Trademarked Goods and Their Gray Market Equivalents: Should Product Differences Result in the Barring of Unauthorized Goods from the U.S. Markets?

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TRADEMARKED GOODS AND THEIR GRAY MARKET EQUIVALENTS: SHOULD PRODUCT DIFFERENCES RESULT IN THE BARRING OF UNAUTHORIZED GOODS FROM THE U.S. MARKETS?

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I. INTRODUCTION

Gray market goods are goods manufactured by a trademark owner, or his authorized agent, but ultimately sold in the United States without that trademark owner's authority. These goods can be differentiated from counterfeit goods (goods to which trademarks have been affixed without the authority of the trademark owner) by the fact that the gray market goods were manufactured and the trademark affixed with the authority of the trademark owner. Several problems result from the fact that gray market goods are often of a quality and consistency equal to that of their authorized counterparts. Many courts have held that the existence of such equivalence is a reason not to bar the sale of gray market goods. These

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2. See J. McCarthy, supra note 1, § 25:1 (defining a counterfeit good as a good "with a mark which intentionally attempts to copy and reproduce the senior user's mark as closely as possible . . . [s]o as to deceive customers into thinking that they are getting genuine merchandise."). For a definition of gray market goods, see supra note 1.


4. See infra text accompanying notes 175-183.
cases, however, have not sufficiently analyzed the levels of difference between gray market goods and their authorized counterparts. This Article addresses that problem, and proposes a useful test for determining whether the differences, if any, between gray market goods and their authorized counterparts justify the exclusion of gray market goods from U.S. markets.

Section 32(1)(a) of the Lanham Act provides that a registered owner of a trademark may bring an action against any person who shall, without consent, infringe upon the trademark rights by using in commerce “any reproduction, counterfeit, copy or colorable imitation of a registered mark . . . which such use is likely to cause confusion, or to cause mistake, or to deceive.” In addition, section 42 of the Lanham Act bars importation of goods bearing marks that “copy or simulate” a mark registered in the United States. Counterfeit goods are goods which have neither been manufactured by the trademark holder, nor had a trademark affixed under the authority of the trademark holder. Under these two statutes, the importation or sale of counterfeit goods is illegal.

In contrast to counterfeit goods, genuine goods are defined as:

"[G]oods produced or selected by the owner of a trademark, to which the owner of that trademark affixes the trademark or in connection with which the owner of the trademark uses the trademark (as in advertising). The phrase simply serves to distinguish the goods so produced and marked from goods marked with a trademark by someone not authorized to use the mark (i.e. someone other than the owner or licensee of the owner)."

Thus gray market goods, also known as parallel imports, are genuine and not counterfeit. Over the last ten years, the courts have struggled to decide whether sellers who trade in gray market goods

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5. See infra text accompanying notes 175-181.
8. Id. § 1124.
9. See supra note 2 and accompanying text (defining counterfeit goods).
13. See supra note 1 and accompanying text (defining gray market goods).
infringe upon the trademark rights listed above. Some courts resolve this question simply by looking at the corporate relationship between the U.S. trademark owner and the foreign manufacturer who originally placed the goods into the stream of international commerce. These courts hold that the control that might be exerted over the activities of foreign affiliates who sell goods that are eventually imported into the United States without authority eliminates the need to have a private cause of action against gray market sellers in the United States.

Other courts have focused on questions about the differences be-

14. See, e.g., Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d 659 (3d Cir.) (holding that the Lanham Act does not protect a foreign manufacturer from competition in the sale of its product in the United States by a domestic importer that it has supplied), cert. denied, 110 S. Ct. 156 (1989); Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68 (2d Cir. 1987) (affirming an injunction against the sale of gray market Cabbage Patch Kids dolls which came with adoption papers in Spanish instead of English); NEC Elecs. v. CAL Circuit ABCO, 810 F.2d 1506 (9th Cir.) (holding that defendant did not infringe plaintiff's trademark when it sold, within the U.S., foreign-purchased computer chips manufactured by the plaintiff), cert. denied, 484 U.S. 851 (1987); El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986) (holding that goods manufactured by agreement with the trademark holder but distributed without its authorization may not be considered "genuine"), cert. denied, 484 U.S. 817 (1987); Premier Dental Prod. Co. v. Darby Dental Supply Co., 794 F.2d 850 (3d Cir. 1986) (holding that the exclusive distributor who owned the trademark could obtain a preliminary injunction to prevent unauthorized importation by the defendant); Johnson & Johnson Prod., Inc. v. DAL Int'l Trading Co., 798 F.2d 100 (3d Cir. 1986) (holding that New Jersey law does not impose a duty on buyers in the gray market to inquire as to defects in title); Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983) (holding that a preliminary injunction barring the distribution of trademarked cameras could not be granted absent factual support for the conclusion that a substantial likelihood of confusion existed); In re Certain Alkaline Batteries, 225 U.S.P.Q. 823 (ITC 1984) (granting an order to exclude the importation of foreign DURACELL batteries into the U.S. because of their negative effect on domestic industry); Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984) (holding that the trademark owner was entitled to a preliminary injunction barring the independent importation of goods bearing the trademark because it had demonstrated irreparable harm by showing consumer confusion and damage to its reputation).

15. See, e.g., United States v. Guerlain, Inc., 155 F. Supp. 77 (S.D.N.Y. 1957) (holding that an American company which is part of a single international enterprise with a foreign company is not entitled to protection from competition by virtue of a ban on imports of goods bearing the same trademarks as the American goods), vacated and remanded, 358 U.S. 915 (1958); NEC Elecs. v. CAL Circuit ABCO, 810 F.2d 1506 (9th Cir.) (holding that no trademark infringement has taken place where the trademark owner is a wholly-owned and controlled subsidiary of the foreign manufacturer), cert. denied, 484 U.S. 851 (1987); Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d 659 (3d Cir.) (holding that a United States trademark holder, which was a wholly owned subsidiary of the foreign manufacturer of the trademarked goods, was not entitled to the protection of the Lanham Act), cert. denied, 110 S. Ct. 156 (1989); Parfums Stern Inc. v. United States Customs Serv., 575 F. Supp. 416 (S.D. Fla. 1983) (holding that the trademark owner was not entitled to injunctive relief in its suit to prevent unauthorized importation of goods into the United States).

16. See, e.g., Weil Ceramics, 878 F.2d at 668.
between gray market goods and their authorized counterparts. Even courts in the prior category, however, concede that their decisions might be different if it could be proven that the gray market goods are not equivalent to those sold in the United States with the authority of the trademark owner.

Today, all courts agree that importation of gray market goods should be barred, regardless of equality, if the United States trademark registration was purchased at arm's length by a domestic firm not affiliated with the foreign manufacturer. Furthermore, in 1988 the Supreme Court ruled that gray market goods manufactured abroad either under contract or license from the U.S. trademark registrant are barred from entry into the United States under section 526 of the Tariff Act. In all other cases, however, the courts are split as to whether gray market goods should be barred.

This Article focuses on the way courts view gray market imports. Rather than address the issues of corporate interrelationships and control and how those factors affect the importation and sale of gray market goods, this Article specifically analyzes how the equivalence (or lack thereof) of gray market and authorized trademarked

17. See, e.g., Original Appalachian Artworks, Inc. v. Granada Elecs., 816 F.2d 68 (2d Cir. 1987) (dealing with Cabbage Patch Kids dolls with adoption papers in a Spanish); El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986) (discussing the trademark holder's right to control the quality of the goods sold under its trademark), cert. denied, 484 U.S. 817 (1987); Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983) (pointing to the comparable quality between the gray market goods and the regularly imported counterparts); see also Weil Ceramics and Glass, Inc. v. Dashi, 878 F.2d 659 (3d Cir.) (holding that the company's "good will" was not diminished by an association with goods of lesser quality), cert. denied, 110 S. Ct. 156 (1989).

