Piracy and Brand Awareness

May 2007

Piracy and Brand Awareness

BNA International

IP & Technology Programme

Piracy & Brand Awareness

Since the days when Blackbeard sailed the Spanish Main, piracy has continued to be a problem for traders throughout the world. Continuing in its modern form of counterfeiting, this special report has a wide array of interesting articles on the subject from Spain to Beijing, and expert practitioners from leading international law firms give their views on how to fight these IP thieves.

The second part of the report looks at the allied issue of brand awareness, and showing how key brand owners can maintain the ability to retain exclusivity over the products which they manufacture, in territories as diverse as: China, India and the U.S.A.

I believe that this special report is one of the few niche products looking at this issue in-depth from an Intellectual Property law practitioners point of view, and as such it will be of interest to a wide variety of professionals operating in this field.

Finally, I would like to give a special thanks to Rico Calleja, of Calleja Consulting for all his assistance in producing these reports.

Jeremy Kuper – May, 2007

"Piracy & Brand Awareness" is published by BNA International Inc., a subsidiary of The Bureau of National Affairs, Inc., Washington, D.C., U.S.A.

Administrative Headquarters: BNA International Inc., 29th Floor, Millbank Tower, 21-24 Millbank , London, SW1P 4QP, U.K.; tel. +44 (0)20 7559 4801; fax. +44 (0)20 7559 4840; e-mail: marketing@bnai.com; website: www.bnai.com

ISSN 1750-7146

"Piracy & Brand Awareness" forms part of BNAI's *IP & Technology Programme*, a series of Reports focusing on key topics in international IP and technology regulation.

Grey Market Goods and Counterfeits: Utilising Trademark Rights to Prevent Grey Market Goods from Entering the United States and the European Markets

By Louis S. Ederer, Ian Kirby, John Maltbie, Alan Veronick and Rochelle Pizer, Arnold & Porter LLP[1], Washington D.C.

Introduction

A secure supply chain is a critical aspect of the economic viability of any brand owner's business. Any given supply chain, however, is rarely as uncomplicated as moving goods from A (the brand owner) to B (the ultimate consumer). Instead, brand owners must typically rely on a network of manufacturing facilities, international and domestic licensees, distributors, and retailers in order to get their products to market. Such networks force the brand owner to cede direct control over the distribution of its product and often put the control in the hands of third parties looking to put their own interests ahead of those of the brand owner. As a result, the brand owner's products may end up outside the channels of distribution authorised by the brand owner into diverted markets.

These diverted markets include the *grey market*, in which branded goods intended by the brand owner for one national market are instead diverted and resold by territorial licensees or authorised distributors to another market; the *secondary market*, in which "consolidators" work to obtain quantities of unsold branded product from authorised retailers in order to resell such product to retailers that are not authorised to sell the branded product; and the *black market*, in which branded goods that are sold have been stolen or are possessed unlawfully.

Obviously, the existence of these diverted markets can have a substantial impact on the business of the brand owner. With respect to grey market goods, for example, the diversion of products from a national market where the products would have been relatively lower-priced to a national market where prices would be higher not only depletes the supply of the product in the lower-priced market, but also floods the higher-priced market with genuine, albeit unauthorised, goods, forcing the brand owner to essentially compete with itself.

While this loss of control and its consequent adverse economic impact may seem bad enough, diverted markets play a far more sinister role by fostering the entry of counterfeit goods into the stream of commerce. As weaknesses in the supply chain are the typical points of entry for counterfeit goods, the diverted markets, where products have been completely removed from the authorised supply chain, provide perfect cover for counterfeit goods. Under cover of the diverted markets, counterfeiters, who most likely deal in the diverted markets as well, can pass off their fakes as diverted products, while their customers, searching for branded goods at a cheap price, may be encouraged to overlook the red flags concerning the authenticity of the goods.

