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Intellectual Property and Trade Law Approaches to Gray Market Importation, and the Restructuring of Transnational Entities to Permit Blockage of Gray Goods in the United States

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Introduction

The recent United States Supreme Court decision in *K Mart Corp. v. Cartier, Inc.* affects only a portion of the intellectual property and trade law landscape impacting gray goods in the United States. The importation, sale, and distribution of gray
goods is governed not merely by section 526 of the Tariff Act of 1930 (Tariff Act) and the Customs Service regulations validated in *K Mart*, but by a host of interrelated laws, both state and federal. Accordingly, enterprises concerned with gray market imports are bound to consider the entire range of laws affecting their interests.

This article reviews recent case law throughout the intellectual property and trade law spectrum. The review suggests that many transnational enterprises affected by the importation of gray goods should restructure to separate ownership of United States and foreign trademarks, both to render effective the exclusionary provisions of section 526 of the Tariff Act, and to permit effective enforcement of United States trademark laws blocking gray goods.

The article further reviews case law suggesting how United States copyright laws and other forms of intellectual property law, both state and federal, can be employed effectively to combat gray goods without restructuring. Finally, the article reviews defenses available to importers of gray goods who seek to bring genuine goods to the American consumer at the lowest possible price.

Other authors have discussed the policy and public interest aspects of the controversy. Several bills are currently before Congress which advocate a wide spectrum of alternatives, from complete market freedom for gray goods to complete exclusion of gray goods from U.S. markets. This article will not advocate either extreme, but instead will survey the current law to permit a clear, pragmatic view of the legal landscape.

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2. Section 526 of the 1930 Tariff Act prohibits "[importing] into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States . . . , unless written consent of the owner of such trademark is produced at the time of making entry." 19 U.S.C. § 1526(a) (1982).


4. In particular, Sections 133.21(c)(1)-(2) of the Customs Regulations, 19 C.F.R. § 133.21 (1988), i.e., the "common control" portions, were upheld. 108 S. Ct. at 1818. However, Section 133.21(c)(3), i.e., the "authorized use" exception, was held invalid, as discussed infra.

I. GRAY GOODS UNDER UNITED STATES TRADEMARK AND TRADE LAWS

Gray goods are generally considered to be trademarked goods imported into the United States, in order to compete with like goods identically trademarked under authorization of the United States trademark owner.6 The controversy over gray goods in the United States first arose in 1922 in the seminal cases of A. Bourjois & Co. v. Katzel7 and A. Bourjois & Co. v. Aldridge.8 Both cases dealt with similar facts.9 The facts of both cases further resembled the “prototypical” gray market situation outlined in the Supreme Court opinion of K Mart.10

In both Katzel and Aldridge, a business in the United States owned by a French company was sold to a domestic purchaser. United States trademarks and good will connected with the business were also sold. Both the United States and French entities thus manufactured the same goods under the same trademark in different countries. Over time, these identically trademarked goods from the French company began to appear in the United States in competition with the domestically manufactured goods.

In Katzel, the United States Supreme Court upheld an injunction against the gray goods, holding that the “American purchaser of domestic trademark rights was totally independent from the foreign manufacturer and became the complete master of the trademark in the United States for the reason

6. Under the Tariff Act of 1930, only the importation of gray goods of “foreign manufacture” is considered unlawful. See supra, note 2.
7. 275 F. 539 (2d Cir. 1921), rev’d, 260 U.S. 689 (1923).
8. 292 F. 1013 (2d Cir. 1922) (per curiam) (1923).
10. The prototypical gray-market victim (case 1) is a domestic firm that purchases from an independent foreign firm the rights to register and use the latter’s trademark as a U.S. trademark and to sell its foreign-manufactured products [in the U.S.]. ... If the foreign manufacturer could import the trademarked goods and distribute them here, despite having sold the trademark to a domestic firm, the domestic firm would be forced into sharp intrabrand competition involving the very trademark it purchased. Similar intrabrand competition could arise if the foreign manufacturer markets its wares outside the United States, as is often the case, and a third party who purchases them abroad could legally import them. In either event, the parallel importation, if permitted to proceed, would create a gray market that could jeopardize the trademark holder’s investment.
that the public recognized the American purchaser of goods in the United States.” However, the initial refusal of the Second Circuit to uphold the injunction granted by the District Court, induced Congress to pass section 526 as an amendment to the Tariff Act of 1922. When the Supreme Court reversed the Second Circuit, passage of section 526 was not in issue and received no comment. Subsequently, Customs Service regulations were promulgated, preventing section 526