18. See Weil Ceramics, 878 F.2d at 675.


goods affects potential trademark litigation.\textsuperscript{23}

II. DISCUSSION OF THE RELEVANT CASE LAW

Although gray market goods usually derive from the same source as authorized goods,\textsuperscript{24} they are not always equivalent to goods which can be obtained from an authorized distributor.\textsuperscript{25} For example, some goods are changed slightly to reflect regional consumer preferences or requirements,\textsuperscript{26} some are packaged differently,\textsuperscript{27} or are of slightly different quality.\textsuperscript{28} Most courts allow actions grounded in trademark infringement where the gray market goods are not equivalent to the authorized goods.\textsuperscript{29} The concept of equivalence, however, requires additional consideration. As courts continue to attempt to draw rational lines concerning the degree of gray market competition which will be permissible, they must determine the level of difference between gray market goods and authorized goods which

\begin{itemize}
\item \textsuperscript{23}See infra text accompanying notes 38-183.
\item \textsuperscript{24}Compare Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984) (finding that the gray market goods and the authorized goods derived from the same manufacturer, Mamiya Camera Co.) with El Greco Leather Prods. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986) (noting that the goods were manufactured by a Brazilian company under a license agreement with the U.S. markholder), \textit{cert. denied}, 484 U.S. 817 (1987).
\item \textsuperscript{25}See, e.g., \textit{Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.}, 816 F.2d 68, 70 (2d Cir. 1987) (holding that Cabbage Patch Kids dolls with adoption papers in Spanish instead of English were not equivalent to their authorized American counterparts).
\item \textsuperscript{28}See, e.g., \textit{Well Ceramics & Glass, Inc. v. Dash}, 878 F.2d 659, 682 (3d Cir.) (Becker, J., concurring) (noting that Lladro produces two different qualities of figurines, but that only the highest quality figurines are intended for sale in the United States), \textit{cert. denied}, 110 S.Ct. 156 (1989).
\item \textsuperscript{29}See, e.g., \textit{Well Ceramics}, 878 F.2d at 674-75 (holding that a valid claim exists under the Lanham Act where a manufacturer of a nonequivalent good displays a registered trademark); \textit{see also El Greco}, 806 F.2d at 396 (holding that lack of equivalence between genuine and gray market shoes gave rise to a cause of action for trademark infringement); \textit{Original Appalachian}, 816 F.2d at 71 (holding that differences between authorized and gray market "Cabbage Patch Kids" created confusion among the public over the source of the product, giving rise to a claim of trademark infringement); \textit{cf. NEC Elecs. v. CAL Circuit ABCO}, 810 F.2d 1506, 1508 (9th Cir. 1987) (holding that gray market computer chips were "identical" to the authorized chips and thus plaintiff had no cause of action under U.S. trademark law).
\end{itemize}
will be tolerated.\textsuperscript{30}

Between 1923, when the case of \textit{A. Bourjois & Co. v. Katzel}\textsuperscript{31} was decided, and 1980, there were relatively few judicial decisions on the issue of infringement upon a United States trademark by gray market goods.\textsuperscript{32} However, since 1981 gray market controversies have frequently been the subject of judicial review.\textsuperscript{33} In spite of this spate of litigation, no consistent rule of law has developed on the subject.\textsuperscript{34}

When initially confronted with the issue in the 1980's, courts held that the distribution and sale of gray market goods, even if unauthorized by the U.S. markholder, did not infringe upon any trademark rights.\textsuperscript{35} There are several different rationales which support this position.

The first rationale is that once the goods are introduced into the stream of commerce by the foreign markholder, its rights to control the goods, and the rights of its close corporate affiliates to control the goods through its U.S. trademark rights, are exhausted.\textsuperscript{36} Another rationale is that the goods are genuine and the sale of genuine goods cannot cause consumer confusion as to the source of the goods.\textsuperscript{37}

This latter position was espoused in \textit{Bell & Howell: Mamiya Co. v. Masel Supply Co.},\textsuperscript{38} which concerned the importation and sale of gray market cameras. The district court issued a preliminary

\begin{itemize}
  \item \textsuperscript{30} See \textit{infra} text accompanying notes 96-179.
  \item \textsuperscript{31} 260 U.S. 689 (1923).
  \item \textsuperscript{33} See \textit{supra} text accompanying notes 29-32; \textit{infra} text accompanying notes 34-43.
  \item \textsuperscript{34} See \textit{infra} text accompanying notes 35-180.
  \item \textsuperscript{35} See, e.g., Monte Carlo Shirt, Inc. v. Daewoo Int'l (Am.) Corp., 707 F.2d 1054 (9th Cir. 1983) (holding that the unauthorized sale of a genuine product did not constitute trademark infringement); DEP Corp. v. Interstate Cigar Co., 622 F.2d 621 (2d Cir. 1980) (holding that a California corporation which had no property interest in the trademark lacked standing to bring a trademark infringement suit against other corporations who were selling the product in the United States); Parfums Stern, Inc. v. United States Customs Serv., 575 F. Supp. 416 (S.D. Fla. 1983) (denying an injunction restraining importation of fragrances bearing the trademark absent a showing of lack of genuineness).
  \item \textsuperscript{37} See Monte Carlo Shirt, Inc. v. Daewoo Int'l (Am.) Corp., 707 F.2d 1054 (9th Cir. 1983).
  \item \textsuperscript{38} 719 F.2d 42 (2d Cir. 1983).
\end{itemize}
injunction barring gray market activities by the defendants.\textsuperscript{39} The Second Circuit, however, vacated the order due to a lack of proof that the cameras sold by the defendant were substantially likely to cause confusion as to their origin.\textsuperscript{40} Although the case was remanded for further hearings on that issue, no trial was ever held. Instead, the plaintiff trademark owner, now proceeding under the name of Osawa & Co., pressed forward with a similar action against other gray market sellers engaged in the same activities.\textsuperscript{41}

Osawa involved medium-format cameras. This product is expensive, complicated and sensitive equipment which required: (1) extensive advertising and instruction to educate the public and dealers about the cameras' operation; (2) a continuing relationship of advice and service between the customer and dealer; (3) an extensive dealer inventory of specialized peripheral equipment; and (4) warranty service.\textsuperscript{42} In contrast to the activities pursued by authorized dealers, the court found that the defendant's only point-of-sale effort was in advertising its substantially lower sales prices.\textsuperscript{43} The defendant, a discount dealer, did not maintain an inventory of peripheral equipment, did not provide any educational services, and did not provide any warranty service.\textsuperscript{44} The court found that consumer warranty claims submitted to Osawa on the defendant's gray market cameras evidenced consumer confusion over the origin and sponsorship of the product.\textsuperscript{45} As a result of this confusion, Osawa was forced, at some expense, to service the defendant's gray market cameras and to honor the defendant's rebate offers or risk public mistrust of Osawa's product.\textsuperscript{46} The court held that even if the defendant had performed warranty services, it had no incentive to perform those services in such a manner as to protect the reputation of Osawa's trademark.\textsuperscript{47}


\textsuperscript{40} Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42, 46 (2d Cir. 1983).