Moreover, the existence of diverted markets will make it more difficult for the brand owner to enforce its intellectual property rights whether in a civil litigation, a criminal prosecution, or a proceeding before Customs, as every counterfeiter will invariably claim that the goods at issue are authentic, but diverted, product. The counterfeiter also will likely point to weaknesses in the brand owner's supply chain – either domestically or internationally – in order to support a claim that the goods at issue are authentic, and, all too often, the counterfeiter's ability to identify such weaknesses is uncanny. In fact, counterfeiters by dealing in both diverted and counterfeit goods, often know a brand owner's supply chain weaknesses better than the brand owner does. For example, if a counterfeiter was able to acquire 1,000 units of diverted branded product from a brand owner's overseas licensee, he will point to that same licensee when he gets caught trying to sell 100,000 counterfeit units. In the middle of a litigation or prosecution, such distractions can cause tremendous problems as the brand owner ends up trying to prove the integrity of its supply chain.

Moreover, the potential for harm from the counterfeit goods themselves cannot be overstated. First and foremost, particularly with the proliferation of counterfeit pharmaceuticals and automotive and aircraft parts, there is the obvious threat to the health and safety of the public. Additionally, and even where public health and safety are not at issue, counterfeit goods will cause tremendous harm to the brand owner by diminishing goodwill in the brand and adversely affecting the brand owner's bottom line.

The proliferation of counterfeits in the diverted markets has also raised the spectre of negligence liability, at least in the United States, for brand owners. In one case, a 16-year-old liver transplant recipient, who had ingested a counterfeit drug, sued the pharmacy that dispensed the drug, the distributor that supplied the drug to the pharmacy, and the brand owner that manufactured the drug. The complaint alleged that each of the defendants knew that the drug was actively traded in a diverted market where counterfeits are often sold and failed to take reasonable steps to prevent such trade. On a motion to dismiss, the trial court refused to dismiss the case against the distributor and pharmacy, but found that the claim against the brand owner should be dismissed. On appeal, however, the appellate court ruled that it was not clear whether the trial court had properly addressed the plaintiff's diverted market claim with respect to the brand owner and remanded the case for further explanation. The case was settled shortly thereafter.[2]

Accordingly, brand owners must be vigilant in monitoring and limiting the expansion of diverted markets. While there are a number of things a brand owner can do to shore up the integrity of its supply chain – *e.g.*, conducting supply chain audits, drafting brand-protective retailer and vendor agreements, policing overseas production, developing secure invoicing systems, and investing in brand security measures – there are also legal protections that brand owners can utilise to combat the grey markets that allow counterfeit goods to enter the stream of commerce. This article examines certain of those protections that arise out of the trademark law and to a certain extent copyright law, of the United States and the European Community ("EC"). While, as discussed below, these protections are somewhat limited by the "first sale" doctrine in the United States and the "exhaustion" doctrine in the EC, brand owners should be aware of these protections and be prepared when opportunities to utilise them arise.

Legal Protections Against Grey Market Goods in the United States

In the United States, the Tariff Act[3] and the Lanham Act[4] provide the possible statutory bases for a brand owner to use its trademark rights to exclude grey market goods from importation into the United States. There are significant hurdles, however, for a brand owner contemplating an action against the importation of grey market goods using either of these statutory provisions.

Chief among these hurdles is the "first sale" or "exhaustion" doctrine, which provides that the resale of genuine goods does not constitute trademark infringement. As one court noted:

As a general rule, trademark law does not reach the sale of genuine goods bearing a true mark even though that sale is not authorised by the mark owner . . . Thus, a distributor who resells trademarked goods without change is not liable for trademark infringement.[5]

Accordingly, brand owners looking to stop the importation of grey market goods will typically encounter the argument that the goods bear a genuine trademark and were lawfully acquired. As discussed below, however, the "first sale" doctrine is no defence to a charge of infringement arising out of the sale of unauthorised grey market goods, because the doctrine only exempts the resale of genuine goods that are identical to the goods authorised for importation or distribution in the United States.