11. 260 U.S. at 692. See COPIAT, 598 F. Supp. at 848 (distinguishing facts of COPIAT from Katz and Aldridge).
12. 19 U.S.C. § 1526 (the statute has remained unchanged since 1922).
13. 790 F.2d at 909. See also 108 S. Ct. at 1815.
14. 790 F.2d at 909.
15. In particular, sections 133.21(c)(1)-(2) of the Customs Regulations were promulgated. Section 133.21 reads in part:
   (a) Copying or simulating marks or names. Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A “copying or simulating” mark or name is an actual counterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.
   (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) do not apply to imported articles when:
      (1) Both the foreign and domestic 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)(1),(2) [defining “common ownership and common control”] and § 133.2(d) [providing that application to record trademark must report identity of any affiliate that uses same trade name abroad]);
      (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner;
      (4) The objectionable mark is removed or obliterated prior to importation in such a manner as to be illegible and incapable of being reconstituted, for example by:
         (i) Grinding off imprinted trademarks wherever they appear;
         (ii) Removing and disposing of plates bearing a trademark or trade name;
      (5) The merchandise is imported by the recordant of the trademark or trade name or his designate;
      (6) The recordant gives written consent to an importation of articles otherwise subject to the restrictions set forth in paragraphs (a) and (b) of this section, and such consent is furnished to appropriate Customs officials; or
      (7) The articles of foreign manufacture bear a recorded trademark and the personal exemption is claimed and allowed under Section 148.55 of this chapter.

19 C.F.R. § 133.21(a)–(c) (1988).
from excluding gray goods, if ownership of both U.S. and foreign trademarks was held under "common control" or ownership, or if the goods were manufactured under license (i.e., under "authorized use") granted by the United States trademark owner.

In *Aldridge*, the Supreme Court permitted exclusion of gray goods "under section 27 of the Trademark Law of 1905 (the predecessor of section 4216 of the Lanham [Trademark] Act)." However, recent interpretations of *Aldridge* suggest that the Lanham Trademark Act may be limited to situations in which the United States trademark owner (the registrant), is independent of the foreign trademark entity and/or has developed his own goodwill in the American marketplace.

Accordingly, the legal restraints of trade law and trademark law on importation, sale, and distribution of gray goods are effective with certainty only when there exists separate ownership and control of United States and foreign trademarks.

The invalidation of the Customs Service "authorized use" regulation in *K Mart* does not change the requirement that United States and foreign trademarks be separately owned and controlled under the remaining valid Customs Service regulations. The Supreme Court in *K Mart* merely validated the Customs Service regulations which prevent operation of section 526 when United States and foreign trademarks are not separately held. The decision in *K Mart* simply invalidated the "authorized use" exception to section 526, while upholding the validity of the "common control" exception. The Court split 5-4 on these separate questions, with Justice Kennedy casting the swing vote in each instance.

The effect of *K Mart*, as will be seen, emphasizes the need to restructure transnational enterprises to ensure that ownership of United States and foreign trademarks will be separately held. This measure alone will permit enforcement of section 526.

Before *K Mart*, it was necessary to avoid common control and ownership of both United States and foreign trademarks,

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as well as avoid the licensing of independent foreign manufacturers, in order to be able to exclude gray goods under section 526. With the invalidation of the regulation against licensing foreign manufacturers, it is now permissible to license the manufacture of goods under trademark by a foreign manufacturer, without forfeiting the right to enforce section 526 against gray market imports derived from the foreign manufacturer. However, to permit operation of section 526, it remains necessary to maintain separate ownership of United States and foreign trademarks, in order to avoid the exclusionary effect of the "common control" exception to section 526.

