

3-1-1994

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Recommended Citation

Tobias L. Millrood, *Third Party Intentional Interference with International Exclusive Dealing Contracts: An Alternative Solution to the Obstacles in Parallel Importation Litigation*, 1 Tulsa J. Comp. & Int'l L. 359 (1993).

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THIRD PARTY INTENTIONAL INTERFERENCE WITH INTERNATIONAL EXCLUSIVE DEALING CONTRACTS: AN ALTERNATIVE SOLUTION TO THE OBSTACLES IN PARALLEL IMPORTATION LITIGATION

I. INTRODUCTION

Company A in New York manufactures, owns the trademark rights to, and sells widgets. This product has wide international appeal. Company B in Tokyo has a great deal of interest in it and therefore negotiates with Company A to become the exclusive Japanese distributor. After the agreement is forged, A, in accordance with its usual business practices, ships a supply of the same product to an already existing distributor, Company C, in California, which is well aware of A's business in various countries, including A's relations with B. With the intention of avoiding any international conflict with its foreign exclusive distributors, A stamps on the crates sent to California, "FOR DOMESTIC SALES ONLY." Within a couple of weeks, crates of the widgets with the stamp on them show up in Tokyo. Now C's widget's can be found in stores for the equivalent of five dollars, as opposed to B's price of seven dollars. Cognizant of its bargaining position, C tells B that it will pull the cheaper widgets from the market, but at a costly price to B. Faced with no other option, B reluctantly buys back the very same product it originally thought it had the exclusive right to sell.

This hypothetical presents a classic illustration of the growing international trade phenomenon known as parallel importation or grey market goods.¹

1. The distinction between the terms parallel importation and grey market goods relates to the connotations that proponents and opponents of the factual scenario choose to assign. Those opposing the scenario use the term grey market goods to intimate the underhandedness of the action. Parallel importation is the term assigned by those who recognize that the action are perfectly legal: all customs requirements are

Parallel imports are goods which are manufactured in a foreign nation, bearing the identical trademark of a domestic owner and imported without the owner's consent. The result is open competition with the domestic seller, often at a much lower price to a consumer who frequently is unaware of the true origin of the goods. Not all the problems listed in the hypothetical are always present in a parallel importation situation. This hypothetical, however, provides a platform for explaining how to tackle the obstacles inherent in a grey market goods situation. The increasing proliferation of international trade, combined with the development of international trade law, makes litigation increasingly prevalent as business becomes more global. While the situation above was used to show an example of parallel importation in Japan, this paper will offer a practical approach to deal with the problem in the United States.² In fact, what would be considered parallel importation in the United States is viewed internationally in various countries as competitive open market selling of goods.³ The biggest problem in confronting this type of litigation is that while a situation like the hypothetical above is a clear cut case of parallel importation, variations on this theme cloud the issue. For instance, the goods may be imported without a trademark, or of lesser quality, or copying or simulating a registered copyright, patent, or trademark. In short, the possible combinations are limitless, which explains the difficulty in approaching the parallel importation problem.

Parallel importation is increasing in the United States as the country continues to lay down the welcome mat to international trade. Three circumstances make U.S. ports a magnet for parallel importation: improving relations between the United States and areas such as China and Eastern Europe, major trade efforts such as the North American Free Trade Agreement (NAFTA), and the world's long-standing dependence on the United States for open markets. Within the United States, parallel importation usually occurs in one of three settings:

1. Goods produced in the United States for export, which are then imported back into the United States without the trademark owner's authorization;
2. Unauthorized imports competing with domestically produced goods; and
3. Unauthorized imports competing with authorized imports.⁴

Despite the apparent simplicity of these scenarios however, there has been great difficulty adopting a uniform approach to this issue.

passed and the goods are sold (at least in the United States) through legitimate domestic retailers. Jamie S. Gorelick & Rory K. Little, *The Case for Parallel Importation*, 11 N.C.J. INT'L L. & COM. REG. 205, 207 n.5 (1986).

2. In fact, while Japan prohibits importation of a product which is similar to an already existing product with a registered trademark or exclusive use rights, the trademark law of Japan does not expressly prohibit parallel importation of genuine goods. Kaoru Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 WASH. L. REV. 433, 440 (1982).

3. Very few nations, in fact, prohibit parallel importation. Gorelick & Little, *supra* note 1, at 227. For an international comparative analysis of the parallel importation problem, see generally Takamatsu, *supra* note 2. See also Nathan Lewin, *The Ten Commandments of Parallel Importation*, 18 LAW & POL'Y INT'L BUS. 217, 219-20 (1986).

4. Michael S. Knoll, *Grey-Market Imports: Causes, Consequences and Responses*, 18 LAW & POL'Y INT'L BUS. 145, 147 (1986).

