. 617 (1981).

112. A. Bourjois & Co. v. Katzel, 260 U.S. 689, 691 (1923).

113. *Id.*

114. Milley, *supra* note 70, at 42. "Prestige" manufacturers usually refuse to sell to volume sellers. *Id.*

115. In a dual distribution system, a manufacturer participates at several different vertical levels in the product distribution scheme. Note, *Dual Distribution and the Horizontal-Vertical Dichotomy of Nonprice Restrictions*, 17 TULSA L.J. 306, 308 (1981) [hereinafter Note, *Dual Distribution*]. For example, a manufacturer may also act as a wholesale distributor of its goods. *Id.* In such a situation, a legal vertical distribution restraint on a distributor may constitute an illegal horizontal restraint of trade in violation of United States antitrust laws. In a parallel importer situation, if the

section 1526 to establish a local monopoly and isolate the United States from other national markets.

The international entity can probably achieve the result of isolating the United States market legally without resorting to the legal fictions of trademark laws, through the use of restrictive distribution clauses or "vertical restraints."[116] For example, in *In re Certain Alkaline Batteries (DURACELL)*, the United States trademark owner knew the diverted goods were coming from its Belgium subsidiary[117] and it could have easily persuaded the subsidiary to restrict its sales, but the entity chose to use the trademark laws instead. Either it was reluctant to force its will upon its subsidiary and preferred to do so indirectly by eliminating the market for its subsidiary, or it was too inept to correct the situation. In any case, grey market goods would cease to exist if manufacturers chose to control both their own inventory and that of their contractors, through the use of serial numbers on merchandise[118] and vertical restraints in their contracts.[119] The trademark owners could simply use their contractual rights to stop grey market goods, and the trademark law should not duplicate these rights.[120]

Moreover, section 1526 was never intended to be used by

United States distributor is related to the manufacturer of the trademarked good, then vertical distribution restraints on the foreign distributor to limit competition with the United States distributor constitute a horizontal restraint. However, often the foreign distributor is related to both the manufacturer and the United States distributor.

116. *See infra* notes 124-28 and accompanying text.

117. *Duracell*, 6 I.T.R.D. (BNA) 1849, 1851 (Int'l Trade Comm'n 1984), 225 U.S.P.Q. (BNA) 822, 825, *disapproved* by President Reagan, 50 Fed. Reg. 1655 (Jan. 11, 1985), 225 U.S.P.Q. (BNA) 862 (1985), *appeal dismissed*, Duracell, Inc. v. Int'l Trade Comm'n, 778 F.2d 1578 (Fed. Cir. 1985).

118. These serial numbers would allow the trademark owner to determine where the grey market goods originated. Simple detective work could probably determine the diverted path the goods had taken.

119. A conference in New York, held by *COPIAT* to discuss ways to prevent grey market goods, recommended putting serial numbers on all merchandise. Interview with Maureen Doerner Fogel, Associate, Groman & Wolf (December 15, 1985).

120. To illustrate, a European distributor could include a provision in all its contracts with retail customers restricting the geographic area of resale. The clause should contain an indemnity provision to pay all damages resulting from lawsuits against the distributor for violations of the geographic restriction contract. If the retailer violates the provision, the offended United States distributor could sue the worldwide distributor. The worldwide distributor could then sue the European distributor who would in turn sue, and be indemnified by, the offending retailer. The grey goods can be traced to the recalcitrant retailer through the use of serial num-

international trading organizations for such a purpose, and its original protectionist purpose is obsolete.[121] Section 1526 may actually encourage manufacturers to move overseas to take advantage of cheap labor, and use the law to control diversion of their trademarked goods from recalcitrant overseas subsidiaries. More importantly, restricting the importation of grey market goods is a vertical restraint which is harmful to international free trade.

A. *Harmful Effects of Vertical Restraints*

Trademark owners are demanding the application of section 1526 to gain absolute control over their products' wholesale and retail distribution network.[122] In other words they are demanding application of a trademark law to impose vertical restraints.[123]

Vertical restraints are restrictive distribution schemes that usually involve exclusive dealing by manufacturers or distributors, and are a major cause of resale price maintenance.[124] Vertical restraints restrict output and raise prices for the ultimate consumer.[125] Although vertical restraints are not a per se violation of the antitrust laws,[126] if such restraints result in anticompetitive effects they may violate section 1 of the Sherman

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bers, which could not be altered because that would change the trademarked good, making it counterfeit. *See generally supra* notes 118-119 and accompanying text.