II. UNITED STATES TRADEMARK LAWS

The Trademark (Lanham) Act of 1946 can effectively be used to block gray goods, provided that United States and foreign trademark ownership and control remain separated. The purpose of the Lanham Act is primarily to prevent confusion in the mind of the public with regard to goods in commerce. Accordingly, section 32(1) of the Lanham Act is directed against "use in commerce . . . of a registered mark in connection with . . . goods or services . . . such use [being] . . . likely to cause confusion, or cause mistake, or to deceive . . . ." Section 1124 of the Lanham Act is directed against "imported merchandise which shall copy or simulate . . . a [registered] trademark." Further, section 43(a) of the Lanham Act provides a prohibition against false designation of origin, false description, or false representation in connection with goods or services. For violations of section 43(a), neither ownership nor registration of a trademark is required. However, under sections


22. 15 U.S.C. § 1125(a) (1982). See Thompson Medical Co., Inc. v. Pfizer, Inc., 753 F.2d 208, 213 (2d Cir. 1985), which provides: "The ultimate inquiry in most actions for false designation of origin, as with actions for trademark infringement, is whether there exists a 'likelihood that an appreciable number of ordinarily prudent purchasers [will] be misled, or indeed simply confused, as to the source of the goods in question.'" (quoting Mushroom Makers, Inc. v. R.G. Barry Corp., 580 F.2d 44, 47 (2d Cir. 1978)).

23. Section 43(a) of the Lanham Act provides, in pertinent part: "(a) Any person who shall . . . use in connection with any goods . . . a false designation of origin, or
32(1) and 42, ownership and existence of a registered mark are both required.\textsuperscript{24}

Non-genuine (i.e., modified) gray goods, in competition against authentic goods in authorized distribution channels, are clearly likely to cause confusion, because the public expects genuine goods. Accordingly, these identically trademarked, but modified goods inherently violate one or more sections of the Lanham Act. For example, in \textit{Dial Corp. v. Manghnani Investment Corp.},\textsuperscript{25} modified “Dial” soap bars were found likely to confuse the public in violation of section 32(1).\textsuperscript{26} Sale of the modified bars was additionally found to designate the origin of the bars falsely, a violation of Lanham Act section 43(a).\textsuperscript{27}

When it is not clear whether or not the gray goods themselves are genuine, likelihood of confusion may be based upon ancillary features of the gray goods. For example, in \textit{Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.},\textsuperscript{28} the sale of non-English language instructions, “adoption papers,” and “birth certificates” for Cabbage Patch Kids dolls was found to give rise to the likelihood of confusion in the mind of the public, and was therefore actionable under the Lanham Act section 32(1).

\begin{quote}
any false description or representation . . . shall be liable to . . . any person who believes that he is or is likely to be damaged. . . .” 15 U.S.C. § 1125(a) (1982)(emphasis added).
\end{quote}

\textsuperscript{24} Section 32(1) of the Lanham Act provides, in pertinent part:

(1) Any person who shall, without the consent of the registrant use in commerce . . . in connection with . . . any goods or services [so that] . . . such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant. . . .


\textsuperscript{25} Section 42 of the Lanham Act provides, in pertinent part:

[N]o article of imported merchandise which shall copy or simulate . . . a trademark registered [under this chapter]; . . . shall be admitted to entry at any customhouse of the United States; and in order to aid the officers of the customs in enforcing this prohibition, any [person] entitled to . . . the advantages afforded by law to the citizens of the United States in respect to trademarks . . . may require . . . a copy of the certificate of registration of his trademark . . . to be recorded in books which shall be kept for this purpose, . . . and thereupon the Secretary of the Treasury shall cause one or more copies of the same to be transmitted to each collector or other proper officer of customs.


\textsuperscript{26} See \textit{id.} at 1234. The imported version of the soap bars differed from genuine American Dial soap in antibacterial effectiveness, size, and fragrance.

27. \textit{Id.} at 1237.

28. 816 F.2d 68 (2d Cir. 1987).
However, with regard to genuine goods, the likelihood of confusion is much more difficult to establish. Simply stated, case law is split on the question of whether genuine goods can infringe the trademark laws. In particular, when the United States and foreign trademarks are commonly owned or controlled, a finding of trademark infringement depends upon whether the United States trademark owner has established independent, domestic good will in connection with the goods. For example, in *Weil Ceramics & Glass, Inc. v. Dash*, 29 where the U.S. trademark owner and distributor of “Lladro” figures and the owner of the Spanish trademark interests were under common control and ownership of a separate Spanish company, a “separate, factually distinct goodwill” was found to have been established in connection with the goods. The careful efforts of the Weil Ceramics company to establish its reputation as distributor of “Lladro” figures in the United States were successful in establishing the requisite separate good will.