\textsuperscript{43} Osawa & Co., 589 F. Supp. at 1167.

\textsuperscript{44} Id. at 1166-67.

\textsuperscript{45} Id. at 1169.

\textsuperscript{46} Id. 1168-69.

\textsuperscript{47} Id. at 1169.
The court also found that the gray market seller's free ride on the trademark owner's publicity and warranty expenditures contributed to the irreparable injury to both plaintiff's business and the reputation of its trademark.

Finally, the court reasoned that Osawa had invested considerably in developing a reputation separate from that of the foreign mark ("MAMIYA") under which the goods were sold. This reputation, termed "local goodwill," formed the principal basis of the decision in Osawa. The court noted the seminal case of A. Bourjois & Co. v. Katzel as having established the local goodwill doctrine, essentially, as an exception to the principal of exhaustion. However, the facts of Osawa are distinguishable from those of Bourjois. In Bourjois, the plaintiff had purchased the U.S. trademark rights and operated independently of its foreign parent corporation. In Osawa, the plaintiff was at one time independent, but at the time the suit was commenced, the trademark was the sole property of Osawa-USA, a subsidiary of Osawa-Japan. Ninety-three percent of Osawa-USA was owned by Osawa-Japan and the remaining seven percent was held by Mamiya Camera Co. Osawa-Japan owned thirty percent of Mamiya Camera Co., the Japanese manufacturer of the cameras. Mamiya appointed Osawa-Japan its worldwide distributor. Osawa-Japan then sold the gray market cameras abroad where they were purchased by the defendant.

48. Id. at 1168.
49. Id. at 1168-70
50. Id. at 1174.
51. Id.
52. 260 U.S. 689 (1923).
55. A. Bourjois, 260 U.S. at 690-91.
57. Id.
58. Id.
59. Id. at 1164.
60. Id. at 1165.
Osawa-USA owned the U.S. trademark rights on goods manufactured by Mamiya in Japan for sale in the United States.\(^6\) The Osawa court found the interlocking ownership between Osawa-Japan and Osawa-USA\(^6\) to be irrelevant, as was Osawa-Japan's responsibility for introducing the gray market cameras into the stream of commerce,\(^6\) because Osawa-USA had established its own goodwill in the product.\(^6\) There was no appeal and the case was eventually settled.\(^6\)

The Osawa court went to great lengths to demonstrate the importance of the point-of-sale servicing which was performed by Osawa (and its agents) but not performed by the defendants.\(^6\) Indeed, the differences in such services, in the court's view, led directly to the "irreparable injury" determination mandated by the Second Circuit in Bell & Howell.\(^6\) The Osawa case thus established the principle that product equivalence is a crucial part of gray market case analysis.

Three years later the Ninth Circuit, in NEC Electronics v. CAL Circuit ABCO,\(^6\) expressed a different view.\(^6\) Plaintiff, NEC Electronics (NEC-USA), was a wholly owned subsidiary of NEC Corporation (NEC-Japan).\(^6\) Primary control of NEC-USA was vested in NEC-Japan because the majority of the board of directors of NEC-USA were directors of NEC-Japan.\(^6\) NEC Electronics involved gray market computer chips manufactured by NEC-Japan, purchased by the defendant abroad, and then imported for distribution in the United States in competition with NEC-USA.\(^6\) The defendant purchased the computer chips at substantially lower prices than those offered for sale by the plaintiff in the United States.\(^6\)

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61. Id. at 1164.
62. The defendants argued that the holding of Bourjois should be limited to instances where the markholder had purchased the trademark outright and where it was not related to the original markholder. Id. at 1174.
63. The defendants argued that once the trademarked goods were sold in commerce the markholder could not prevent their resale. Id. at 1174-75.
64. Id. at 1174-75.
65. This information was obtained by the author through confidential, off the record discussions with one party.
68. 810 F.2d 1506 (9th Cir.), cert. denied, 484 U.S. 851 (1987).
69. See infra text accompanying notes 82-84.
70. NEC Elecs., 810 F.2d at 1507.
71. Id.
72. Id. at 1507-08.
73. Id. at 1507.
court held that NEC-USA and its parent, NEC-Japan, were "commonly controlled" and the American trademark holder, NEC-USA, was not truly independent from the foreign manufacturer.

The court found that the common control of NEC-USA and NEC-Japan precluded an arm's length assignment of the trademark and that there was no danger to NEC-USA of being unable to control the quality of the manufacturer's products. In the court's view, because a single international enterprise was responsible for the sales to the defendant, its right to control the goods was thereafter exhausted, and thus, the plaintiff was in no position to claim trademark infringement after the goods were imported for sale in the United States. The court wrote:

In this situation, we cannot say that ABCO is selling goods "of one make under the trademark of another". . . . If NEC-Japan chooses to sell abroad at lower prices than those it could obtain for the identical product here, that is its business. In doing so, however, it cannot look to United States trademark law to insulate the American market or to vitiate the effects of international trade. This country's trademark law does not offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an American subsidiary with nominal title to its mark.

While the Ninth Circuit's reasoning was based upon corporate control, the above passage, stressing that the gray market computer chips were "identical" to the authorized chips, is an important affirmation of the principle that without equivalence, even gray market goods infringe a valid U.S. trademark.

There was no claim in either Osawa or NEC Electronics that the gray market goods themselves were not of equal quality to the authorized goods. In both instances, the gray market goods and the trademark goods were produced by the same manufacturer and the gray market goods were purchased abroad under a foreign trade-
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mark. The decision in Osawa rested on the contention that ancillary goods and point-of-sale services required for the cameras created independent local goodwill in the U.S. trademark holder. The court reasoned that in the case of a complex product which requires extensive servicing, disparities in services between the trademark holder and the gray market seller would lead to confusion in the marketplace as to the meaning of the trademark. By contrast, in NEC Electronics there were no material differences between the authorized computer chip and its gray market counterpart, and the product was not so complex as to require ancillary goods and point-of-sale services. Despite the differences in their approach to the issues of local goodwill and corporate control, these two cases can be used as a reference point for viewing other cases that deal more directly with the question of equivalence between gray market goods and authorized goods.

Along with Osawa and NEC Electronics, some recent cases concern the issue of equivalence between trademark and gray market goods. El Greco Leather Products Co., Inc. v. Shoe World is one example. El Greco contracted with Solemio, a Brazilian manufacturer, to produce shoes bearing the trademark “CANDIE’S” for importation into the United States. Payment was to be made under a letter of credit after a certificate of inspection was issued assuring