Given the variety of situations which can arise in the parallel importation context brought on by varying statutory interpretations and inconsistent case law, traditional remedial strategies are not always successful. This comment seeks to solve the problem in a different way: through a suit in tort for third-party tortious interference with contractual relations. The complexities of this problem will be attacked from its history to its legislative and judicial fronts. Until a more uniform approach towards parallel importation is adopted in the United States, practitioners should sue in tort to compensate for injuries and to avoid the harmful effects of future competition.⁵

II. HISTORICAL EVOLUTION OF PARALLEL IMPORTATION

A. *The Fundamental Issue in Trademark Ownership*

Inherent in almost all parallel importation problems is a claim of trademark infringement. Therefore, any discussion of parallel importation must begin with an introduction to the function of trademarks and the purposes of trademark law. Trademarks have two basic functions: avoiding consumer confusion and preserving the trademark owner's goodwill.⁶ Thus, both the consumer and the trademark owner are protected. The consumer receives the product desired and the trademark owner's investment of time, energy, and money in establishing the good-will of the product is protected from attempts at misappropriation.⁷ However, when a good is imported bearing a trademark similar to that of the domestic owner, without his consent, the consumer and proprietor protection is threatened.

Early in the 1920s, U.S. trademark owners seeking to defeat parallel importation, found what seemed to be salvation in the Supreme Court's decision in *A. Bourjois & Co. v. Katzel*.⁸ Reversing the Court of Appeals for the Second

5. Despite the sometimes drastic economic effects parallel importation has on domestic businesses, [see *Duracell, Inc. v. United States Int'l Trade Comm'n*, 778 F.2d 1578 (Fed. Cir. 1985) in which the record indicated that the U.S. manufacturer lost millions of dollars in sales due to an influx of 10 million Belgian-made Duracell batteries; James P. Donahue, *The Use of Copyright Laws to Prevent the Importation of "Genuine Goods,"* 11 N.C.J. INT'L L. & COM. REG. 183, 185 n.15 (1986)] it is important to note that many proponents of parallel importation suggest that the competition is beneficial for U.S. consumers, giving them great low-cost opportunities as a result of the price wars inherent in parallel importation. See Gorelick & Little, *supra* note 1, at 206 and Lewin, *supra* note 3, at 232-33.

6. Scott D. Gilbert et al., *Federal Trademark Law and the Gray Market: The Need for a Cohesive Policy*, 18 LAW & POL'Y INT'L BUS. 103, 106 (1986). See also Takamatsu, *supra* note 2, at 453-54. (This author categorizes the functions of a trademark into an origin, guarantee and advertising functions. The origin and guarantee functions protect the consumer: the consumer recognizes that the goods came from the same source and any good is of the same quality. The advertising function protects the trademark owner who benefits from the good will value a trademark yields).

7. *Id.* at 105, citing S. REP. NO. 1333, 79th Cong., 2d Sess. 3 (1946).

8. 260 U.S. 689 (1923).

Circuit,⁹ Justice Holmes held that the plaintiff's ownership of a trademark on face powder should be protected and that defendant's sale of the product within the United States infringed the plaintiff's trademark.¹⁰ The facts of the case exhibit what is commonplace in today's international trade market: the plaintiff, A. Bourjois & Co., purchased an exclusive right to sell the face powder from a French cosmetic manufacturer which had established itself in the United States. While selling "Java" and its U.S. trademark rights to the plaintiff, the French manufacturer also sold "Java" to the defendant for foreign distribution. The defendant however, began selling "Java" in the United States, undercutting the plaintiff's price. Justice Holmes noted the importance of trademark ownership and the significance of product recognition:

[The trademark] deals with a delicate matter that may be of great value but that easily is destroyed, and therefore should be protected with corresponding care. It is said that the trade mark is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade mark of the plaintiff only in the United States and indicates in law, and, is found, by public understanding, that the goods come from the plaintiff although not made by it. It was sold and could be sold with the good will of the business that the plaintiff bought. It stakes the reputation of the plaintiff upon the character of the goods.¹¹

While this decision offered a glimmer of hope for U.S. trademark owners, interpretation of Justice Holmes' ruling has led to considerable confusion and provides the major reason why the parallel importation problem evades resolution.

The confusion is based on the purported ownership of the trademark. Does the French manufacturer own the trademark since it manufactured the product and established the reputation, therefore allowing it to transfer the product to whomever it wants, or does the U.S. distributor, having been assigned or having purchased the exclusive rights, own the trademark? These are the competing concepts in trademark territoriality versus trademark universality.¹²

The *Katzel* decision adopts the notion of territoriality of trademarks.¹³ This principle states that a trademark is particular to the country in which it is owned and as such, it has its own legal existence and "symbolizes the goodwill of the owner of the national mark."¹⁴ This principle is heavily relied upon by parallel importation opponents, for it symbolizes the very nature of the purpose of a trademark — establishing the owner's local goodwill.¹⁵ Therefore, parallel importation opponents would ask, why would one seek to purchase trademark rights and invest money to establish product recognition if those efforts are going

9. *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921).

10. *A. Bourjois & Co. v. Katzel*, 260 U.S. at 691.

11. 260 U.S. at 692.