Tariff Act – 19 U.S.C. § 1526

Section 526(a) of the Tariff Act of 1930[6] prohibits the importation of a product "that bears a trademark owned by a citizen of . . . the United States and is registered in the U.S. Patent and Trademark Office." In 1988, however, the Supreme Court, in *KMart Corp. v. Cartier, Inc.*,[7] determined that the "extraordinary protection" granted by Section 526 is limited to domestic U.S. trademark owners that have no corporate affiliation with the foreign manufacturer. Therefore, where there is a corporate affiliation with a foreign manufacturer, such as a parent-subsidiary relationship, a claim under Section 526(a) of the Tariff Act cannot properly be maintained.

So long as there is no such relationship, however, the U.S. trademark owner "is entitled under Section 526 to prevent the importation even of genuine merchandise obtained from the same foreign manufacturer."[8]

Tariff Act – 19 U.S.C. § 1337

Section 337(a)(1)(c) of the Tariff Act forbids "the importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark . . . ."[9] An action brought under Section 337, however, must be brought before the International Trade Commission ("ITC") (and not in the federal district courts like an action brought under the Lanham Act or Section 526 of the Tariff Act), and the trademark owner must be a U.S. trademark owner to bring the action.

While ITC proceedings are similar to proceedings in federal district courts, there are several important distinctions. Under the ITC, jurisdiction is *in rem*, *i.e.*, it is exercised over the *goods* rather than the parties, which provides the legal basis for the ultimate issuance of an ITC exclusion order against the imports. Further, the ITC is not authorised to award money damages to remedy a violation of the statute. It may issue, however, injunctive-type relief which takes the form of exclusion orders, and cease and desist orders. If the ITC enters an exclusion order, the ITC directs the U.S. Secretary of the Treasury (through the Customs Service) to exclude all infringing articles from entry into the United States. In cases where the infringing articles have already entered the United States, the ITC may issue a cease and desist order, requiring the importer to stop selling or otherwise distributing such infringing products. Of course, under the proper circumstances, the ITC may issue both orders.[10] In addition, most cases are decided by the ITC within nine months, but the ITC has the discretion to institute a formal investigation based upon a complaint or dismiss the complaint.

The issue to be resolved in grey market cases under Section 337 is whether there are differences between the foreign and domestic product and if so whether the differences are material.[11] The ITC has applied a low threshold of materiality, requiring no more than showing that consumers would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product.[12]

Even though the threshold of materiality is low in a grey market case under Section 337, a plaintiff "must establish that *all or substantially all* of its sales are accompanied by the asserted material difference in order to show that its goods are materially different."[13] Thus, the sale by a brand owner of goods within the United States, which possess the same material differences as the alleged grey market goods, is inconsistent with a claim that consumers will be confused by those alleged grey market goods.[14] Accordingly, while a trademark owner has the right to determine the set of characteristics that are associated with his trademark in the United States, a trademark owner cannot authorise the sale of trademarked goods with a set of characteristics and at the same time claim that the set of characteristics should not be associated with the trademark.

Thus, where the products are not materially different from authorised goods being sold in the United States, this avenue to block the importation of grey market goods is not available.

Lanham Act – 15 U.S.C. § 1051, *et seq.*

Section 42 of the Lanham Act prohibits importation of goods with a mark that "copies or simulates" a registered trademark.[15] Unlike a Section 337 claim, a brand owner may bring an action under Section 42 of the Lanham Act to stop the importation of grey market goods into the United States in federal court. Additionally, brand owners have also brought infringement actions against grey market importers pursuant to Sections 32(1) and 43(a) of the Lanham Act.[16] Such claims, present similar difficulties to claims brought under Section 337 (although monetary damages are available). Generally, in order for a rights holder to maintain a trademark infringement action against grey market goods, the rights holder must show that the goods distributed overseas are "*materially different*" from the goods sold in the United States. Courts have determined that goods that are "materially different" create a likelihood of confusion over source and, therefore, violate the Lanham Act.[17]