81. See NEC Elecs., 810 F.2d at 1507-08; Osawa, 589 F. Supp. at 1166.
82. Osawa, 589 F. Supp. at 1174.
83. Id. at 1169.
84. NEC Elecs., 810 F.2d at 1507-08.
86. 806 F.2d 392 (2d Cir. 1986), cert. denied, 484 U.S. 817 (1987).
87. Id. at 393.
88. The requirement of an inspection certificate in a letter of credit transaction is a common practice intended as much to insure the smoothness of the transaction as a device for policing a trademark. See generally Note, Letters of Credit: The Role of Issuer Discretion in Determining Documentary Compliance, 53 FORDHAM L. REV. 1519, 1521-22 (1985) [hereinafter Note, Letters of Credit] (authored by Arthur Fama, Jr.) (discussing the benefit of using bank's credit in place of buyer's credit to avoid various risks the seller may face); 2 J. WHITE & R. SUMMERS, UNIFORM COMMERCIAL CODE 2 (3d ed. 1988). The parties to an international letter of credit transaction deal in documents and not in goods. Note, Letters of Credit, supra, at 1520 (defining a letter of credit as “a formal promise by a bank or another party of known solvency . . . to pay the draft or the demand for payment by a beneficiary, whose compliance with the terms of the credit is a prerequisite of the enforceability of the promise.” (quoting B. KOZOLCHYK, COMMERCIAL LETTERS OF CREDIT IN THE AMERICAS § 1.01[3], at 9)). The buyer's bank must pay under the letter of credit if the shipping documents conform to the requirements of the letter of credit. Id. at 1522. Since the documents may or may not re-
El Greco that the shoes met its specifications and quality standards. 89 El Greco accepted the first five lots of shoes but canceled the order on the last two lots. 90 Solemio subsequently sold the shoes to the defendant retailer, Shoe World. 91 The official reason for El Greco's cancellation of the contract was production delays. 92 At trial, however, El Greco argued that the real reason for the cancellation was the inferior quality of the goods. 93 The Second Circuit reversed the district court's finding that the contract was substantially completed and the shoes genuine. 94

Although the Second Circuit Court of Appeals did not decide whether the production delays were caused by quality control problems or an inability to comply with delivery requirements, 95 the court considered the uncontroverted fact that a certificate of inspection present goods which conform to the contract, it is common practice to provide in the letter of credit that one of the required documents is an inspection certificate issued by a local agent certifying that the goods had been approved for shipment in accordance with specifications. J. Dolan, The Law of Letters of Credit, Commercial and Standby Credits ¶ 3.07(5) (1984). Through the requirement of an inspection certificate, the buyer is assured that the bank will not pay for nonconforming goods. Id. Conforming goods are defined as "[g]oods or conduct including any part of a performance ... [which] are ... in accordance with the obligations under the contract." U.C.C. § 2-106(2) (1987). But see Note, Letters of Credit, supra, at 1528-29 (discussing "substantial compliance" as opposed to "strict compliance" with regard to shipping documents). The buyer can cause its inspection agent to refuse to issue the inspection certificate and thereby assure nonpayment on the letter of credit. The refusal to issue the certificate could be a dishonest pretence and, thus, is not dispositive of the issue of whether the goods (objectively) fail to conform to specifications in the contract. See id. at 1527-28.

89. El Greco, 806 F.2d at 393.
90. Id. at 394.
91. Id.
92. Id.
93. El Greco Leather Prods. Co. v. Shoe World, Inc., 599 F. Supp. 1380, 1386 (E.D.N.Y. 1984), rev'd, 806 F.2d 392 (2d Cir. 1986), cert. denied, 484 U.S. 817 (1987); see Monte Carlo Shirt, Inc. v. Daewoo Int'l (Am.) Corp., 707 F.2d 1054, 1055 (9th Cir. 1983). Despite Monte Carlo's rejection of the goods, the court found no trademark infringement by the sale of the goods since the goods "were the genuine product, planned and sponsored by Monte Carlo and produced for it on contract for future sale ... [and] not altered or changed from the date of their manufacture to the date of their sale." Id. at 1058; see also Ballet Makers, Inc. v. United States Shoe Corp., 633 F. Supp. 1328, 1335 (S.D.N.Y. 1986) (finding that the goods were the genuine trademarked product, sponsored by and produced for the markholder); Sasson Jeans, Inc. v. Sasson Jeans, L.A., Inc., 632 F. Supp. 1525, 1529 (S.D.N.Y. 1986) (finding that an authorization to continue affixing Sasson trademarks on certain goods rendered those goods "genuine"); Diamond Supply Co. v. Prudential Paper Prods. Co., 589 F. Supp. 470, 475 (S.D.N.Y. 1984) (finding that there was no likelihood of confusion because the goods were genuine goods).

95. Id. at 394.
tion was never issued as dispositive of the trademark infringement claim. The court held that the goods could not be considered genuine in the absence of the certificate of inspection because "[o]ne of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark . . . [and] . . . [t]he certificates of inspection . . . were an integral part of [El Greco's] effort at quality control. Because the shoes were not genuine under the Lanham Act, the Court of Appeals held that the importation and sale of the gray market shoes by the defendant retailer was sufficient "use" of the goods to constitute an infringement.

Judge Altimari dissented, asserting that the issue of genuineness was a question of fact subject to the "clearly erroneous" standard of review and that genuineness could not be determined as a matter of law. Judge Altimari stated that unless the goods are of an inferior quality, the goods should be considered genuine if manufactured with the trademark affixed by, or with authority of, the markholder. Judge Altimari asserted that there was no proof that the shoes manufactured by Solemio were of an inferior quality since the district court found that El Greco canceled the order due to production delays and not for the subsequently asserted reason that the shoes were defective or of an inferior quality. Inspection certificates had been issued for the earlier shipments and plaintiff was unable to produce evidence that the later lots were indeed inferior to the earlier lots.

Another case addressing the question of equivalence of goods is *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*

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96. *Id.* at 395.
97. *Id.*
98. *Id.* The Court of Appeals concluded that when El Greco canceled its order with Solemio it was "entitled to assume that Solemio would not dispose of the shoes without either removing the CANDIE'S trademark (as is the custom and practice in the industry), or affording El Greco an opportunity to inspect the goods and certify their quality prior to disposal, or, at the minimum, seeking instructions from El Greco on how to dispose of them." *Id.* at 396.
99. *Id.* at 396.
100. *Id.* at 397 (Altimari, J., dissenting).
101. *Id.* at 398.
102. *Id.*
104. *Id.* at 1386.
105. 816 F.2d 68 (2d Cir.), *cert. denied*, 484 U.S. 847 (1987). "Cabbage Patch Kids" are hand-sewn soft sculpture dolls which are marketed through "adoption centers," usually located in specialty stores and finer department stores. *Id.* at 70. The doll comes with an
The case involved gray market Cabbage Patch Kids dolls manufactured abroad under a restrictive license from the U.S. trademark holder. These gray market Cabbage Patch Kids dolls were intended for sale in foreign markets and not in the United States; the birth certificates and adoption papers were not written in English.

The Second Circuit held that the foreign language birth certificates and adoption papers, along with the inability of the consumers to "adopt" the dolls created a significant difference between the gray market dolls and the authorized dolls. The court reasoned that the sale of these goods in the United States could cause consumer confusion regarding the source of the dolls. Additionally, in a concurring opinion, Judge Cardamone noted that the plaintiff, as a mere licensor of the trademark, had no practical way to stop the influx of gray market dolls other than an action for trademark "adoption certificate" which the owner of the doll fills out and returns to O.A.A. On the first anniversary O.A.A. sends a birthday card to the owner. "The adoption process is an important element of the mystique of the dolls. . . ." Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 640 F. Supp. 928, 930 (S.D.N.Y. 1986), aff'd, 816 F.2d 68 (2d Cir.), cert. denied, 484 U.S. 847 (1987).