Nonetheless, as a general rule, a finding of trademark infringement is not likely with regard to genuine goods, if ownership of United States and foreign trademarks is held or controlled by the same entity. 30

III. THE IMPERATIVE FOR TRANSNATIONAL COMPANY RESTRUCTURING

In order to exclude gray goods under section 526, and to ensure that the provisions of the Lanham Act can effectively be brought to bear against gray goods in the United States, separation of ownership in United States and foreign trademarks must be accomplished. When United States and foreign trademarks are commonly owned or controlled, not only are gray goods immunized from the effect of section 526, but in many instances, the effectiveness of trademark actions under the Lanham Act is seriously impeded.

30. See NEC Electronics v. Cal Circuit ABCO, 810 F.2d 1506 (9th Cir. 1987) (gray market computer chips not in violation of Sections 32 and 43(a) of the Lanham Act); Monte Carlo Shirt, Inc. v. Daewoo Int’l (Am.) Corp., 707 F.2d 1054, 1058 (9th Cir. 1983) (citing dictum in DEP Corp. v. Interstate Cigar Co., 622 F.2d 621, 622 n.1, (2d Cir. 1980), that it would be anomalous if “a trademark infringement action would lie where the [defendant’s product] is in fact genuine and not spurious”); Olympus Corp. v. United States, 627 F. Supp. 911 (E.D.N.Y. 1985) (gray good optical equipment and cameras not excluded under section 42 of Lanham Act).
Action under other laws, particularly under copyright law, can be undertaken with great success. However, many gray goods do not carry infringing copyright subject matter. Accordingly, the ability to bring the trade and trademark laws to bear against gray goods is all the more imperative.

Several recent cases illustrate how separation of ownership between United States and foreign trademarks can be accomplished. In both *Premier Dental Products Co. v. Derby Dental Supply Co.*\(^1\) and *International Armament Corp. v. Matra Manurhin Int'l, Inc.*,\(^2\) the ownership rights to the United States trademarks were assigned to an independent United States distributor which had established good will in connection with goods imported under the trademark. In another case, *Osawa & Co. v. B & H Photo, Co.*,\(^3\) Japanese trademark rights were held by the Japanese manufacturer of "Mamiya" cameras. All cameras manufactured were sold by an independent Japanese umbrella entity which owned the United States marketing operation for the cameras and which also owned the United States trademark interests. In each case, competing gray goods were successfully blocked by action under the Lanham Act.

Trademarks are generally assignable in conjunction with the good will that accompanies the sale of a business, as in *Katzel* and *Aldridge*. However, there is no need for assignment of trademark interests to be accomplished concurrently with the transfer or development of good will. As seen in *Dental Products* and *International Armament*, good will can be separately established to create fertile ground for a subsequent assignment. Notably, arrangements can be made to recover trademark ownership after assignment, by crafting appropriate terms and conditions in the assignment agreement itself or in an ancillary agreement. For example, in *International Armament*, the assignment was made dependent upon continuation of an exclusive distributorship which, in turn, was terminable for violation of "essential" clauses in the distributorship agreement. Such limitations do not invalidate the assignment or make it a sham.\(^4\)

In summary, restructuring in order to enable use of United

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States trade and trademark laws can be an effective technique for excluding gray goods by an entity which operates transnationally and is thus susceptible to unanticipated gray market competition. However, use of trade and trademark laws is not the only legal approach to permit effective interdiction of gray market goods.

IV. UNITED STATES COPYRIGHT LAWS

The difficulties indicated above in bringing United States trade and trademark laws to bear against gray goods have caused attention to turn to other laws, including the United States copyright laws. One reason for reliance upon copyright protection is that copyright laws are enforceable, even when both United States and foreign copyrights are commonly owned or controlled by related entities. Another reason is that copyrighted works can be generated with relatively great convenience, in order to accompany trademarks on the packaging or labels of all kinds of products. Indeed, copyrighted designs can be applied directly on the goods themselves.

Accordingly, use of this copyright “end run,” affords copyright protection in instances of common control by related entities, which effectively preclude use of trademark and trade laws against gray goods.

It may seem surprising that copyright protection can be used at all to block importation and commercialization of gray goods in the United States. One does not normally think of goods in commerce as generally copyrightable. It is not intended herein to argue that commercial goods are generally copyright subject matter. Some goods in commerce are in-


36. Under Section 102 of the Copyright Act of 1976, copyright protection subsists in:

- original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories: (1) literary works; (2) musical works, including any accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; and (7) sound recordings.