Courts have found "material differences" in the following circumstances:

- where imported soap product generated less lather, did not contain an anti-bacterial deodorant, and smelled differently that the U.S. product;[18]
- where "adoption papers" and "birth certificates" for child's doll, important elements for the product, were in Spanish for the imported dolls and were not accepted by the U.S. adoption registration system;[19]
- where imported chocolate product differed in quality control, composition, configuration, packaging and price;[20]
- where imported porcelain figurines were either of different animals not available in the U.S. or were painted in different patterns and colours;[21]
- where imported breath mints were different in caloric content and size from the authorised U.S. product;[22]
- where imported soft drink product had different labelling and bottle return program from the domestic soft drink;[23]
- where Japanese-made FENDER guitars had different shaped neck, replacement parts, available colours and manufacturer's warranty terms; and[24]
- where packaging of the imported food products did not provide all information regarding ingredients, nutritional contents and country of origin.[25]

In contrast, where the imported products and the products distributed within the United States are substantially the same, this avenue to block the importation of grey market goods is not available.[26]

U.S. Copyright Law

U.S. copyright law has also been a useful (although often overlooked) vehicle to stop the importation of grey market goods into the United States. Generally speaking, a company who owns (or holds the exclusive license to use) the copyrighted materials (such as copyrighted labels that are placed on a product's packaging) may stop the importation into the United States of foreign-made goods bearing those copyrighted materials.

In order to resolve the inconsistency between a copyright owner's right to distribute its goods and the "first sale" doctrine, the Supreme Court in *Quality King Distribs. v. L'Anza Research Int'l*,[27] created a "bright line" test – if goods are manufactured and first sold outside of the United States, the copyright owner can restrict their importation into the United States. If, on the other hand, the goods are first sold inside the United States (or manufactured in the United States), and later sold outside the United States by a legal purchaser, the copyright owner cannot object to the sale of the goods back into the U.S. marketplace.

Thus in *Quality King*, the plaintiff, which manufactured its hair care products in the United States and sold them abroad was precluded from claiming that products purchased abroad by the defendant and imported into the United States infringed plaintiff's copyrights in the products labels (which were the subject of copyright registrations). The Supreme Court held that the copyrighted labels had already been the subject of a lawful "first sale", by one of the plaintiff's distributors abroad, when they were purchased by the defendant.

The Supreme Court's decision in *Quality King*, however, does not reach cases in which the allegedly infringing imports were manufactured abroad. Accordingly, U.S. copyright owners are protected against unauthorised importation of genuine products bearing copyrighted packaging, so long as the product was manufactured abroad. If the product was manufactured abroad, then there can be no lawful "first sale" by the copyright owner outside of the copyright owner's channels of distribution.[28]

Thus, in a situation where an exclusive U.S. importer/distributor has corporate ties with a foreign manufacturer and there are no "material differences" between the goods sold overseas and the products sold by the licensee in the United States, the U.S. Copyright Act still provides an avenue for that party to block the importation of grey market goods into the United States. Moreover, unlike a trademark infringement action, the copyright owner asserting infringement is not required to demonstrate that the goods are "materially different." Rather, so long as the goods are manufactured overseas and the U.S. party has been granted the exclusive rights to use the copyrighted material (*e.g.*, product labels) in connection with its distribution of the products in the United States, a copyright infringement action can be maintained by the U.S. copyright owner/licensee to stop the importation of the grey market goods into the U.S. marketplace.