A similar problem could occur in the context of other toys and games such as Monopoly and Scrabble which are manufactured in different languages for foreign markets. Importation into the United States of such products may or may not cause consumer injury, depending upon whom the goods are sold to and whether the use of the foreign language is readily discoverable by the consumer from the outside packaging. Cf. id. at 73 (indicating that adoption papers written in a language foreign to the owner might prevent the owner from "adopting" the doll). The same consumer injury may occur if instructions or warranties for games and sophisticated, technical products are not printed in English. See 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, 83-85 (1985) (authored by Maureen Beyers); Note, Attention Gray Market Shoppers: K Mart Corp. v. Cartier Inc. Fails to Clarify the Clouded Area of Gray Market Goods, 38 CATH U.L. REV. 933, 939 (1989) (authored by John J. McNamara); see generally Staaf, The Law and Economics of the International Gray Market: Quality Assurance, Free-Riding and Passing Off, 4 INTELL. PROP. J. 191, 228-29 (1989) (stating that lower quality gray market goods sold as the original goods diminish the reputational value of the trademark); Young, The Gray Market Case: Trademark Rights v. Consumer Interests, 19 INTELL. PROP. L. REV. 199, 216-17 (1987) (stating that gray marketeers might sell inferior products because they provide less quality control).

The court noted that the U.S. trademark owner could not or would not mail the adoption papers for the gray market dolls. Original Appalachian, 816 F.2d at 73.
infringement. 111

Two other recent and related cases also addressed the issue of equivalence. These cases concerned Lladro porcelain figurines, purchased abroad but imported into and distributed in the United States without the authorization of the United States trademark holder. 112 The trademark holder in each of these cases was a domestic corporation closely affiliated with the foreign manufacturer. 113 In Weil Ceramics, the district court granted summary judgment for the plaintiffs, asserting that (1) Weil's corporate affiliation with the foreign manufacturer was irrelevant; 114 (2) Weil had established a separate and independent goodwill in Lladro figurines; 115 and (3) Weil's goods were subjected to quality controls not employed by the gray market defendants. 116 Like Judge Leval in Osawa, Judge Debevoise, writing for the majority in Weil Ceramics, concluded that the principle of "exhaustion" did not apply where the U.S. trademark holder possesses goodwill in the product separate and independent of the foreign markholder. 117

In Disenos Artisticos, the defendant's motion for summary judgment was denied because a question of fact existed regarding the equivalence of the gray market goods and the goods distributed by the U.S. markholder. 118 Judge Glasser 119 cited El Greco 120 and

111. See Original Appalachian, 816 F.2d at 75 (Cardamone, J., concurring) (stating that although it tried, plaintiff could not have prevented the importation of gray market dolls by means of contract), cert. denied, 484 U.S. 847 (1987).


113. The exclusive importer and distributor, Weil Ceramics, was wholly owned by a foreign corporation, Lladro Exportadora, S.A.. Lladro Exportadora, Disenos Artisticos, and the foreign manufacturer, Lladro S.A. were all owned by Sodigei, a Spanish corporation. Id. Similar to Osawa-USA in Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984), Weil Ceramics was at one time prior to the commencement of the suit independent of the foreign trademark holder. Disenos Artisticos, 676 F. Supp. at 1265.


115. Id. at 713.

116. Id. at 712-13.

117. See supra note 54 and accompanying text (defining principle of exhaustion).

118. Weil Ceramics, 618 F. Supp. at 710.

119. Disenos Artisticos E Industriales, S.A. v. Work, 676 F. Supp. 1254, 1269-70 (E.D.N.Y. 1987). Judge Glasser, writing for the majority, noted that, like Original Appalachian, the goods in Disenos Artisticos, were never intended for distribution in the U.S. Id. at 1269.

Original Appalachian\textsuperscript{122} in support of the denial of defendant's motion for summary judgment.\textsuperscript{123} Judge Glasser stated that the key to \textit{El Greco} was the fact that "the actual quality of the goods is irrelevant; it is the control of quality that a trademark holder is entitled to maintain."\textsuperscript{124} If this is true, gray market sellers will inevitably lose because gray market goods are, by definition, beyond the control of the trademark owner. The \textit{Disenos Artisticos} court, however, does not seem to go so far because, although the gray market goods were admittedly genuine,\textsuperscript{125} it found that there existed an issue of fact whether the goods were equivalent.\textsuperscript{126} The court cited \textit{Original Appalachian} as a case in which the gray market goods were "materially different from the U.S. goods."\textsuperscript{127} Thus, the \textit{Disenos Artisticos} court accepts the need for proof of either quality control or "equivalence" of goods, but does not say how such proof should be treated.

Notwithstanding its reliance on \textit{El Greco} and \textit{Original Appalachian} on the issue of equivalence of goods, the \textit{Disenos Artisticos} court dismissed Disenos Artisticos's argument that even if the goods originated from a common source and were identical, their sale infringed on plaintiff's trademark rights.\textsuperscript{128} The court distinguished \textit{El Greco} and \textit{Original Appalachian} from \textit{Disenos Artisticos} because of the close affiliation existing in \textit{Disenos Artisticos} between the U.S. markholder and the foreign manufacturer.\textsuperscript{129}

\textsuperscript{121} El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986); see supra notes 85-104 and accompanying text (discussing \textit{El Greco}).
\textsuperscript{122} Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68 (2d Cir. 1987); see supra notes 105-11 and accompanying text (discussing \textit{Original Appalachian}).
\textsuperscript{123} \textit{Disenos Artisticos}, 676 F. Supp. at 1269-70. Both \textit{El Greco} and \textit{Original Appalachian} involved the sale of gray market goods manufactured by independent foreign corporations under licenses issued by the U.S. trademark holder. \textit{El Greco}, 806 F.2d at 393-94; \textit{Original Appalachian}, 816 F.2d at 70. The \textit{Disenos Artisticos} court's reliance on \textit{El Greco} and \textit{Original Appalachian} ignores the fact that in \textit{Disenos Artisticos} the two sets of goods were produced by the same manufacturer, i.e., a foreign manufacturer closely affiliated with the domestic markholder, under the same specifications. See \textit{Disenos Artisticos}, 676 F. Supp. at 1265.
\textsuperscript{125} \textit{Id.} at 1270.
\textsuperscript{126} \textit{Id.} at 1269-70.
\textsuperscript{127} \textit{Id.} at 1269.
\textsuperscript{128} \textit{Id.} at 1270.
\textsuperscript{129} \textit{Id.} The court held that \textit{El Greco} and \textit{Original Appalachian} "do not directly address this issue in the factual context of this case which, among other things, involves a corporate relationship between the foreign manufacturer . . . and the U.S. trademark holder." \textit{Id}. The court seems to refer to the exhaustion doctrine and the question of local goodwill. See \textit{supra} note 54 and accompanying text (discussing the exhaustion doctrine). Yet in the next
The decision in *Disenos Artisticos* is not final; a trial will be held, and an appeal will almost certainly follow. In July, 1989, however, the Third Circuit heard the appeal of Judge Debevoise's decision in the *Weil Ceramics* case. The court's decision on that appeal is almost certain to have tremendous impact not only on *Disenos Artisticos*, but on all future gray market cases. Judge Higginbotham, writing for a court divided not on outcome but on rationale, held that the corporate affiliations of Weil and its sister company, the foreign manufacturer, precluded any suit for trademark infringement. Judge Higginbotham reasoned that self-help was available to Weil's corporate family if it wanted to arrest gray market activities. Weil could either cut off the diverters of goods not originally sold for the U.S. market, or it could abandon its pricing policies which led to the availability of lower-cost gray market goods. This self-help approach is certain to create controversy, and is at fundamental odds with the approach taken in *Osawa*.

Equally important is dicta from Judge Higginbotham about the issue of equality.