Copyright protection additionally extends to some kinds of utilitarian works.
herently copyrightable, for example, works of art or sculpture. Other goods must be wrapped, labeled, or packaged with copyrightable material, in order to enjoy copyright protection.

Procedural requirements must be observed in order to secure copyright protection and initiate a lawsuit. The first requirement is to apply copyright notice on all publicly distributed copies of the work. Simply stated, a notice of copyright (i.e., the symbol ©, or the word “Copyright,” or the abbreviation “Copr.”) must be placed on all publicly distributed copies from which the work can be visually perceived. Additionally, before a lawsuit can be initiated, the copyrighted work must be registered with the United States Copyright Office.

Having fulfilled these requirements, the copyright owner is able to block unauthorized imports under section 602 of the Copyright Act. Section 602 provides that importation into the United States without authority of the copyright owner is an infringement of the exclusive right of the copyright owner to distribute copies.

A number of lawsuits have recently been brought against gray goods under the Copyright Act of 1976. In Sebastian Inter-


Other subject matter (e.g., semiconductor chip mask works) is registrable with the Copyright Office, under a sui generis form of intellectual property protection called the Semiconductor Chip Protection Act of 1984, 17 U.S.C. §§ 901-14 (Supp. IV 1987).


38. Id. at § 401(b).

39. Section 411 of the Copyright Act of 1976 provides in pertinent part: “no action for infringement of the copyright in any work shall be instituted until registration of the copyright claim has been made in accordance with this title.” 17 U.S.C. § 411 (1982).


41. 17 U.S.C. § 602(a) specifically provides:

Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

Id.
national, Inc. v. Consumer Contact (PTY) Ltd., the district court granted a preliminary injunction against an importation of gray market goods based upon copyright infringement of the copyrighted text on the products. Upon appeal, the case was reversed for lack of copyright infringement based upon a prior "first sale" in the United States. In Nintendo of America, Inc. v. Elcon Industries, Inc., the video game "Crazy Kong" was found potentially to infringe a copyright in a similar video game named "Donkey Kong." The court granted a preliminary injunction against distribution of the infringing games. The first sale rule was not applicable. A similar factual pattern and result occurred in Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc. with regard to musical recordings. The copyright in the musical recordings was found to have been infringed, despite a prior first sale, because the first sale occurred abroad.

In Selchow & Righter Co. v. Goldex Corp., "Trivial Pursuit" games imported from Canada were found to infringe rights under a range of legal theories including copyright, design patent, and trademark causes of action. Further, in Cosmair, Inc. v. Dynamite Enterprises, Inc., the plaintiff claimed that certain bottled gray market fragrances violated its copyright in a Polo Player Design derived from its registered trademark in a similar design. A question as to the originality of the Polo Player Design caused denial of a preliminary injunction against the gray goods. In another recent case, In Re Certain Soft Sculpture Dolls, Popularly Known as "Cabbage Patch Kids," Related Literature

43. Id. at 922.
46. Id. at 940.
47. Id. at 945.
48. See id. at 942.
50. Id. at 49.
52. Id. at 24-25.
54. Id. at 345.
55. Id. at 348.
and Packaging Therefore,\textsuperscript{56} copyrights on instructions accompanying the sale of Cabbage Patch Kids dolls were enforced by the International Trade Commission to exclude competing gray market goods.\textsuperscript{57}

As these cases suggest, copyright protection, viewed in isolation, may yet prove to be the single most effective legal tool for blocking gray goods. In many instances, they offer the only alternative to the significantly more involved approach of bringing the trade and trademark laws of the United States to bear against gray goods by restructuring transnational company entities to separate the ownership of United States and foreign trademark currently held by the same entity. However, the cost and effort involved in restructuring an entire commercial entity exceeds by far the resources required to promote the use of copyrighted labels or packaging in conjunction with sale and distribution of goods which may face gray market competition. A small amount of planning can produce dramatic results.

Reliance upon copyright law, moreover, does not diminish the need for a comprehensive intellectual property and trade law approach for gray goods by each manufacturer and distributor of goods. Such a broad-based approach is the only way to guard against changes in the law, which may make it more difficult to gain a competitive edge in the marketplace. Notably, even as many businesses are beginning to rely increasingly on the copyright laws to block gray goods, efforts are underway in Congress to restrict the effectiveness of these laws. According to current legislation proposed in both the House and the Senate, if goods are otherwise legally permitted to enter the States, then such entry would not be prevented under the copyright laws.\textsuperscript{58}

\textsuperscript{56} USITC Pub. 1923, Inv. No. 337-TA-231 (Nov. 1986).