Customs Watch Notices

In addition to the foregoing, brand owners in the United States can also record their trademarks and copyrights with the U.S. Customs and Border Patrol ("Customs").[29] In order to use the Customs regulations to protect a brand owner's trademarks, the trademark owner must have a registered trademark, *i.e.*, a trademark registered with the United

States Patent and Trademark Office. Customs regulations then permit the registrant to record this registration with Customs. Any imported article found by Customs to bear a counterfeit mark, defined as "a spurious trademark that is identical to, or substantially indistinguishable from, a registered trademark," or a mark that "copies or simulates" a recorded mark, defined as a mark "which may so resemble a recorded mark or name as to be likely to cause the public to associate the copying or simulating mark or name with the recorded mark or name," is then subject to seizure and/or detention.[30]

To record a mark with Customs, the owner/applicant must supply its name, citizenship, place of manufacture of goods bearing the recorded mark, and the name and address of any authorised foreign licensees, parents or subsidiaries. The application must be accompanied by a certified status copy of the certificate of registration, showing title of the mark in the applicant, five copies of the certificate and a fee. Recordation becomes effective upon approval by Customs and it remains in force for the duration of the registration period.[31]

Further, the brand owner can apply for specific protection against grey market goods, or "Lever-rule" protection, on the basis of physical and material differences by providing "a description of any physical and material difference between the specific articles authorised for importation or sale in the United States and those not so authorised."[32] The Customs regulations further provide that brand owners seeking such protection "must state the basis for such a claim with particularity, and must support such assertions by competent evidence and provide summaries of physical and material differences for publication." In assessing such claims, Customs' consideration may include:

a. The specific composition of both the authorised and grey market product(s) (including chemical composition);
b. Formulation, product construction, structure, or composite product components, of both the authorised and grey market product;
c. Performance and/or operational characteristics of both the authorised and grey market product;
d. Differences resulting from legal or regulatory requirements, certification, etc.;
e. Other distinguishing and explicitly defined factors that would likely result in consumer deception or confusion as proscribed under applicable law.[33]

Customs will then publish in the Customs Bulletin a notice listing any trademark(s) and the specific products for which grey market protection for physically and materially different products has been requested and will examine the request before issuing a determination whether grey market protection is granted. If protection is ultimately granted, Customs will publish in the Customs Bulletin a notice that a trademark will receive Lever-rule protection with regard to a specific product.[34]

Legal Protections Against Grey Market Goods in the European Community

Brand owners within the EC have also attempted to use their intellectual property rights, specifically trademarks, to prevent trade in diverted goods. It is now well established, however, that such trade cannot be prevented, provided that the goods were first put on the market in one of the EEA countries[35] with the brand owner's consent.

This position is often described as "fortress Europe", which stands for the principles that:

a. if genuine goods are available outside the EEA much cheaper than within the EEA, they cannot be imported into the EEA without the brand owner's consent; however,
b. goods purchased within the EEA can be exported to other EEA countries, as once the brand owner has consented to sale in one Member State, it cannot prevent subsequent sale in other Member States.

Trade Marks Directive

The position as regards to using trademark protection to try and prevent parallel trade in the EC, is set out in the Trade Marks Directive 89/104/EC. Article 5.1 states: "The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties *not having his consent* from using in the course of trade (the trade mark) . . . ."

This right is qualified, however, by Article 7.1, which states: "The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been on the market in the Community under that trade mark by the proprietor with his consent." As discussed below, this is known as the doctrine of exhaustion.

There is nevertheless an exception to Article 7.1, which can be found in paragraph 2 to Article 7. This states that "Paragraph 1 shall not apply where there exist legitimate reasons for the owner to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market."

To a limited extent therefore, where it is clear that the quality or condition of the goods has been changed, a brand owner may be able to rely on its trademark rights to prevent parallel importation of goods in to the EEA. For example, there have been a series of cases in EC concerning the re-packaging and re-labelling of pharmaceutical products (due to parallel importation), most significantly *Bristol-Myers Squibb and Others v Paranova*.[36]

In *Bristol-Myers Squibb,* five conditions were set out which were intended to indicate what was and was not acceptable in relation to changes made to branded products by parallel importers. Accordingly, the "BMS Test" provides that an importer who re-packages and re-applies a trademark will infringe the brand owner's rights unless he satisfies the following five conditions:

a. Necessity: it was necessary to repackage to market the product;
b. Packaging and PILs: there was no impact on the original condition of the packaging and the proper instructions were enclosed;
c. Identification: there had been clear identification of the manufacturer and importer;

d. Presentation: the presentation of the packaging was otherwise "non-damaging"; and

e. Notice: proper notice had been given to the manufacturer of the intention to re-package.