12. Knoll, *supra* note 4, at 195-97.

13. *Id.* at 195.

14. *Id.*, citing *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1171-72 (S.D.N.Y. 1984) and *Walter J. Derenberg, Territorial Scope and the Situs of Trademarks and Good Will*, 47 VA. L. REV. 733, 734 (1961).

15. Knoll, *supra* note 4, at 197.

to be destroyed by allowing a foreign company to import the same product, in effect "free-riding" on the efforts of the domestic company?¹⁶

Proponents of parallel importation reject the notion of territoriality and instead favor universality.¹⁷ Applying the principle in a hypothetical, the doctrine of universality states that if Company A in France authorizes Company B in Germany to place a trademark on a cosmetic, then Company B does not infringe any trademark rights when it transports the cosmetic into the United States, where Company C has received the same trademark rights from Company A.¹⁸ This scenario raises a similar issue in the area of parallel importation, that of the "first sale."¹⁹

Under the concept of first sale, if a U.S. company owns a trademark on widgets, once it sells the first widget to a British company, the trademark rights are exhausted with the sale and the British company may make future sales without infringing on the trademark.²⁰ If the U.S. company can establish a "separate legal existence" on its trademark, then it will maintain its domestic trademark interest, despite sales abroad (see discussion of tortious interference *infra* Part III).²¹ Opponents of parallel importation suggest that it is unnecessary to establish a separate legal interest, because the very nature of trademark ownership suggest there is domestic goodwill.²² Whichever position one supports, it is evident that the problem of parallel importation is subject to considerable differences in interpretation.

B. Statutory and Administrative Efforts to Prevent Parallel Importation

Some of the previously mentioned differences in interpretation arise in the statutory context of parallel importation. A variety of statutes can be used to

16. The Supreme Court seemed to underscore this view one year after *Katzel* when they decided *Prestonettes v. Coty*, 264 U.S. 359 (1924). In *Prestonettes*, the Supreme Court denied a French company, Coty, injunctive relief to prevent *Prestonettes*, a U.S. company, from buying Coty's cosmetic products in Europe and repackaging them for sale in the United States. The Court held that the difference between the instant case and *Katzel* was that *Prestonettes*' own label would allow the consumer to decide for themselves if the product was inferior to Coty's. *Id.* at 369. With *Katzel*, the Court established the first important factor in restricting competition: the company's investment in establishing goodwill. With *Prestonettes*, the Court established the second factor: consumer confusion. Benjamin I. Cohen, *Grey Market Imports and the International Location of Manufacturing*, 11 N.C.J. INT'L L. & COM. REG. 171, 176 (1986).

As to the concept of "free riding" on the efforts of the domestic company, one parallel importation commentator notes that foreign companies are not free riding; rather, these companies have established their own identity as the one who sells the product at the cheapest cost! Lewin, *supra* note 3, at 233-34 (the eighth of his "Ten Commandments of Parallel Importation").

17. Knoll, *supra* note 4, at 196.

18. *Id.* at 195-96.

19. *Id.* at 196.

20. *Id.* See also Lewin, *supra* note 3, at 218 (the first of his "Ten Commandments of Parallel Importation").

21. Knoll, *supra* note 4, at 196.

22. *Id.* at 197.

attack parallel importation. There are four statutes²³ and one main administrative regulation commonly used to prevent parallel importation.²⁴

The first of those statutes is Section 526 of the Tariff Act of 1930.²⁵ Although there is reason to believe that Section 526 was never intended to afford the type of protection that it offers,²⁶ the amendment to the tariff bill slipped past Congress,²⁷ clearly as a reaction to the *Katzel* holding.²⁸ After its passage in 1922, the bill was reenacted as part of the Smoot-Hawley Tariff Act of 1930, which is considered the most protectionist legislation in U.S. history.²⁹ Section 526 was enacted with this protectionist intent, and basically remains the same today,³⁰ as a measure to protect U.S. trademarks, regardless of the origin of the

23. *Id.* at 199.

24. 19 C.F.R. § 133.21 (1991).

25. Tariff Act of 1930 § 526, 19 U.S.C. § 1526 (1988).

26. Originally the bill was thought merely to protect U.S.-owned trademarks purchased from foreign manufacturers, not U.S. subsidiaries to foreign companies. See, e.g., Cohen, *supra* note 16 at 176, n.34 and Gorelick & Little, *supra* note 1, at 214.

27. *Id.* at 214, n.36.

28. Steven P. Kersner & David S. Stein, *Judicial Construction of Section 526 and the Importation of Grey Market Goods: From Total Exclusion to Unimpeded Entry*, 11 N.C.J. INT'L & COM. REG. 251, 255, 256 (1986).

29. *Id.* at 260, n.48.

30. 19 U.S.C. § 1526 (1988) provides:

(a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a 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, under the provisions of section 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15 unless written consent of the owner of such trademark is produced at the time of making entry.

(b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

(c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the same damages and profits provided for wrongful use of a trademark under the provisions of section 81 to 109 of Title 15.