\textsuperscript{57} Additional recent cases in which the copyright laws were effectively asserted with regard to traditional copyright subject matter are Hearst Corp. v. Stark, 639 F. Supp. 970 (N.D. Cal. 1986), dealing with importation of copyrighted books, and T.B. Harms Co. v. Jem Records, Inc., 655 F. Supp. 1575 (D.N.J. 1987), relating to phonographs. In W. Goebel Porzellanfabrik v. Action Indus., Inc., 589 F. Supp. 763 (S.D.N.Y. 1984), copyright claims directed against importation of gray market "Hummel figurines" were met by an antitrust counterclaim. The counterclaims were eliminated, however, by a timely motion to dismiss. \textit{Id.} at 767.

\textsuperscript{58} S. 1097 and H.R. 4803 provide in pertinent part that "the importation or sale of any article that could otherwise be legally imported shall not be restricted by reason of a copyright in its trademark or in the label, package, design, instructions for
V. United States Patent Laws

The United States patent laws offer yet another opportunity for blocking gray market goods. There is currently no provision in the United States patent laws expressly excluding any imports.\(^5^9\) However, infringement of a patent is actionable\(^6^0\) and a violation of rights secured by patent may be enjoined.\(^6^1\) Grant of a patent in the United States gives the patentee the right to exclude others from making, using, or selling the invention throughout the United States.\(^6^2\)

Design patent protection\(^6^3\) may offer an effective mechanism for blocking gray goods under a comprehensive intellectual property law approach. In *Selchow & Righter Co. v. Goldex Corp.*,\(^6^4\) for example, the ornamental design of the "Trivial Pursuit" gameboard was patented, permitting action against gray market imports of the game from Canada. Design protection, however, was not the only form of intellectual property protection asserted. In *Goldex*, the plaintiff relied on trademark and copyright protection as well.\(^6^5\)

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\(^5^9\) However, legislation has been enacted making it an infringement of a United States process patent to use or sell in the United States, or to import products made from that patented process. This legislation is based upon H.R. 4848 introduced June 17, 1988, by Representative Dan Rostenkowski (D-Ill.) and its Senate counterpart, S. 2558, introduced June 23, 1988, by Senator Lloyd Bentsen (D-Tex.). Omnibus Trade and Competitiveness Act of 1988. P.L. 100-418. See infra note 79.

\(^6^0\) 35 U.S.C. § 281 (1982) provides: "A patentee shall have remedy by civil action for infringement of his patent." *Id.*

\(^6^1\) 35 U.S.C. § 283 (1982) provides: "Injunction. The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." *Id.*

\(^6^2\) "Each patent shall contain ... a grant to the patentee, his heirs or assigns, for the term of seventeen years, ... of the right to exclude others from making, using, or selling the invention throughout the United States. ..." 35 U.S.C. § 154 (1982).

The term of protection for design patents under Section 171 is fourteen years. 35 U.S.C. § 173. As a matter of practice, for both kinds of patents, the term of protection is considered to begin to run on the date of issue.

\(^6^3\) 35 U.S.C. § 171 (1982) establishes protection for design patents. Specifically, "[w]hoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefor, subject to the conditions and requirements of this title." *Id.*


Other forms of patents (i.e., "utility patents") can be equally as effective in blocking the importation of gray goods. However, patent coverage must be secured for the goods.\textsuperscript{66} The basic requirements for patentability, in the general patent sense, as opposed to design patents, are novelty, utility, and nonobviousness.\textsuperscript{67} Most goods are workable and useful; thus, utility is usually presumed.

The major obstacle to blocking gray goods with patents, aside from the frequent absence of patent coverage over the goods involved, is the patent law "doctrine of exhaustion." The "doctrine of exhaustion" with respect to patents limits the right of the patentee to exclude others from use or sale of goods sold directly by the patentee,\textsuperscript{68} or sold or made by others with the unrestricted permission or license of the patentee.\textsuperscript{69}

Nonetheless, sale of goods under a restricted license does not exhaust the rights of the United States patent owner.\textsuperscript{70} Further, gray goods rightfully manufactured abroad without permission of the United States patentee are subject to liability for infringement.\textsuperscript{71}

\textsuperscript{66} Many kinds of goods are clearly not patentable because of absence of any innovation. It is, however, frequently surprising how many inventors, particularly those operating in fields of technology involving a high degree of skill, simply presume that particular combinations of their work are non-patentable.