Manifestly, vertical restraints are bad for the consumer and ultimately bad economics. For this reason alone, the law should discourage them. *Accord* Steiner, *supra* note 69, at 94-96. "The United Kingdom recognizes that it bears a very heavy responsibility in maintaining an open international system in what is an increasingly interdependent trading world. We must maintain the principles of competition and enterprise not only within individual nations but also between trading nations themselves." Debate, *supra* note 111, at 620; *see also* Milley, *supra* note 70, at 38 (volume dealers do not control the retail price because the United States is not isolated from the rest of the world).

121. *See supra* notes 21-32 and accompanying text.

122. *See supra* notes 52-57 and accompanying text.

123. For a general discussion of vertical restraints and retail price maintenance, see Field, *Discounting's Yardstick Function*, 15(2) ANTITRUST L. & ECON. REV. 9, 9-10 (1983) (letter to the editor); Mattioli, *supra* note 70; Milley, *supra* note 70; *RPM, Panel Discussion*, *supra* note 79; Steiner, *supra* note 69; Walton, *supra* note 79; Wysocki, *supra* note 66; Note, *Dual Distribution*, *supra* note 115.

124. Steiner, *supra* note 69, at 76.

125. *Id.*; *cf.* Wysocki, *supra* note 66, at 33.

126. Continental T.V., Inc. v. GTE Sylvania Inc., 433 U.S. 36 (1977).

Act,[127] and resale price maintenance is a per se violation of the antitrust laws.[128]

Manufacturers and distributors have contended that vertical restraints result in more efficient distribution of their goods.[129] While it is true that vertical restraints provide a more orderly distribution network, they are often also economically inefficient.[130] The proponents of vertical restraints assume that, unlike those situations involving horizontal restraints in which a competitive relationship exists, retail dealers are in a complementary relationship with manufacturers and distributors.[131] Simply stated, their proposition is that any increase in the retailer's profit or the available customer services must necessarily increase output because otherwise the manufacturer would not allow the restraints.[132]

The theory espoused by the proponents of vertical restraints envisions a model in which there are full service dealers, who supply "information" about the product, and dis-

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127. Sherman Act § 1, 15 U.S.C. § 1 (1982), *construed in Continental*, 433 U.S. at 50; *see also* Donald B. Rice Tire Co. v. Michelin Tire Corp., 638 F.2d 15, 16 (4th Cir.), *cert. denied*, 454 U.S. 864 (1981).

128. Battle v. Lubrizol Corp., 673 F.2d 984 (8th Cir. 1982), *aff'd on reh'g en banc sub nom.*, Battle v. Watson, 712 F.2d 1238 (8th Cir. 1983), *cert. denied*, 466 U.S. 931 (1984); Donald B. Rice Tire Co. v. Michelin Tire Corp., 638 F.2d 15 (4th Cir.), *cert. denied*, 454 U.S. 864 (1981). In cases where there is a dual distribution system so that the manufacturer directly competes with its own distributors, there may be a rule of reason violation. *See* Note, *Dual Distribution*, *supra* note 115; Note, *Antitrust Law — Dual Distribution Systems - Manufacturer - Imposed Restraints On Distributors Require Rule Of Reason Analysis*, 60 WASH. U.L.Q. 293 (1982) [hereinafter Note, *Antitrust Law*].

Vertical restraints give trademark owners a great deal of control over how their product is retailed and hence a strong influence over retail price. In United States v. Guerlain, 155 F. Supp. 77, 82-83 (S.D.N.Y. 1957), *vacated and remanded on other grounds*, 358 U.S. 915 (1958), *dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959), the court used this analysis to conclude that a foreign manufacturer's absolute control over the importation of its product into the United States constituted a violation of the United States antitrust laws. Specifically, Judge Edelstein held that there was a violation of section 2 of the Sherman Act, 15 U.S.C. § 2 (1982) (as amended), where a single international enterprise exploiting world markets artificially created an exclusive right to sell its products in the United States by using section 1526 to enforce import restrictions. 155 F. Supp. at 82.

129. *See, e.g.*, *Continental*, 433 U.S. at 57-58; Nolan-Haley, *supra* note 1, at 236; Steiner, *supra* note 69, at 77.

130. Steiner, *supra* note 69, at 85.

131. *Id.* at 77. This obviously does not include dual distribution systems. *See, e.g.*, Note, *Antitrust Law*, *supra* note 142; Note, *Dual Distribution*, *supra* note 115.