(d) (1) The trademark provisions of this section and section 1124 of Title 15, do not apply to the importation of articles accompanying any person arriving in the United States when such articles are for his personal use and not for sale if (A) such articles are within the limits of types and quantities determined by the Secretary pursuant to paragraph (2) of this subsection, and (B) such person has not been granted an exemption under this subsection within thirty days immediately preceding his arrival.

(2) The Secretary shall determine and publish in the Federal Register lists of the types of articles and the quantities of each which shall be entitled to the exemption provided by this subsection. In determining such quantities of particular types of trade-marked articles, the Secretary shall give such consideration as he deems necessary to the numbers of such articles usually purchased at retail for his personal use.

(3) If any article which has been exempted from the restrictions on importation of the trade-mark laws under this subsection is sold within one year after the date of importation, such article, or its value (to be recovered from the importer), is subject to forfeiture. A sale pursuant to a judicial order or in liquidation of the estate of a decedent is not subject to the provisions of this paragraph.

trademark of the owner's consent to its use.³¹ Paragraph (a) of the statute sets out the general operating provisions. These provisions make it "unlawful to import any merchandise of foreign manufacture" which bears a trademark owned by a U.S. citizen or corporation without the consent of the U.S. trademark owner if the trademark has been filed with the appropriate authorities.³² Should any provision be violated, the goods are subject to seizure by the Customs Service,³³ and the violator of the statute may be faced with money damages, demarking the trademark, or the cost of re-exporting the product.³⁴

Despite the seemingly harsh penalties of parallel importation, the statute's enforcement power is diluted by two factors: regulatory enforcement and judicial interpretation of the statute. All goods imported to the United States are subject to duties, taxes, and regulation imposed by the United States Customs Service (Customs). The plain meaning of Section 526 seems to provide for outright prohibition of parallel importation.³⁵ Customs' regulations, however, have provided three major exceptions to Section 526.³⁶ The "common ownership exception" allows imports when the U.S. and foreign trademarks are owned by the same entity.³⁷ The "affiliation exception"³⁸ allows importation when the

(4) The Secretary may prescribe such rules and regulations as may be necessary to carry out the provisions of this subsection.

(e) Any such merchandise bearing a counterfeit mark (within the meaning of section 1127 of Title 15) imported into the United States in violation of the provisions of section 1124 of Title 15 shall be seized and, in the absence of the written consent of the trademark owner, forfeited for violations of the customs laws. Upon seizure of such merchandise, the Secretary shall notify the owner of the trademark, and shall, after forfeiture, obliterate the trademark where feasible and dispose of the goods seized—

(1) by delivery to such Federal, State and local government agencies as in the opinion of the Secretary have a need for such merchandise,

(2) by gift to such eleemosynary institutions as in the opinion of the Secretary have a need for such merchandise,

(3) more than 1 year after the date of forfeiture, by sale by appropriate customs officers at public auction under such regulations as the Secretary prescribes, except that before making any such sale, the Secretary shall determine that no Federal, State or local government agency or eleemosynary institution has established a need for such merchandise under paragraph (1) or (2), or

(4) if the merchandise is unsafe or a hazard to health, by destruction.

31. Kersner & Stein, *supra* note 28, at 260. Today, the owner's consent to use the trademark will make parallel importation lawful. See 19 U.S.C. § 1526(a) (1988).

32. 19 U.S.C. § 1526(a) (1988).

33. *Id.* at § 1526(b).

34. *Id.* at § 1526(c).

35. *Id.* at § 1526.

36. 19 C.F.R. § 133.21, *supra* note 24, at para. (c) which provides in part:

(c) Restrictions not applicable. The restrictions set forth in paragraphs (a) and (b) of this section [§ 526] do not apply to imported articles when:

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

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

(3) [Reserved]. Prior to this deletion, § 131.21 (c)(3) read: "The articles of foreign manufacture bear a record trademark or trade name applied under authorization of the U.S. owner."

37. *Id.* at subpara. (c)(1).

U.S. and foreign trademark owners are parent and subsidiary companies otherwise subject to common ownership or control.³⁹ Finally, the "authorized use exception"⁴⁰ allows imports which bear a trademark authorized by the U.S. trademark owner.⁴¹ While these Customs regulations seem to undermine much of the purpose of section 526, the regulations have found some support in the courts.