\textsuperscript{67} 35 U.S.C. section 101 provides: "Inventions patentable. Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." 35 U.S.C. § 101 (1982).

Section 102 contains an involved set of novelty requirements for patentability, defining novelty of an invention in terms of bars to grant of a patent based upon whether the invention was known or used by others, by the applicant, or whether the invention was patented or described in a printed publication, or was in public use or on sale a certain amount of time before filing of a patent application.

An additional requirement of patentability in the United States is "nonobviousness," as articulated at 35 U.S.C. Section 103 (1982 & Supp. IV 1986). This requirement has been referred to as the "ultimate test" of patentability. The requirement has been substantially interpreted in the case law, notably including Graham v. John Deere Co., 383 U.S. 1, 14 (1966).

\textsuperscript{68} See United States v. Univis Lens Co., 16 U.S. 241, 250 (1942)(sale of a patent or sale of an article embodying the invention "exhausts" the patentee's monopoly in that article).


\textsuperscript{71} Boesch v. Graff, 133 U.S. 697, 702–03 (1890).
The United States patent laws can thus certainly be employed to interdict gray goods. Unfortunately, the inspiration and perseverance\textsuperscript{72} to invent may be even more rare than an artist’s creativity. This would urge reliance upon copyright rather than patent law in the quest to block gray goods.

VI. OTHER FORMS OF ACTION, BOTH STATE AND FEDERAL

A range of other approaches, under both state and federal law, can be undertaken to block gray goods.\textsuperscript{73} Many of these legal actions can be accomplished in a court of primary trial jurisdiction, either at the federal or state level. Frequently, the underlying unfairness of the injury subject to action can form the basis for a complaint to the International Trade Commission (Commission),\textsuperscript{74} even in the absence of any intellectual property.

In particular, unfair methods of competition, including unfairness in competition or importation, is declared unlawful.\textsuperscript{75} If the unfairness is brought to the attention of the Commission by complaint, or is recognized by the Commission upon its own initiative, it can be investigated in accordance with section 337 of the Tariff Act of 1930. The unfairness may arise out of a range of trade law, intellectual property law, or commercial law violations, either based upon federal, state, or common law. Under Section 337, the Commission can provide various interim and final remedies, based upon its own determina-

\footnotesize

\textsuperscript{72} According to Thomas Edison, the essential ingredients are “perspiration” and “inspiration.”

\textsuperscript{73} Many causes of action under state or federal jurisdiction are available to block gray goods, including actions against infringement of trademark, copyright, or patent rights; misappropriation of trade secrets; violation of state unfair competition laws or anti-dilution statutes; or tortious conduct such as wrongful interference with contractual relations.

\textsuperscript{74} 19 U.S.C. § 1337(a)(1982)(codifying section 337 of the Tariff Act of 1930). Section 1337(a) provides:

(a) Unfair Methods of Competition Declared Unlawful. Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are declared unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provisions of law, as provided in this section.

\textit{Id.}

\textsuperscript{75} \textit{Id.}
Commission exclusionary orders by the Commission are *in rem*, and apply to the goods themselves, thus excluding the goods of those who are not even named respondents to the proceedings. Accordingly, Commission proceedings are particularly and promptly effective against multiple offenders.

One former limitation upon the effectiveness of the Commission, a requirement for finding domestic injury in addition to proof of unfairness, has been removed. Other limitations remain. For example, all Commission determinations are subject to Presidential approval.

A number of recent gray market cases have recently been investigated by the Commission. In both *In re Certain Alkaline Batteries* and *Certain Soft Sculpture Dolls, Popularly Known as "Cabbage Patch Kids," Related Literature and Packaging Thereof*, the Commission determined violations of Section 337 were present and handed down exclusionary orders against the particular gray goods involved. In the case of *Alkaline Batteries*, however, President Reagan disapproved the Commission determination for policy reasons, apart from the merits of the case.