The fact that [the district court] made no finding that the porcelain distributed by [the defendant] and that distributed by Weil are materially different is significant to our disposition of this appeal . . . . If [that were the case], that fact would provide a stronger argument for Weil's claim of trademark infringement . . . . However, we cannot reach that conclusion on the findings of sentence, Judge Glasser speaks of an "unresolved threshold fact question as to whether defendants' goods are identical to plaintiff's." *Disenos Artisticos*, 676 F. Supp. at 1270. He then cryptically adds that "in light of *El Greco*, *Original Appalachian*, and other recent gray market decisions, the parties should have an opportunity to address these issues again if renewed motions for summary judgment are deemed desirable." *Id.*


131. *Id.* at 666.

132. *Id.* at 668 n.10.

133. Compare, for example, this statement in *Original Appalachian*:

[I]t is not clear that OAA could not have prevented by contract the importation of these Cabbage Patch dolls by third-party distributors, such as Granada. As a practical matter OAA appears to have tried. Under its license Jesmar agreed not to sell outside its Spanish-licensed territory, and further agreed to sell only to purchasers who also agreed not to sell outside that territory. Without any effective means of further controlling the distribution of its product, for example, by means of an equitable servitude on the dolls, OAA should not be held responsible for the dolls' importation.


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record, and we premise our decision on the assumption that the porcelain imported by [the defendant] was essentially identical to that imported by Weil.135

It is interesting to note that while Judge Higginbotham invokes the matter of equivalence as an issue in gray market cases, he is careful to couch his decision in such vague terms as "materially different," "a stronger argument," and "essentially identical."136 Thus, although equivalence is invoked as an important issue in the subsequent trial in Weil Ceramics, Judge Higginbotham's opinion provides little guidance as to how the issue should ultimately be resolved.

In contrast, Judge Becker, concurring in Weil Ceramics, is more direct about the impact of product differences.137 Revealing facts which to that date had been withheld from the public case, Judge Becker noted that the parties had stipulated that in fact Lladro, S.A. had sold two different qualities of figurines in Europe under the same "LLADRO" mark, but that Weil only sold the higher quality of these two categories of goods.138 As such, the gray market importers sold "goods of mixed quality," in fact inferior to those being sold by Weil.139 But Judge Becker rejected this fact as a reason for holding in favor of Weil, blaming Lladro (and its affiliate, Weil) for not better distinguishing the two different categories of goods by using two different trademarks.140 The result of this failure leads to consumers who are unaware of the differences in quality, and to injury which Judge Becker terms to be "self-inflicted."141

The obvious implication of the Third Circuit decision in Weil Ceramics is that differences in goods are an important consideration in gray market cases, but that a finding that there are some differences is itself not enough to save the trademark owner.142 Not only is the trademark owner charged with the duty to police its mark against counterfeiters, but at least some self-policing must be done to stop diverters and gray market sellers.143 One way to do this is to use

136. Id.
137. Id. at 675 (Becker, J., concurring).
138. Id. at 682.
139. Id. at 682-83.
140. Id. at 683.
141. Id.
142. See id. at 668 n.11.
143. See id. at 668 n.10.
different marks in different places around the world for goods with different qualities and features. Trademark owners have historically been reluctant to use such a practice, claiming that it impairs marketing strategies and reduces the world-wide appeal of its marks.

Even aside from observations about the availability of self-help and about self-inflicted injury, there are several good reasons to reject a broad reading of *El Greco* and in turn the “quality control” rationale. First, is the fact that the gray market goods in *El Greco* were manufactured under a license by the U.S. markholder, while most gray market cases involve goods manufactured by the foreign trademark owner for a U.S. entity. Second, the owner’s power to enjoin competitive sales is actually limited under the “exhaustion doctrine”; even the courts that have declined to employ the exhaustion doctrine because of the existence of local goodwill concede that the doctrine is valid in the absence of such goodwill. Furthermore, a trademark owner cannot halt the sale of “distress” merchandise at low prices, cannot stop sales of damaged or used goods if those facts are disclosed, and cannot enjoin a seller merely be-

144. See id. at 672 n.18.
147. See supra note 54 and accompanying text (discussing the exhaustion doctrine).
150. See J. MCCARTHY, supra note 1, at § 31:31.
151. Cf. Adolph Coors Co. v. A. Gunderson & Sons, Inc., 486 F. Supp. 131 (D. Colo. 1980) (holding that the sale of Coors beer, without maintaining its quality standards through procedures established by Coors, adversely affected the goodwill of Coors and thus infringed upon the trademark rights of the markholder).
cause he does not like the seller's resale practices.\textsuperscript{152} Dealer termination is generally an option available to the markholder in these scenarios,\textsuperscript{153} but an injunction against such sales is usually not available.\textsuperscript{154} The rights of a trademark owner are thus qualified; good reasons must be presented when attempting to extend that control.\textsuperscript{155}

Additionally, not every sale to a dissatisfied customer results in

\textsuperscript{152} An interesting case in this regard is H.L. Hayden Co., Inc. v. Siemens Medical Sys., Inc., 879 F.2d 1005 (2d Cir. 1989). The case began as an antitrust action resulting from an alleged conspiratorial termination. The defendant had been terminated because of sales to a "catalogue house," which the plaintiff objected to. \textit{Id.} at 1010. Siemens counterclaimed that the plaintiff violated section 43(a) of the Lanham Act because their sales were unauthorized. \textit{Id.} at 1008. The antitrust complaint was dismissed by the District Court, and all but one of the counterclaims (the one based on false suggestions that the manufacturer's warranty applied) was also dismissed. H.L. Hayden, Inc. v. Siemens Medical Sys., Inc., 672 F. Supp. 724, 752 (S.D.N.Y. 1987).\textit{Aff'd}, 879 F.2d 1005 (2d Cir. 1989). Siemens appealed the dismissal of two of its claims, first that the unauthorized sale was itself a violation of sec. 43(a), and, second, a novel claim that Schein's free riding constituted tortious interference with contract. \textit{H.L. Hayden}, 879 F.2d at 1008. The court rejected both these claims, and that rejection is likely to benefit the gray market export trade.

Siemens argued that because it did not have control over the assembly, installation and servicing of its product when that product was sold by the catalogue house, those sales caused a loss of quality control and probable injury. \textit{Id.} at 1023. The court ruled that the catalogue seller's activities were not actionable because no inferior product was being sold and because that entity did not in any way suggest that it was part of the Siemens sales network. \textit{Id.} at 1023. The court cited \textit{El Greco} and \textit{Original Appalachian} to prove that unauthorized sales are actionable when the trademark owner has not had the right to inspect them prior to sale, \textit{Id.} (citing \textit{El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392, 395 (2d Cir. 1986)}) or when "there was 'a very real difference in the product itself,'" \textit{Id.} 1023 (quoting \textit{Original Appalachian Artworks, Inc. v. Granada Elec., Inc., 816 F.2d 68, 73 (2d Cir.), cert. denied, 484 U.S. 847 (1987)}).

\textsuperscript{153} See Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42, 46 (2d Cir. 1983); \textit{H.L. Hayden Co., 879 F.2d at 1022} (recognizing dealer termination as the manufacturer's/distributor's right).

\textsuperscript{154} See, e.g., Coca-Cola Co. v. Tropicana Prods., Inc., 690 F.2d 312, 316 (2d Cir. 1982) (stating that under the Lanham Act, plaintiff must demonstrate the likelihood of irreparable harm to obtain injunctive relief); \textit{Bell & Howell, 719 F.2d at 45} (stating that irreparable harm must be established, along with likelihood of success on the merits, in order for a preliminary injunction to be granted). \textit{But see Power Test Petroleum Distrib., Inc. v. Calcu Gas, Inc., 754 F.2d 91, 95 (2d Cir. 1985)} (affirming the grant of preliminary injunction since the plaintiff met the requirements of (1) irreparable harm and (2) likelihood of success on the merits).