Unless these conditions are satisfied, the brand owner can claim that its trademarks have been infringed, in accordance with the Trade Marks Directive.

Exhaustion

The principle of international exhaustion is that a brand owner cannot use national trademark law to prevent the resale of goods which have been put on the market anywhere in the world by him or with his consent. European law does not recognise the concept of international exhaustion,[37] and therefore a brand owner can only have exhausted its rights by consenting to the placing of its goods on the market in one of the EEA countries.

Exhaustion is important in the context of free movement of goods throughout the EEA. Once the goods are placed on the EEA market by the owner or with his consent, the brand owner's rights are 'exhausted', that is, they cannot be used to prevent further dealings in the goods anywhere in the EEA. As discussed below, it is not always clear when consent has been given.

Moreover, there are some limitations to the doctrine of exhaustion, including, in particular, where "legitimate reasons" exist for the brand owner to oppose further commercialisation of the goods.

Consent

Consent is required before a brand owner is said to have "exhausted" its rights in relation to goods being placed on the EEA market. Consent can either be given by the brand owner itself, or by a person which is legally or economically connected to the brand owner.[38] Moreover, consent may be express or implied, however in *Zino Davidoff SA v A&G Imports; Levi Strauss & Co and Anor v Tesco plc and Costco Wholesale UK Ltd*,[39] it was established that consent will only be implied in exceptional circumstances. The particular circumstances must *"unequivocally demonstrate"* that the brand owner has renounced his rights to oppose the placing of the goods on the EEA market.

Historically, this has been a high threshold for parallel importers to prove, and the European courts have been reluctant to infer consent so as to prejudice a brand owner. However, in the case of *Mastercigars Direct Ltd. v Hunters & Frankau Ltd; Corporacion Habanos SA v Mastercigars Direct Ltd & another*,[40] the English Court of Appeal recently held that a Cuban cigar manufacturer did, by its actions, unequivocally consent to the importation of its cigars onto the EEA market. In this case, the Claimant owned the Community Trade Marks for certain brands of Cuban cigars. It was the only Cuban company authorised to export these cigars, and it also managed the sale of cigars in Cuba, through selected outlets which were not owned by the Claimant. These Cuban outlets were permitted to sell cigars to overseas visitors for personal use, up to a value of $25,000. The Defendant imported a consignment bought from an outlet in Cuba, for sale in the United Kingdom. The English High Court held that the consignment was imported without consent, but the Court of Appeal reversed its decision, finding that the Claimant knew that the cigars were being exported, and, by its actions, consented. Factors the Court took into consideration included the fact that the invoices supplied to the Cuban outlets by the Claimant included guidance in German (which is hardly spoken outside of Europe); and, that the personal limit of $25,000 was clearly too much for personal consumption.

Where goods originate in the EEA, the relevant consent is the consent to placing the goods on the market of a member state other than the importing member state. Where goods have been marketed outside the EEA and are then imported into the EEA, the critical consent does not relate to the first marketing but to a resale of the goods within the EEA.[41]

Establishing consent is a question of fact that will differ from one case to another. Because one batch of goods has been sold in the EEA with the brand owner's consent does not mean that every other batch of the same goods, whatever their source, can be imported and sold in the EEA.[42]

Advertising of Imported Goods

With respect to the advertising of grey market goods, the European Court of Justice ("ECJ") has recognised the importance of the reputation of cosmetics and their "aura of luxury" arising from their intrinsic quality, their higher price and the brand owner's advertising campaign.[43] Also, the ECJ is sensitive to the fact that an expensively acquired reputation can be damaged by marketing which detracts from this luxurious image and which was not authorised by the brand owner.