One possible reason that courts have allowed the Customs' regulations exceptions to take some of the bite out of section 526 is that if the Section is properly viewed, the regulations are consistent with Section 526 and the regulations provide the proper enforcement of Section 526.⁴² This was the basic conclusion reached in *Vivitar Corp. v. United States*.⁴³ Vivitar had given authorization to foreign companies to manufacture photographic equipment.⁴⁴ However, when that equipment was imported back into the United States without Vivitar's consent, the company sought the protection of Customs in an attempt to prohibit the importation. This was done in accordance with Section 526.⁴⁵ However, Customs refused to exclude these imports.⁴⁶ Vivitar brought suit in an attempt to get judicial interpretation of the apparent conflict between the Customs' regulations and section 526.⁴⁷ The lower U.S. Court of International Trade found in favor of the defendant, holding that Congress had sufficient opportunity to reject the Customs' regulations and did not.⁴⁸ The Federal Circuit affirmed the decision, but greatly limited the holding of the U.S. Court of International Trade.⁴⁹ The Federal Circuit attempted to review the congressional intent of Section 526 but found it too ambiguous to discern.⁵⁰ Additionally, this court failed to find a consistent pattern of interpretations by Customs of Section 526.⁵¹ Finally, the court found Congress too unfamiliar with Customs' enforcement practices to interpret their enactment of Section 526 as a ratification of the regulations.⁵² Despite these reservations, the court refused to strike down the Customs regulations, suggesting instead that Vivitar seek a

38. Harry Rubin, *Destined to Remain Grey: The Eternal Recurrence of Parallel Imports*, 26 INT'L L. 597, 599 (1992).

39. 19 C.F.R. § 133.21, *supra* note 24, at subpara. (c)(2).

40. Rubin, *supra* note 38, at 599.

41. 19 C.F.R. § 133.21, *supra* note 24, at subpara. (c)(3).

42. This premise is argued by one commentator who suggests that "Congress intended to confer the extraordinary right granted under section 526 only when the trademark is truly the property of an independent U.S. interest, rather than controlled by some foreign agent or affiliate." Lewin, *supra* note 3, at 230 (the sixth of his "Ten Commandments of Parallel Importation").

43. 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986).

44. *Id.* at 1556.

45. See 19 U.S.C. § 1526(a) (1988).

46. *Vivitar Corp. v. United States*, 761 F.2d at 1555.

47. *Id.*

48. *Vivitar Corp. v. United States*, 593 F. Supp. 420 (1984).

49. *Vivitar Corp. v. United States*, 761 F.2d at 1552.

50. *Id.* at 1563-65.

51. *Id.* at 1565-68.

52. *Id.* at 1568.

private action against those involved in parallel importation.⁵³ Did *Vivitar* establish any hard and fast rule with regard to parallel importation? Apparently not, according to one review of federal trademark law.⁵⁴ Section 526, therefore, in conjunction with the Customs regulations, leaves the issue of parallel importation with regard to these provisions in a state of flux.

The next major statutory provision impacting parallel importation litigation is Section 42 of the Lanham Act.⁵⁵ This section prohibits imported merchandise which copies or simulates merchandise produced under a registered U.S. trademark.⁵⁶ While some suggest that Section 42 is subject to much less confusion and debate than Section 526, this has not proven to be true in practice.⁵⁷ In fact, the very case which was supposed to resolve the confusion over parallel importation, *Katzel*, held that genuine goods are not exempt from parallel importation and that imported genuine goods *can* infringe the identical trademark.⁵⁸ Furthermore, courts have extended the principles of goodwill and territoriality of trademarks to cases brought under Section 42. They have held that if the domestic trademark owner faces injury to goodwill and reputation, injunctive relief is proper.⁵⁹ Once again, a statutory provision which was designed to offer relief to domestic trademark owners may offer nothing more than confusion and false hope.

Another provision of the Lanham Act, Section 43, codifies the common law doctrine of unfair competition.⁶⁰ Goods will be prohibited from entry if they

53. *Id.* at 1570.

54. "[I]t appears likely that, taken as a whole, *Vivitar* will result in confusion and litigation at the federal level." Gilbert, *supra* note 6, at 135.

55. Lanham Act § 42, 15 U.S.C. 1124 (1988).

56. Section 42, *supra* note 55, provides in part:

Except as provided in subsection (d) of Section 1526 of Title 19, no article of imported merchandise which shall copy or simulate the name of any domestic manufacturer, or trader, or of any manufacturer or trader located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trademark registered in accordance with the provisions of this chapter . . . shall be admitted to entry at any customhouse of the United States.

57. Gorelick & Little, *supra* note 1, at 224. The suggestion here is that since parallel imports are by their definition genuine goods (that is, since the articles being imported are of the manufacture of the original trademark owner, they are the original authentic goods), their marks cannot possibly "copy or simulate" the domestic trademark because the marks have been placed there by the domestic owner. *Id.*

58. See *supra* notes 6-14 and accompanying text. See also *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), in which the Court issued a *per curiam* opinion, based on nearly identical facts to the *Katzel* decision, which granted plaintiff's requested relief of prohibiting a third party from importing face powder made in France by the same company from which plaintiff obtained the trademark rights. See also Knoll, *supra* note 4, at 210.

59. See discussion of *Bell & Howell v. Masell Supply Co.*, 548 F. Supp. 1063 (E.D.N.Y. 1982), *vacated*, 719 F.2d 42 (2d Cir. 1983) in Rubin, *supra* note 38, at 602.