\textsuperscript{155} See, e.g., Park 'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189 (1985) (enjoining use of words "Dollar Park and Fly" where petitioner had an incontestible trademark in the name "Park 'N Fly"); \textit{El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986)} (holding that a necessary element in a trademark infringement case is a showing of confusion or customer deception), \textit{cert. denied, 484 U.S. 817 (1987)}; \textit{Power Test Petroleum Distrib., Inc. v. Calcu Gas, Inc., 754 F.2d 91 (2d Cir. 1985)} (holding that irreparable injury was required to grant preliminary injunction, where franchised gas station, using franchisor's name, ceased to use franchisor's gasoline).
injury to the markholder. An example of this can be demonstrated by the fact pattern of *Weil*, concerning the sale of Lladro porcelain figurines. If a customer of an authorized retailer of Lladro figurines claims the product purchased was defective, there will be a question as to who damaged the figurine. Assuming that the question is resolved in favor of the customer, the retailer will credit the customer’s account or exchange the damaged goods for undamaged goods. The retailer will then receive a commensurate credit from its distributor (gray market or otherwise) upon proof that the damage was not the fault of retailer activity. If the retailer refuses to honor the customer’s claim, the customer’s anger will most likely be directed towards the retailer—not at the anonymous distributor or even the trademark owner. Regardless of whether the retailer was an authorized or unauthorized distributor, the customer’s anger will probably be directed at the retailer with whom he dealt.

When viewed in this way, the trademark owner’s greater cause for concern derives from the sale of gray market goods which are equal in every respect to the authorized goods and not from the sale of inferior products. Customers who purchase gray market goods at substantially lower prices and obtain the same level of satisfaction from the gray market goods as from the authorized goods will endeavor to purchase more gray market goods in the future. Authorized distributors charging higher prices will suffer a loss of volume because they cannot compete with the prices charged by gray market sellers. Complaints from authorized dealers may ultimately result in exactly what Judge Higginbotham suggested should happen: the foreign manufacturer/trademark owner will be forced to abandon the practice of charging more in the United States than abroad.


157. *See Weil Ceramics & Glass, Inc. v. Dash*, 618 F. Supp. 700, 711-12 (D.N.J. 1985); *cf.* Stell Mfg. Corp. v. Century Indus., Inc., 23 A.D.2d 281, 283, 260 N.Y.S.2d 547, 549 (1965) (concerning a manufacturer’s right to have a complete audit of it factor’s books in order to determine whether there were any erroneous charge backs resulting from situations where customers became entitled to a credit because of defective goods).

158. One notable exception may be with the sale of trademarked perfume products where the image of a high-class trademark, along with the high price are important to the appeal of the product. In such instances, the availability of relatively inexpensive equal products could seriously diminish a trademark owner’s investment in the image created by the trademark. *Contra Parfums Stern, Inc. v. United States Customs Serv.*, 575 F. Supp. 416, 421 (S.D. Fla. 1983) (refusing to grant a preliminary injunction against the importation of gray market fragrances).

159. *See Weil Ceramics*, 878 F.2d at 668 n.10.
There is also a good legal reason why equivalence of goods is more relevant to trademark law than control of quality. The *Bell & Howell* case, which should not be overlooked, requires proof of irreparable harm before an injunction will be ordered. Absent proof of material differences in either the product or necessary point of sale services, irreparable injury simply cannot be shown. Accordingly, *Bell & Howell* implicitly requires proof of both local goodwill (or no self-help) and inequality of products.

The issue of equivalence of goods should be confined to a comparison of the product itself and such ancillary items as warranties and point of sale services. Courts should not get involved in tangential issues such as the "right to control." Indeed, if no material or significant differences can be proven, the trademark infringement claim should be dismissed—even if local goodwill has been established. Only if material or significant difference can be shown should the court proceed to the issue of local goodwill.

In contrast to *Osawa*, and perhaps *Weil, Diseños Artísticos*, and *El Greco*, some cases have concerned goods with no material differences. Most of these cases have been won by the gray market sellers. In *Monte Carlo Shirt*, the Ninth Circuit held that shirts with genuine trademarks, which were rejected after importation because of delays in delivery, did not infringe upon the markholder’s trademark rights because the goods were genuine and identical to shirts sold with the authority of the markholder. The court held that consumer confusion as to the source, origin or sponsorship of goods was impossible under the facts of *Monte Carlo Shirt*. The court further held that the sale of genuine goods which causes any erroneous assumption as to whether the defendant has the authority to sell the goods does not constitute a trademark infringement.

Of course, shirts are very different products from sophisticated

161. *See id.* at 46.
162. *See supra* note 98 and accompanying text.
163. *See, e.g.*, *Monte Carlo Shirt*, Inc. v. Daewoo Int'l (Am.) Corp., 707 F.2d 1054 (9th Cir. 1983); *see infra* note 173.
164. *Monte Carlo Shirt*, 707 F.2d at 1055. Note that *Monte Carlo Shirt* was decided before *El Greco* and there were no issues of quality inspections in *Monte Carlo Shirt* as there were in *El Greco*. *See id.* at 1054; *El Greco Leather Prods. Co., Inc. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986).
165. *Monte Carlo Shirt*, 707 F.2d at 1058.
166. *Id.*
167. *Id.* at 1057.
camera equipment.\textsuperscript{168} The marketing and sale of gray market Duracell batteries, which are functionally identical to those intended for sale in the United States, is similar to the marketing of shirts and for that reason, as well as others,\textsuperscript{169} their importation and sale was not enjoined.\textsuperscript{170} Gray market perfumes, toiletries, household products and clothing items are often identical to the goods sold by authorized distributors, are considered to be the genuine item by the court,\textsuperscript{171} and require no elaborate point of sale services.\textsuperscript{172} For this reason disputes over importation of these products, tend to favor the gray market sellers.

The common claim by manufacturers that their authorized goods are significantly different from the gray market goods is arguable at best. It may be argued that the differences alluded to in the previous examples have not been that great.\textsuperscript{173} Furthermore, consumers are unlikely to buy goods very different in nature from what is expected. There are some instances, however, where the differences between the goods were held to be highly significant, and thus served as a reason for enjoining gray market sales. One such case, \textit{Selchow \& Righter Co. v. Goldex Corp.},\textsuperscript{174} involved Trivial Pursuit games intended for sale in Canada.

\textit{Selchow \& Righter} is important to a clear understanding of the

\textsuperscript{168} Compare id. at 1058 (holding that the sale of shirts of equal quality, made by the same manufacturer, does not constitute trademark infringement) \textit{with} Osawa \& Co. v. B \& H Photo, 589 F. Supp. 1163, 1165-66 (1984) (holding that the markholder had established customer goodwill in the trademarked camera separate from the product itself and thus the markholder was entitled to a preliminary injunction against the gray market seller).

\textsuperscript{169} See Duracell, Inc. v. U.S. Int'l Trade Comm'n, 778 F.2d 1578, 1579 (Fed. Cir. 1985) (holding that the President's disapproval of the ITC's determination is not required to be supported by any articulated or detailed reasons).

\textsuperscript{170} Id. at 1579-80.