Therefore, trademark rights and copyrights may be used to object to advertising by parallel traders, but only if there is a risk of significant damage to the trademark and that risk is properly substantiated. However, a brand owner cannot prohibit advertising of his goods in a manner which is customary in the reseller's trade unless the circumstances are shown to seriously damage the reputation of the trademark.

Customs Watch Notices

The great disparity between the wealth of the respective Member States in the EEA has encouraged the growth of grey markets. As discussed above, such markets facilitate the movement of counterfeit goods within Europe. The United Kingdom in particular, with its strong economy, is a target for the sale and importation of counterfeit goods. In fact, the counterfeit goods market is believed to cost over 4,000 jobs and £1.1 billion in revenue each year in the United Kingdom, alone.

Pursuant to Council Regulation 1383/2003/EC Regulation (the "Regulation"),[44] an intellectual property rights holder may ask a national customs authority to keep a watch for counterfeit, pirated or patent infringing goods at ports of entry/exit. Watch notices can be made specifically for the United Kingdom, or, if the rights holder owns a Community right, it can request that action is taken in two or more Member States. Applications are made via national customs authorities (within the EC), and, when granted, are valid for a renewable period of 12 months.

A minimum amount of information is required to be submitted with the application, so that customs officials can easily recognise the goods. It takes approximately 30 days for the watch notice application to be processed and come into effect. No fees are payable at the application stage, however, if goods are seized, customs' costs and expenses must be paid.

It is important to note, however, that the Regulation does not apply to grey market goods such as goods manufactured with the consent of the right-holder, but marketed without its consent (*i.e.*, parallel trade goods) or goods manufactured or bearing the trademark under conditions other than those agreed by the right-holder. The Regulation also does not apply to goods of a non-commercial nature or goods which are already in free circulation in the European Community.

If customs identifies suspect goods, it will detain them for 10 days possible seizure and destruction, during which time the intellectual property rights holder must take action.[45]

Conclusion

While actions against grey market goods have been somewhat curtailed by the first sale doctrine, exhaustion and the notion of "fortress Europe", there still exist mechanisms under the laws of the United States and the EC to act against grey market goods. Given the strong connection to counterfeiting – and the high risks to public safety and brand goodwill that come along with it – it is imperative that brand owners nevertheless remain extremely vigilant against the use of the grey markets to mask the unlawful conduct of the counterfeiter. Accordingly, and in addition to the procedural, contractual and technological measures that every brand owner should build into its supply chain, the brand owner should be familiar with the protections that the law affords with respect to grey market goods and be ready to put those protections into action should the need arise.

1 Louis S. Ederer and Ian Kirby are partners with Arnold & Porter LLP in the New York and London offices, respectively. John Maltbie and Alan Veronick are associates with Arnold & Porter LLP in the New York office and Rochelle Pizer is an associate with Arnold & Porter LLP in the London office.

2 *Fagan v. Amerisourcebergen Corp.*, 163 Fed. Appx. 37 (2d Cir. 2006).

3 19 U.S.C. §§ 1337, 1526.

4 15 U.S.C. § 1051, *et seq.*

5 *Polymer Technology Corp. v. Mimran*, 975 F.2d 58 (2d Cir. 1992). The "first sale" doctrine also applies to copyrights. *See, e.g.*, 17 U.S.C. § 109(a) ("Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorised 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.")

6 19 U.S.C. § 1526.

7 486 U.S. 281 (1988)

8 *Premier Dental Prods. Co., v. Darby Dental Supply Co.*, 794 F.2d 850 (3d Cir.), *cert. denied*, 479 U.S. 950 (1986).

9 19 U.S.C. § 1337(a)(1)(c). Section 337 also protects valid and enforceable U.S. patents and federally registered copyrights.

10 These Commission orders have nationwide effect; brand owners thus need not sue individual importers in numerous federal judicial districts for the enforcement of their rights.

11 *SKF USA, Inc. v. Int'l Trade Comm'n*, 423 F.3d 1307 (Fed. Cir. 2005).