60. Section 43(a) of the Lanham Act provides in part:

(a)(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact which—

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or

violate this provision.⁶¹ Perhaps the best way of explaining its use is through the original hypothetical which introduced this comment. In that hypothetical (assume for the moment that Japan has a similar provision to Section 43), the California company had knowledge that the origin of the widgets was the New York office and that the ultimate destination was to be the United States. Despite this knowledge, the California company dumped the widgets into the commerce of Tokyo, giving Japanese consumers the false impression that the origin was Tokyo (or the origin, New York). In either case, this would result in unfair competition. Were these facts to be applied to a similar situation affecting the commerce of the United States, this statutory provision would apply. Possibly this section is one which will become more common in the future, perhaps because it mirrors a successful common law action.⁶²

Similar to Section 43 is Section 337 of the Tariff Act of 1930.⁶³ This statute protects U.S. industries which are well-established, as well as efficiently and economically operated, by making it unlawful to import goods which would destroy or substantially injure the U.S. company.⁶⁴ This provision is administered by the executive branch through the U.S. International Trade Commission (Commission). Upon determining what it finds to be a violation,⁶⁵ the Commission reports its finding to the President.⁶⁶ The President may reject the Commission's determination of any legal effect.⁶⁷ Historically, manufacturers' reliance on this statute means relying on the political whims of the President.⁶⁸ Therefore, this last statutory option means nothing more than a temporal glimmer of hope, lasting the length of the administration in office.

approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or likely to be damaged. 15 U.S.C.A. § 1125(a) (West Supp. 1993).

61. *Id.* at subpara. (b).

62. This is one of the primary reasons this author suggests that tortious interference is such an appealing option; to be noted later, courts are increasingly denying statutory causes of action such as provided for in sections 526 and 42, recognizing the inherent confusion in their interpretation, and instead suggesting to litigants to sue in tort for interference with contract.

63. [T]he following are unlawful. . . : (a) Unfair methods of competition and unfair acts in the importation of articles . . . into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is—(i) to destroy or substantially injure an industry in the United States; (ii) to prevent the establishment of such an industry; or (iii) to restrain or monopolize trade and commerce in the United States. 19 U.S.C. § 1337(a) (1988).

64. *Id.*

65. 19 U.S.C. § 1337(d) (1988).

66. 19 U.S.C. § 1337(g) (1988).

67. *Id.*

68. For a discussion of President Reagan's rejection of the U.S. Court of International Trade determination in *Certain Alkaline Batteries*, 49 Fed. Reg. 45,275 (Ct. Int'l Trade 1984), see Knoll, *supra* note 4, at 211-15.

III. AN ALTERNATIVE SOLUTION: TORTIOUS INTERFERENCE

A. Why Choose to Litigate Parallel Importation?

Some would ask why trademark owners and manufacturers even choose the costly option of litigation when other methods such as product alteration, or private settlement remedies might be available? Four reasons have been proposed to answer this question:⁶⁹

- (1) Failure by the executive and legislative branch to provide price supports;⁷⁰
- (2) Litigation is better than "self-help" solutions (such as different markings and labels in different markets) which require costly restructuring of existing market strategies;⁷¹
- (3) Since foreign manufacturers are making money in their home country as well as abroad, they are willing to sacrifice the low cost (and thus a smaller profit) affixed to a price in the foreign country while maintaining a high price at home. With this dual system of profit making, foreign manufacturers have no reason to end their practice unless someone challenges it in the courts;⁷² and
- (4) At face value, the statutory basis for suit is appealing.⁷³

This final reason, obviously, is the one reason litigants may regret going to court. As noted above, suing on one of the statutory bases may prove to be nothing more than a shot in the foot.

Once litigants get to court, what route should they follow? The common law has not provided any solid precedent, and the statutory route is subject to myriad interpretations. Therefore, a litigant should be prepared to offer many alternatives for the court in a parallel importation case. This notion is best explained in one commentator's summary of the parallel importation problem:

[B]ecause no single body of law governs all grey market cases, grey market litigation draws upon related doctrines for analytical theories to be applied. Litigants should allege as many alternative theories as possible, consistent with the facts of each case. They should keep in mind, however, that a grey market case will generally be decided on the basis of its facts, with success usually being achieved by the party best able to present facts in support of its theory of the case.⁷⁴

69. Gorelick & Little, *supra* note 1, at 208-09.

70. *Id.* at 208.

71. *Id.*

72. *Id.* at 208-09.

73. *Id.* at 209.

74. Hugh J. Turner, Jr., *Grey Market Litigation in the United States District Courts*, 11 N.C.J. INT'L L. & COM. REG. 349, 368 (1986).

Not all of the possible alternatives are dealt with in depth here, but they should all be kept in mind. These include preliminary/permanent injunctions and temporary/permanent restraining orders (the two of which should always be filed to immediately prevent further harm),⁷⁵ copyright infringement,⁷⁶ racketeering charges,⁷⁷ trademark dilution,⁷⁸ fraud,⁷⁹ international treaties,⁸⁰ and parallel patents⁸¹ or parallel copyrights.⁸² Again, not all these options are available in every case, so each individual fact pattern must be evaluated for the use of these alternatives.