\textsuperscript{171} See, e.g., Sasson Jeans, Inc. v. Sasson Jeans, L.A., Inc., 632 F. Supp. 1525, 1528 (S.D.N.Y. 1986) (finding that an unauthorized sale of genuine jeans is not a trademark infringement); Monte Carlo Shirt, Inc. v. Daewoo Int'l (Am.) Corp., 707 F.2d 1054, 1058 (9th Cir. 1983) (finding that the shirts in question were genuine); Parfums Stern, Inc. v. United States Customs Serv., 575 F. Supp. 416, 418 (S.D. Fla. 1983) (finding that Oscar de la Renta perfumes were the genuine product).

\textsuperscript{172} See, e.g., Osawa, 589 F. Supp. at 1166 (discussing elaborate point of sale services involved in selling sophisticated, expensive camera equipment).

\textsuperscript{173} See, e.g., Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68, 70 (2d Cir. 1987) (arguing that adoption papers written in Spanish, instead of English, is a substantial difference); Premier Dental Prods. Co. v. Darby Dental Supply Co., 794 F.2d 850, 852 (3d Cir. 1986) (arguing that although the substance of the product was identical, the fact that the package and instructions were in a different language rendered the product substantially different); Osawa \& Co. v. B \& H Photo, 589 F. Supp. 1163, 1166 (S.D.N.Y. 1984) (arguing elaborate point of sale services rendered the product substantially different).

\textsuperscript{174} 612 F. Supp. 19 (S.D. Fla. 1985).
issue of equivalence between gray market goods and authorized goods. The Trivial Pursuit game at issue in the case was intended for sale in Canada and contained questions deemed inappropriate for the U.S. market. The court found that there was a substantial likelihood of confusion over the source of the games since U.S. consumers would not be on notice that the Canadian games came from a different source. The court thus held that plaintiff's name and reputation would be irreparably damaged by the sale of Canadian Trivial Pursuit games in the United States and thus enjoined their sale in the United States.

Selchow & Righter is unusual in that most gray market goods are exactly the same as the authorized goods and fail any test of "differentness," whereas the trivial pursuit games in Selchow & Righter had a substantial difference. Courts, as a rule, have been too hasty to enjoin sales based upon minor, or even non-existent differences. In reality, the issue is not whether the goods are identical in every way, but rather whether there are material differences or a lack of equivalence between the products. Trademark owners should be required to prove not only the differences, but the significance of the differences. Courts must carefully consider and evaluate the significance of the differences to determine if irreparable harm has occurred or will occur. Injunctions should be issued carefully.

III. A PROPOSED TEST OF DIFFERENTNESS

An issue which inevitably arises when considering the level of differences between authorized and unauthorized goods is the integrity of the goodwill generated by the authorized product. The requirement of "material" differences, in order to prove lack of equivalence, is a helpful starting point, but it lacks precise definition. This Article suggests that the issue of materiality be determined by reference to a well-known torts principle: Judge Learned Hand's formula.

175. Id. at 22, 23.
176. Id. at 24.
177. Id. at 29.
178. Id. at 28.
179. Compare NEC Elecs. v. CAL Circuit ABCO, 810 F.2d 1506 (9th Cir. 1987) (holding that plaintiff could not be restrained from selling computer chips which were identical to their authorized counterparts) with Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68 (2d Cir. 1987) (holding that Cabbage Patch Kids dolls with adoption papers in Spanish instead of English were not equivalent to their authorized American counterparts).
180. See United States v. Carroll Towing Co., 159 F.2d 169 (2d Cir. 1947).
Under the proposed adaptation of this test, a court would evaluate the differences between gray market and authorized goods by multiplying the probability of consumer disappointment or confusion by the gravity of that harm if it were to occur. For example, harm caused by packaging or sizing differences might be minimal, while harm caused by defective goods or goods of shoddy quality could be substantial. Differences could be evaluated in terms of consumer expectations; the greater the difference, the more likely a consumer would be disappointed.

This proposed test addresses the full panoply of gray market cases. For example, consumers are unlikely to feel grave disappointment if a two-dollar battery fails to live up to expectations. If clothing or shoes are defectively manufactured and fall apart after a short period of use, consumer anger is more likely to increase or decrease based upon the price paid, the existence of a discount from the “authorized” price, whether the defect was disclosed or was discoverable at the point of purchase, and whether a refund can be obtained from the retailer. The existence of European or metric sizing, for example, should not be considered a material difference between gray market goods and trademarked goods, primarily because it is readily discoverable upon visual inspection. The materiality of warranty differences would be determined by comparing the availability of similar warranties from the gray market seller and the effectiveness of the notice to the consumer of this fact. If the gray market goods are equal to the authorized goods, then the probability of harm to the trademark’s name and reputation is low. Likewise, if the warranty offered by the gray market seller is equivalent to that offered by the authorized seller, the potential harm to the trademark’s name and reputation is low.

The proposed test of differentness, in addition to deciding the above issues deals with the converse as well. For instance, consider the importation of gray market film from Mexico. The probability that the gray market film might be defective is low, and presumably the price is lower than authorized film, but the potential harm from such a sale is great. If consumers lose the pictures taken on a vacation or wedding due to defective film, negative consumer reaction

Learned Hand stated: “the . . . duty . . . to provide against resulting injuries is a function of three variables: (1) The probability . . . [of injury]; (2) the gravity of the resulting injury . . . ; (3) the burden of adequate precautions.” Id. at 173.

will obviously be great and the harm to the trademark's name and reputation will be considerable..

The determination of whether differences are material is a factual one. The differentness test is workable under all fact patterns encountered in trademark infringement cases and can be easily explained to a jury.

In conclusion, the cases discussed demonstrate a new and proper focus for gray market litigation. Courts should initially conduct an examination of the differences between the authorized goods and the gray market goods. If the differences are significant or material, the probability of injury to the consumer, as well as the markholder, is great. Subsequent to a finding of differentness, the court should proceed to the issue of affiliation, if any, between the U.S. markholder and the foreign manufacturer-markholder. If there is a close affiliation, the court should then decide the issue of local goodwill established by the U.S. markholder separate and independent of its affiliated foreign markholder. If local goodwill is established, then a finding of infringement should be made and an injunction enjoining the sale of gray market goods should be issued. If at any point in the foregoing sequence, the markholder fails to prove the necessary elements, the action against the gray market seller should be dismissed.

By requiring proof that gray market goods are different from authorized goods and that local goodwill exists, the courts will strike a proper balance between protecting consumers from injury, protecting investments in trademarks, and protecting free competition by gray market sellers. If the gray market goods are substantially equal to their authorized counterparts, consumers will have no cause to complain and the name and reputation of the trademarks will not be damaged.

If trademark law is used to enjoin gray market sales without proof that the gray market goods are substantially different from the authorized goods, trademark law will have the effect of suppressing competition rather than protecting trademark rights and goodwill. Courts should strive to avoid such an interpretation of the law.

Trademark law in the gray market arena continues to mature. The threshold determination of "different trademarked goods" employed by the Second and Ninth Circuit is another step in finding

182. See Gemco Latinoamerica, Inc. v. Seiko Time Corp., 671 F. Supp. 972, 981 (S.D.N.Y. 1987) (stating that the "unauthorized (gray market) sale of genuine goods does not give rise to a cause of action for trademark infringement.").
183. See NEC Elecs. v. CAL Circuit ABCO, 810 F.2d 1506, 1510 (9th Cir. 1987);
a solution to new and confounding legal problems engendered by business ingenuity. These cases properly focus on the real challenge: a better understanding of the problems of the market in order to achieve a workable and economical solution to the problems created by the sale of gray market goods.
