Thoughts And Remarks On The Graying Of The American Manufacturing Economy: Gray Markets, Parallel Importation And A Tort Law And Common-Sense Approach

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Topics of Discussion

- Gray Market Importation defined
- Causes of Gray Market Importation
- Impact of the Gray Market
- Legal regimes effected by Gray Market Importation
  - Trademark Law
  - Copyright Law
- Alleviation of Gray Market Importation
  - Tort Law
  - Practical Common-Sense Considerations
Gray Market Importation Defined

Gray Market Importation, or “parallel importation,” occurs when a third party purchases “genuine” trademarked or copyrighted goods manufactured or distributed abroad, and imports and sells those goods in the United States without the consent of the American holder of the trademark or copyright.
Gray Market Goods vs. Black Market Goods

- Gray market goods are manufactured in the United States by an American trademark or copyright holder, or permitted to be manufactured abroad by a foreign licensee according to established specifications.
- Black market goods are counterfeit or imitation copies of trademarked or copyrighted goods.
Gray Market Goods Entering America

- Apparel and fashions
- Small appliances
- Auto parts
- Automobiles
- Baby care products
- Batteries
- Cameras
- Ceramics
- Champagne
- Computers
- Construction Equipment
- Cosmetics and fragrances

- Electronics (televisions, radios, video games, musical equipment, etc.)
- Floor care items
- Food
- Household items
- Leather goods (luggage and shoes, etc.)
- Optics
- Pharmaceuticals
- Tires
- Toys
- Watches
The Causes of Gray Market Importation

- Currency fluctuation
- Price discrimination
- Cost differentials
Currency Fluctuation: An Illustration

$100 American Camera

$60 Chinese Camera

American Consumer

$75 Gray Market Chinese Camera Imported to U.S. (inclusive of shipping, tariffs, duties and taxes, etc.)
Price Discrimination: An Illustration

- The designer garment example:
  - $250 in New York
  - $275 in London
  - $300 in Tokyo
  - $200 in Berlin
  - $175 in Moscow
  - $350 in Hong Kong
  - $150 in Mexico City
Cost Differentials: An Illustration

- Raw materials
- Labor
- Marketing/Advertising
- Utilities
- Plant efficiency
- Tax liability
- Governmental/Regulatory compliance
- Government subsidies/Price supports/Pricing limitations
Corporate Law Contours of the Gray Market: Three Case Studies

- Case One:
  - An American firm purchases the right to register and use a trademark or copyright of a foreign firm to sell foreign-manufactured products in the United States, and then discovers that the foreign firm or a third party is importing those goods to the United States in competition with domestic sells.
Corporate Law Contours of the Gray Market: Three Case Studies

- Case Two:
  - An American firm may register a U.S. trademark or copyright to sell goods manufactured by a foreign affiliated manufacturer.
    - A foreign firm may incorporate a U.S. subsidiary.
    - An American firm may incorporate a foreign manufacturing subsidiary corporation.
    - An American firm may establish an unincorporated foreign manufacturing unit to produce goods for U.S. importation.
Corporate Law Contours of the Gray Market: Three Case Studies

• Case Three:
  • An American holder of a trademark or copyright may authorize an independent foreign manufacturer to make its products. Usually, the American trademark or copyright holder assigns the foreign manufacturer an exclusive right to use the trademark or copyright in a particular foreign market, conditioned on the promise not to import the goods into the U.S.
What Is The Impact Of The Gray Market On Manufacturers?

- Brand loyalty may be damaged by perceived inferior products.
- Large sums have to be expended to build goodwill through distribution and warranty networks—gray marketers benefit as “free riders.”
- Domestic products may be undersold by their foreign counterparts which results in lost sales and angry distributors/dealers.
- Safety, environmental, and warranty standards may differ.
- Labeling and quality control differences may lead to product liability claims.
The Legal Regimes Effected by Gray Market Importation

- Trademark
  - The Lanham Trademark Act of 1946
- Copyright
  - The Copyright Act of 1976
Trademark Law

The four primary functions of a trademark are:

- To identify one entity’s goods and distinguish them from goods sold by others;
- To signify that all goods bearing the trademark come from a single, albeit anonymous, source;
- To signify that all goods bearing the trademark are of an equal level of quality; and
- To serve as a prime instrument in advertising and selling the goods.
Competing Theories of Trademark Rights

- Universality Theory
  - Worldwide representation

- Territoriality Theory
  - Separate rights and protections in each individual country of registry
Copyright Law

- Article I, Section 8, Clause 8 of the United States Constitution
  - Clause 8 permits Congress to secure to authors the exclusive right to their “writings.”
  - The rationale is to protect intellectual works and thus supply the author with incentives for the creation and dissemination of such works.
The Copyright Act of 1976: Section 106

- § 106 of the Copyright Act of 1976 allows the holder the exclusive right to reproduce, distribute, perform, display, publish, and adapt their copyrighted work.
The Copyright Act of 1976: The First Sale Doctrine

- §109(a), known as the “first sale doctrine” reads: “Notwithstanding the provisions of Section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”
The Copyright Act of 1976: Section 602

- § 602(a) prohibits the importation into the U.S. “…without the authority of the owner of copyright…copies or phonorecords of a work that have been acquired outside the United States…[as]…an infringement of the exclusive right to distribute copies or phonorecords under Section 106…”
Alleviating Gray Market Importation

- Uniform international trademark and copyright regimes.
- Tort actions.
- Practical common-sense approaches.
A Tort Approach to Gray Market Importation

- Intentional Interference with Contractual Relations:
  - The plaintiff must show that a valid contract exists;
  - That the defendant knew the contract existed;
  - The defendant must intentionally cause breach; and
  - Damages must result from the defendant’s intentional breach of the contract.
Practical Measures to Alleviate Gray Market Issues

- Adoption of uniform pricing policies.
- Source labeling.
- Inventory monitoring.
- Copyrighted literature and labels produced in local language.