B. *The Suit in Tort*

Perhaps the best alternative litigation measure in parallel importation is suing in tort for intentional interference with contractual relations. This cause of action is appealing for the following reasons:

- (1) The courts and legislatures have had such a difficult time in adopting a uniform approach, thus the well-known common law tort is a good alternative for compensation for damages and a good way of penalizing wrongdoers to prevent further injury;
- (2) The nature of parallel importation fact pattern lends itself to tortious interference elements; and
- (3) As a practical matter, practitioners are comfortable arguing from a well-known, accepted stance in the courts.

The suit for intentional interference with contractual relations is based on the Restatement (Second) of Torts, section 766.⁸³ The premise behind the cause of action based upon the Restatement is that a person or corporation induces a third-party to breach a contract with the plaintiff.⁸⁴ To establish the prima facie case for a suit in tortious interference, four elements must be shown: (1) existence of a valid contract, (2) defendant's knowledge of that contract, (3)

75. *Id.* at 360.

76. See Rubin, *supra* note 38, at 606, and Turner, *supra* note 74, at 360-63, and see generally Donohue, *supra* note 5.

77. See Turner, *supra* note 74, at 366-67.

78. *Id.* at 367-68. See also Rubin, *supra* note 38, at 608-10.

79. *Id.* at 611. See also Turner, *supra* note 74, at 363-66.

80. See Rubin, *supra* note 38, at 612.

81. See generally S. Ladas, *Exclusive Territorial Licenses Under Parallel Patents*, 3 INT'L REV. INDUS. PROP. & COPYRIGHT L. 335 (1972).

82. See generally Reimer, *Copyright Law and the Free Movement of Goods*, 12 INT'L REV. INDUS. PROP. & COPYRIGHT L. 493 (1981).

83. RESTATEMENT (SECOND) OF TORTS § 766 (1979) provides:

One who intentionally and improperly interferes with the performance of contract . . . between another and a third person by inducing or otherwise causing the third person not to perform the contract, is subject to liability to the other for the pecuniary loss resulting to the other from the failure of the third person to perform the contract.

84. *Id.*

defendant's intentional causing of breach, and (4) damages.⁸⁵ Therefore, in the introductory hypothetical, a valid contract existed between A in New York and B in Tokyo. Defendant C in California was also aware of that contract. Furthermore, C intentionally dumped the unauthorized crates on the market, forcing B to either lose profits or absorb the costs of the unauthorized merchandise. Finally, the only thing left for B (or A even, if the facts apply to A as well) to show are the inevitable damages caused by the action.

Although courts have failed to adopt a uniform approach to the parallel importation problem, they have increasingly shown their willingness to grant recovery in tortious interference. This increased use by the courts emphasizes tortious interference as a good alternative for compensation and an effective method for penalizing wrongdoers and preventing later injury. Most recently, this suggestion for alternative recovery in tort was made in *K-Mart Corp. v. Cartier*.⁸⁶ *K-Mart* was only the third time that the Supreme Court ruled directly on the issue of parallel importation.⁸⁷ Again, however, the Court failed to set a precedent for domestic trademark owners on parallel importation.⁸⁸ While the Court did rule on the Customs' regulations' interpretation of Section 526, the court failed to rule on the interplay between the Customs' regulations and the provisions of the Lanham Act, leaving the door open for continued confusion.⁸⁹ Ultimately, the limited effect of the Court's decision is that domestic trademark owners affiliated with a foreign manufacturer are denied the protection of Section 526.⁹⁰ What the Court left open was an option for a suit for tortious interference. This is not the first time that tortious interference has been used in connection with a parallel importation suit in federal court.

Within the last two decades, two parallel importation cases reached the Federal Courts of Appeals and were decided mainly along the lines of tortious interference. In *DEP Corp. v. Interstate Cigar Co.*,⁹¹ the plaintiff was authorized as an exclusive dealer of soap in the United States. The plaintiff had obtained these rights from a third party, Unilever, a British company who itself was granted worldwide distribution rights from the original manufacturer Pears, another British Company.⁹² After Pears registered the trademark in the United States, it transferred worldwide use rights to Unilever, who in turn granted exclusive U.S. rights to plaintiff, DEP.⁹³ Defendants, Interstate and L.S. Amster & Co., Inc., companies in New York, purchased the soap from Europe and began selling it in the United States.⁹⁴ DEP originally brought the suit based on trademark infringement, but the Second Circuit affirmed the lower

85. *Wegman v. Dairylea Cooperative*, 50 A.D.2d 108, 376 N.Y.S.2d 728, 736 (1975).

86. 486 U.S. 281 (1988).

87. See *supra* notes 6-14 and note 56 and accompanying text.

88. Rubin, *supra* note 38, at 601.

89. *Id.*

90. The court, therefore, upheld Sections 133.21(c)(1) and (2) of the Customs' regulations, but invalidated 133.21(c)(3). *K-Mart Corp. v. Cartier*, 486 U.S. at 294.