132. Steiner, *supra* note 69, at 77 (retailers and manufacturers "thrive in each others efficiency").

count dealers such as grey marketers, who are identical to the full service dealers except that they do not offer information services and charge lower prices.[133] In the model, a consumer gets the product information from the full service dealer, and then goes elsewhere and buys the product from a discount dealer.[134] Hence, the discounter is free riding on the services of the authorized dealer, and vertical restraints are necessary to prevent unfair competition.[135] However, this model is a simplified and inaccurate picture of the retail business.[136] Moreover, a flaw exists in the basic assumption that dealers and manufacturers are in a complementary relationship, because they are, in part, competitors.[137] If a manufacturer can induce a retailer to sell the manufacturer's trademarked goods at wholesale prices, the manufacturer will sell more of his goods at the expense of the retailer's profit.[138] A trademark that commands a large market share will force the retailer to stock the goods to keep his customers satisfied.[139] If the trademark does not command a large market share, the retailer can force the manufacturer to sell the product to the retailer at a price that is close to factory costs, and the retailer can play one manufacturer against another.[140]

Vertical restraints may have some usefulness in the case of a new product because substantial consumer education and in-

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133. *Id.* at 77-78.

134. *Id.*

135. *Id.*

136. *See* Mattioli, *supra* note 70, at 16-19.

> This [free ride] hypothetical case is just that a hypothetical. . .This hypothetical assumes that either department store[s]. . .[are] very dumb or. . .[consumers are] very dumb. . .[I]f all you had to do to sell [merchandise] was quote the price . . . department stores don't have their heads in the sand . . . they would [have become discounters] too. In fact most of them have. . . .

Id. at 18-19; *see also* Walton, *supra* note 81, at 99. *But see* Steiner, *supra* note 69, at 78 (free ride argument may have some merit in the case of a new product).

137. Steiner, *supra* note 69, at 88-89.

138. The basic assumption of a free market economic system is that consumers will buy less of a product if the price is increased, and conversely, the consumers will buy more of a product if the price is decreased, assuming that there are no other factors that influence the consumers' buying decisions.

139. *Id.* at 89-90. For example, a manufacturer with a strong brand name such as LEVI'S can dictate its prices to the retailer because if the retailer does not stock the jeans, the retailer will lose customers. The retailer must try to make up for his marginal profits on LEVI'S by selling LEVI'S purchasers other products that have higher profit margins. *See generally id.*

140. *Id.* at 88-90.

formation is typically needed.[141] Even in this situation, discounters maintain that if they elect to sell these unknown types of products, they must supply information to the consumer, or the consumer will not purchase these products.[142] Furthermore, usually it is an industry leader that seeks to impose resale price maintenance through vertical restraints,[143] and industry leading products are the most sought after by discounters,[144] because these products have a high degree of consumer recognition and do not require much consumer information.[145] It is, therefore, more efficient to sell these types of products through high volume discounters.[146] Any information necessary to communicate to the consumer can be more efficiently distributed to the general public via mass media than via point-of-sale communication, and a traditional retailer is not likely to contribute significantly to consumer education.[147]

Discount or volume selling is a normal marketing development for maturing products and it occurs because it is more economically efficient to sell these types of products in large volumes.[148] This practice should not be discouraged[149] unless a valid concern for consumer protection exists.[150] Manufacturers usually attempt to halt discounting of their trademarked

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141. *Id.* at 78-79. R.L. Steiner suggests that a "full service" retailer should get protection for a new product for a year or two. *Id.* at 78-80. He also suggests protection may be useful in "fragmented" markets. *Id.* at 81-83.

142. The merchandising vice president of Zayre's, a large discount chain in the United States, comments, "If we elect to sell a hi-tech [sic] product. . .then we have to figure out a [consumer] satisfactory way to [sell] it. [There are exceptions to 'self service']." Wysocki, *supra* note 66, at 30.

143. Steiner, *supra* note 69, at 87.

144. *Id.* at 82; *accord* Walton, *supra* note 79, at 12.

145. Steiner, *supra* note 69, at 84.

146. *Id.* at 84-85; *accord* Milley, *supra* note 70, at 44-47, who points out that in reality, high volume sellers are assuming some of the distribution costs of the manufacturer.

147. Steiner, *supra* note 69, at 80. In most cases the manufacturer will probably realize that it can more effectively distribute information about its product than the distributor or the retailer, and as a result will conduct a major advertising campaign. Therefore, traditional retailers are unlikely to induce further sales at the point of sale. *Id.* at 80-81.

148. *See id.*

149. *Id.* at 87.