76. See 19 U.S.C. § 1337(c)-(f) (1982). Commission determinations are made after evidentiary hearings conducted by an administrative law judge (ALJ). An initial evidentiary hearing is conducted within three months after notice of investigation in the Federal Register, to determine whether there is “reason to believe” that Section 337 has been violated. See Admin. Proc. Act, 5 U.S.C. § 706 (1982). Contingent upon such a finding, and subject to discretionary review by the Commission itself, a final evidentiary hearing is conducted. 19 C.F.R. § 210.41 (1988).

77. 19 U.S.C. § 1337(d) (1982). The Commission can also hand down cease and desist orders directed against specific respondents, either on an interim or permanent basis.

78. 19 U.S.C. § 1337(b)(1) (1982). Typical Commission cases are resolved within one year of notice of investigation in the Federal Register; complex cases are completed within eighteen months.

79. In particular, on August 23, 1988 President Reagan signed into law P.L. 100-418, the Omnibus Trade and Competitiveness Act of 1988 (H.R. 4848; and S. 2558). This law amends Section 337 by eliminating the required proof of domestic injury, and thus making exclusion orders easier to obtain from the Commission. Further, on August 29, the Commission published interim rules essentially rewriting 19 C.F.R. Parts 210 and 211 on adjudicative and enforcement procedures in Section 337 cases. 53 F.R. 35043. The new law further expands the definition of domestic injury to establish a violation in the act of importation of a product made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable U.S. patent. See 37 BNA Patent, Trademark & Copyright Journal 47 (November 11, 1988).


case. With regard to *Soft Sculpture Dolls*, the President neither approved nor disapproved the Commission determination, with the result that the exclusion order remains in effect.

In response to one recent Commission determination, the European Community (EC) recently attacked section 337 by complaint to a panel of the General Agreement on Tariffs and Trade (GATT). While the effect of the GATT proceedings remains unclear, it is believed that the proceedings before the Commission will remain a viable forum for gray market cases in years to come, whether or not intellectual property is involved.

**VII. CURRENT LEGISLATIVE AND REGULATORY PROPOSALS**

During the First Session of the 100th Congress, Senator John Chafee (R-R.I.) introduced a bill to permit gray market parallel imports to enter into the United States for distribution and sale to United States consumers, except in the instance of independence between the foreign and United States trademark or copyright owners. A House counterpart was introduced during the Second Session of the 100th Congress by Representative Rod Chandler (R-Wash.). A countervailing bill aiming to abolish parallel importation altogether, however, has also been proposed.

**SUMMARY**

Clearly, the battle will continue between opponents and proponents of gray goods imported, distributed, and sold in the United States. The outcome of currently proposed items of


84. The exclusion order remains in effect for the life of the intellectual property right which underlies the determination. Thus, trademark based exclusionary orders may extend indefinitely.

85. A complaint has been filed to a disputes panel of the GATT of the unfairness of Section 337 to importers of goods into the United States. The complaint arose out of a 10-year battle involving Akzo, N.V., of the Netherlands over DuPont patents directed towards synthetic, aramid fibers used in automotive, aerospace, and defense industries. The GATT Council has yet to adopt the panel's findings. Wall St. J., Feb. 1, 1989, at 3, col. 6 (Euro. Ed.).


87. S. 1671, 100th Cong., 1st Sess. (1987) (introduced by Senator Orrin Hatch); and Amendment No. 2511 to S. 430, 100th Cong., 1st Sess. (1987). S. 430 has the primary objective of making resale price maintenance a "per se" antitrust violation.
legislation, either unleashing or completely eliminating gray goods, is uncertain.

Based upon recent case law, however, a range of opportunities present themselves to those who seek to prevent competition from gray goods. According to the Supreme Court decision in *K Mart*, United States trademark owners may choose to conduct foreign manufacturing under license, rather than manufacturing abroad themselves. Alternatively, owners of transnational enterprises can choose to restructure, by separating ownership in United States and foreign trademarks. These are certainly viable options in the quest to effectively address the advance of gray goods toward commercialization in the United States marketplace.

If these options are unacceptable or too burdensome, United States copyright law can effectively secure the marketplace in some instances. To implement this approach, planning is required to ensure timely branding of goods with suitable copyrightable matter.

The best option is to consider the entire spectrum of intellectual property and trade law approaches to gray goods. Without such consideration, no clear certainty will be established in competition with gray goods in the United States.