12 *Id.* at 1315.

13 *Id.* emphasis added.

14 *Bourdeau Bros., Inc. v. Int'l Trade Commn*, 2006 WL 799192 (Fed. Cir. March 30, 2006).

15 15 U.S.C. 1124.

16 15 U.S.C. §§ 1114(1), 1125(a).

17 See generally, 4 Thomas J. McCarthy, McCarthy on Trademarks and Unfair Competition, § 29:51 (collecting cases).

18 Lever Bros. Co. v. United States, 981 F.2d 1330 (D.C. Cir. 1993).

19 Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68 (2d Cir. 1987).

20 Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc., 982 F.2d 633 (1st Cir. 1992).

21 Martins Herend Imports, Inc. v. Diamond & Gem Trading USA Co., 112 F.3d 1296 (5th Cir. 1997).

22 *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 753 F. Supp. 1240, n.10 (D.N.J. 1991).

23 PepsiCo, Inc. v. Torres, 27 U.S.P.Q.2d 1948 (C.D. Cal. 1993).

24 Fender Musical Instruments Corp. v. Unlimited Music Ctr., 35 U.S.P.Q.2d 1053 (D. Conn. 1995).

25 *Groupo Gamesa S.A. v. Dulceria El Molino Inc.*, 39 U.S.P.Q.2d 1531 (C.D. Cal. 1996).

26 *See, e.g.*, *American Circuit Breaker Corp. v. Oregon Breakers, Inc.*, 406 F.3d 577, 584, n.4 (9th Cir. 2005) (holding that parties' stipulation that there were no "material differences" between the products at issue served to defeat plaintiff's claim for infringement, but noting that the plaintiff may have had a remedy under Section 526 of the Tariff Act).

27 523 U.S. 135 (1998).

28 *See, e.g.*, *U2 Home Entm't, Inc. v. Lai Ying Music & Video Trading, Inc.*, 2005 WL 1231645 (S.D.N.Y., May 25, 2005) (rejecting defendant's "first sale" doctrine defense because the imported work at issue was manufactured in a foreign country); *Lingo Corp. v. Topix, Inc.*, 2003 WL 223454, at 4 (S.D.N.Y., Jan. 31, 2003) ("first sale" doctrine does not provide a defense to a copyright infringement claim where the allegedly infringing copies were manufactured and sold abroad); *UMG Recordings Inc. v. Norwalk Distribs. Inc.,* 2003 WL 22722410 (C.D. Cal. March 13, 2003) (holding that *Quality King* is limited to goods first manufactured or sold in the United States).

29 19 C.F.R Part 133.

30 19 C.F.R. §§ 133.21-133.22.

31 19 C.F.R § 133.1-133.4.

32 19 C.F.R. § 133.2(e).

33 *Id.*

34 19 C.F.R. § 133.2(f).

35 *I.e.*, the E.U. member states together with Iceland, Norway and Liechtenstein.

36 Joined cases C-427/93, C-429/93 and C-436/93 1996 ECR 1-3457.

37 Case C355/96 Silhouette Int'l Schmied GmbH Co KG v Hartlauer Handelsgesellschaft GmbH 1998 ECR I-4799; PLC, 1998, IX(7), 67

38 Phytheron Int'l SA v Jean Bourdon SA Case C-352/95.

39 Joined cases C-414/99, C-415/99 and C-416/99.

40 2007 EWCA Civ 176.

41 Case C-9/93 IHT Internationale Heiztechnik GmbH v Ideal Standard GmbH 1994 ECR I2789; PLC, 1994, V(7), 56.

42 Case C173/98 Sebago Inc. and Ancienne Maison Dubois et Fils SA v GB-Unic SA 1999 ECR I-4103; PLC, 1999, X(7), 79.

43 *Case C-337/95 Parfums Christian Dior 1997 ECR I-6013*

44 "concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights."

45 This could be simply collecting a sample. It may then apply for a further extension of 10 days to issue proceedings.