150. If there is a safety concern, such as when cars are imported into the United States, the government should step in to insure that the public safety is not jeopardized. The trademark owners have argued that warranty protection is also a consumer protection concern. *But see supra* notes 76-82 and accompanying text.

products because they underestimate the increase in sales that discounting brings.[151] As a result, vertical restraints are applied to discriminate against discounters.[152]

The retailer, rather than the manufacturer, should decide the price and marketing techniques of the trademarked goods because the retailer is closer to the consumers and more sensitive to their demands.[153] The most efficient economic system is one that allows the consumer to be the ultimate arbiter of marketing technique.[154] Moreover, if vertical restraints provided more efficient distribution, then authorized distributors would not so vehemently oppose unauthorized distributors because the former distributors would be able to undersell the latter.[155]

B. *The Beneficial Effects of Grey Market Goods and the Economic Injuries Caused by Their Prohibition*

Prohibiting the sale of grey market goods is an absolute restriction on free trade. Such a restriction is a drastic remedy and should not be utilized because of minor product defects. Free trade restrictions ultimately harm the consumer by limiting his purchasing options.[156] The plaintiffs in *Osawa* complained that some of the grey market MAMIYA cameras sold by the defendant were defective because the cameras were accompanied by foreign language instruction manuals.[157] This is a relatively minor defect, like the defect complained of in

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151. Steiner, *supra* note 69, at 92-93.

152. *Id.* at 94. "Prestige manufacturers absolutely refuse to sell to discounters." Milley, *supra* note 70, at 42. An example of such vertical restraints is the size of the store, Steiner, *supra* note 69, at 94, or a requirement to maintain unnecessary inventory. *See, e.g.*, Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1166 (S.D.N.Y. 1984).

153. Steiner, *supra* note 69, at 95.

154. Mattioli, *supra* note 70, at 31 (customer satisfaction is the answer to the free ride argument); Milley, *supra* note 70, at 46-47; *RPM, Panel Discussion*, *supra* note 79, at 66-67(the market should decide which retail services are necessary); Walton, *supra* note 79, at 13; Wysocki, *supra* note 66, at 27-28. *But see* Nolan-Haley, *supra* note 1, at 233 (diminished expectation is the injury to the consumer). Nolan-Haley seems to say consumers are disappointed because they pay less. Grey marketers point out that their customers are happy and return; this constitutes prima facie evidence of goodwill. Wysocki, *supra* note 66, at 27-28.

155. Steiner, *supra* note 69, at 95.

156. The consumer benefits from a greater selection of products, because the consumer is able to buy the product that more closely fulfills his material needs, and greater product competition leads to greater price competition.

157. *Osawa*, 589 F. Supp. at 1169.

Selchow & Righter,[158] and a consumer advisement is an appropriate remedy. The State of New York has recently taken this approach with a new law requiring the disclosure of a grey market good's defects and warranties at the point of sale.[159]

Trademark owners attempt to use section 1526 as a vertical restraint to keep the prices of their goods much higher than

158. Selchow & Righter Co. v. Goldex Corp., 612 F. Supp. 19 (S.D. Fla. 1985).

159. *See* N.Y. GEN. BUS. LAW § 218-aa (McKinney Supp. 1987), which provides:

§ 218-aa. *Warranty disclosure.*

1. As used in this section, the term "grey markets merchandise" means any brand-name consumer product normally accompanied by a warranty valid in the United States of America which is imported into the United States through channels other than the manufacturer's authorized United States distributor, for sale to the public in this state, and which, by reason of this manner of distribution, may not be accompanied by a manufacturer's express written warranty valid in the United States. Grey markets merchandise shall be limited to products purchased by a consumer for use primarily for personal, family or household purposes.

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

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

a. accompanied by the manufacturer's warranty valid in the United States; or

b. accompanied by instructions in English; or

c. eligible for a rebate offered by the manufacturer.

4. Every retail dealer or dealer engaged in a mail-order business who offers for sale grey markets merchandise shall include the disclosure required by subdivision three of this section in any written advertisement relating to such product. Such disclosure shall be made in type of a conspicuous size.

5. Any retail dealer who violates any provision of this section shall be liable, for a period of up to twenty days from the date of purchase, to the buyer for a refund or credit on credit-card purchases provided the product purchased has not been used or damaged by the buyer.

6. Whenever there shall be a violation of this section. . .if it shall appear to the satisfaction of the court. . .the defendant has, in fact, violated this section, an injunction may be issued. . .enjoining and restraining any further violation, without requiring proof that any person has, in fact, been injured. . .In any such proceeding, the court may. . .direct restitution. Whenever. . .a violation. . .has occurred, the court may impose a [fine] of not more than five hundred dollars for each violation. . .