91. 622 F.2d 621 (2d Cir. 1980).

92. *Id.*

93. *Id.*

94. 622 F.2d at 621.

courts dismissal of that action, saying that DEP lacked standing since it was not the owner of the trademark.⁹⁵ The court, however, remanded the case because of Interstate's interference with DEP's enjoyment of its exclusive distribution contract.⁹⁶ The court's ruling suggested for the first time that failure to properly allege a suit for trademark infringement should not prevent a party who has been wronged by the effects of parallel importation from bringing the action.

More recently, in *Railway Express Agency v. Super Scale Models, Ltd.*,⁹⁷ the Seventh Circuit reviewed the issue of tortious interference again. In that case, the plaintiff, a toy train distributor, sued the defendant competitor for intentional interference with plaintiff's existing contract with a German toy train manufacturer by conduct rendering the contract less profitable to the plaintiff.⁹⁸ The trademark was registered in Germany, but not in the United States.⁹⁹ Because the trademark was registered outside the United States, plaintiff could not bring a trademark infringement action under the U.S. trademark law.¹⁰⁰ The court held, however, that plaintiff could bring suit for intentional interference with contractual relations under Wisconsin law.¹⁰¹ Nevertheless, the Seventh Circuit denied plaintiff relief, contending that plaintiff did not establish that its performance of the contract was made more onerous or burdensome due to the defendant's actions.¹⁰² The court concluded, however, that plaintiff could have met this burden either by presenting evidence that defendant sold an inferior product under the same trademark, creating consumer confusion, or by demonstrating that defendant made sales to plaintiff's existing clients.¹⁰³ Despite the plaintiff's failure to establish these elements, the Seventh Circuit once again showed a court's willingness to allow tortious interference recovery where a trademark infringement suit in a parallel importation case is unclear.

Finally, the second and third reasons for opting for tortious interference as an alternative solution may be discussed together. These reasons are that the elements of tortious interference are inherent in a parallel importation problem and that practitioners are comfortable in a suit in tort. To begin with, the very nature of parallel importation will often involve three parties, each offering a conflicting view as to the authorization for their use of the trademark.¹⁰⁴ If a third party is aware of an existing exclusive dealing contract and intentionally interferes with those relations, then a tort suit is warranted. The most important elements necessary to establish an action are knowledge and causation (that defendant knew of the existing relations and caused delays in plaintiff's performance of the contract). It was lack of causation which prevented the

95. *Id.* at 622.

96. *Id.* at 624.

97. 934 F.2d 135 (7th Cir. 1991).

98. *Id.* at 136.

99. *Id.*

100. 934 F.2d at 136.

101. *Id.* at 139.

102. *Id.* at 140.

103. *Id.*

104. *See supra* text accompanying note 4.

plaintiff in *Railway Express* from recovering.¹⁰⁵ Having shown these two crucial elements, recovery should be available.

The other reason for suing in tort is the ease with which practitioners can conquer the complexities of parallel importation. As noted throughout this comment, statutes and case law on parallel importation are replete with differing interpretations on how to succeed on the issue. There is very little agreement on what the major landmark statutes actually say, and there is even less agreement within the courts on how to decide grey market cases. Conversely, the suit in tort is simple. If the four elements to the suit are present, recovery is available. Most practitioners are familiar with general principles of tort law. Simply applying that knowledge to a trademark case allows one to bring a suit in tort. Granted, this over-simplicity of a tortious interference lawsuit should not cause a practitioner to be lackadaisical in his/her approach. This alternative is a more viable option because both the difficulty in bringing a normal trademark infringement suit, and the improbability for success in a case of this type, the tortious interference suit is much easier than the quagmire involved in bringing the alternative suit.

IV. CONCLUSION

Litigation on parallel importation will continue to grow along with the continual expansion of today's global economy. When a fact pattern arises involving parallel importation, litigants find little solace in the courts because they have not taken a firm stance on parallel importation. The original statutes intended to afford protection to domestic trademark owners have been interpreted in various ways, therefore providing little guidance to litigants. Furthermore, courts have been indecisive on the issue of parallel importation. Until a uniform approach can be adopted by legislative and judicial bodies, the best option for litigants is to provide as many alternative causes of action as possible. Perhaps the best of these alternatives is the suit in tort for intentional interference with contractual relations. Courts continue to suggest this option. The elements of the tort are inherent in many parallel importation situations, thus practitioners will feel much more at ease litigating the merits of a tortious interference suit as opposed to a discombobulated statutory suit. Relying on this cause of action will offer a better chance to recover damages incurred. Moreover, the suit in tort offers a measure of admonition against future parallel importers to interfere with domestic trademark rights.¹⁰⁶

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105. *Railway Express Agency v. Super Scale Models, Ltd.*, 934 F.2d at 140.

106. The author wishes to acknowledge the firm of Sidney Ginsberg, P.C. and in particular, David Ginsberg who provided the impetus for this comment.