7. Provided, however, that it shall be an affirmative defense that the consumer is provided with a written warranty which offers equal or greater protection than the manufacturer's warranty through a warrantor demonstrated to be a financially responsible retailer, distributor, importer or other. . .person capable of fulfilling warranty obligations.

This statute forces grey marketers to provide their own warranty if they expect to compete effectively with authorized retailers.

consumer demand dictates because the manufacturers think United States consumers will associate high prices with better quality.[160] The extreme result of this practice is the advent of "designer" goods. Grey goods are the natural economic reaction to this supply and demand tampering and serve a valuable purpose in correcting the anomaly and putting a more accurate value on the worth of the merchandise.[161] Moreover, grey goods give the consumer a greater variety of choice because some grey goods are not otherwise available in the United States.

This conclusion is strengthened by the fact that grey marketers deal almost exclusively in mature markets,[162] in which there should be substantial price competition.[163] Today, there are greatly improved international communications, shipping, and travel compared to what existed in 1922, when section 1526 was passed. A senior executive of K-Mart[164] remarks that grey marketers do not control the price of a product, because the United States market is not isolated from the international market.[165] Rather, grey marketers serve as a "yardstick" against which a real price on consumer goods may be measured.[166] Foreign manufacturers and United States importers tend to keep retail prices artificially high in the United States, because they know United States consumers associate high price with quality.[167] Grey marketers serve to keep the competition honest in international free trade, and prevent discriminatory or monopolistic pricing in the absence of any effective antitrust laws that prevent such practices. Moreover, grey goods generate substantial economic benefits[168] and their prohibition would hinder international free trade.[169]

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160. Field, *supra* note 123, at 9-10.

161. *See* Field, *supra* note 123.

162. *See supra* note 108.

163. Steiner, *supra* note 69, at 87; Walton, *supra* note 79, at 12-13.

164. K-Mart, a large United States discount chain, purchases US$250-300 million of grey goods annually. Olympus Corp. v. United States, 627 F. Supp. 911, 916 n.1 (E.D.N.Y. 1985), *aff'd*, 792 F.2d 315, (2d Cir. 1986), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757).

165. Milley, *supra* note 70, at 38.

166. Field, *supra* note 123, at 9-10.

167. *Id.*

168. *See infra* notes 170-74 and accompanying text.

169. *See supra* notes 107-55 and accompanying text.

Grey marketers generally charge lower prices,[170] and the economics of supply and demand dictate that lower prices lead to greater demand for a product.[171] Greater demand creates more product sales, more product importation,[172] and consequently, more product manufacturing.[173] This greater economic activity leads to greater domestic employment.[174] The authorized importers and retailers will lose sales, and therefore jobs, to the grey marketers, but that is economic efficiency at work and not unfair competition.[175]

CONCLUSION

Notwithstanding the trademark laws, most of the recent cases have held that grey market goods are not illegal, if a relation exists between the domestic trademark owner and the foreign trademark owner. More importantly, the law should not prohibit grey market goods on policy grounds. The benefits of international free trade outweigh any concerns about alleged injuries to trademark owners. The domestic trademark owners suffer no real economic injury from grey market goods and in fact are attempting to use the trademark laws to achieve vertical restraints for anticompetitive purposes.

Although consumer protection is a proper concern for the government, this goal can be achieved by laws requiring warranty protection and disclosure by the retailers to cover any defects, rather than by laws that totally ban grey market goods. The beneficial effects of grey market goods should not be

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170. *See supra* note 51.

171. *See supra* note 51. If the market for a product is already saturated, and lower price does not lead to greater demand, then the grey marketers must offer the same services to the public as the authorized distributors in order to successfully compete.

172. If the domestic unemployment complaint is based on the assumption that there will be greater imports and thereby less domestic employment, then obviously the issue is not grey goods but imports in general. Section 1526 actually encourages imports, and contributes to domestic unemployment, by giving the trademark owner more protection if he moves his manufacturing operations overseas, than if he had manufactured his wares domestically.

173. It therefore follows that grey market goods increase foreign employment as well as domestic employment.

174. *See supra* note 51.

175. For a discussion of why discounters are inherently more economically efficient than "authorized" dealers, see *supra* notes 122-55 and accompanying text. The complainants are actually arguing to restrict competition.

lightly discarded if the problems accompanying them can be alleviated.

*Richard A. Fogel**

* J.D. Candidate, 1987, Fordham University School of Law.