10-1987

K Mart Corporation v. Cartier, Inc.

Lewis F. Powell Jr.

December 5, 1986

Court..... *Voted on*....., *19*.....

Argued....., *19*..... *Assigned* ....., *19*..... No. 86-495

Submitted....., *19*..... *Announced* ....., *19*.....

K MART CORP.

vs.

CARTIER, INC.

Involves large number of parcels. Relist in a conflict as to grants.

Grant & consolidate with 86-624 & 86-625

	HOLD FOR	CERT.		JURISDICTIONAL STATEMENT				MERITS		MOTION		ABSENT	NOT VOTING
		G	D	N	POST	DIS	AFF	REV	AFF	G	D		
Rehnquist, Ch. J.		✓											
Brennan, J.		✓											
White, J.		✓											
Marshall, J.			✓										
Blackmun, J.		✓											
Powell, J.		✓											
Stevens, J.	✓												
O'Connor, J.		✓											
Scalia, J.		✓											

Grant all three & consolidate

PRELIMINARY MEMO

December 5, 1986 Conference
List 1, Sheet 3

No. 86-495

K Mart Corp. (sells grey-market goods)	Cert to CADC (Mikva, Bork, Silberman)	
v.		
Cartier, Inc., et al. (trademark owners)	Federal/Civil	Timely

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No. 86-624

47th St. Photo (sells grey-market goods)	(SAME)
v.	
Coalition to Preserve Integrity of Amer. Trademarks, et al. (trademark owners)	

No. 86-625

United States	(SAME)
v.	
Coalition to Preserve Integrity of Amer. Trademarks, et al. (trademark owners)	

1. SUMMARY: These curve-lined petns present two issues. This is a clear grant. The questions are important.

Petr 47th St. Photo argues that Court of International Trade has exclusive jurisdiction over this action, and the courts below, therefore, were without jurisdiction to adjudicate the dispute. All petrs argue that the CADC erred in invalidating a Customs Service regulation that permits, under certain circumstances, importation of foreign merchandise bearing a trademark identical to a U.S. registered trademark, without authorization of the U.S. trademark owner.

2. FACTS AND DECISIONS BELOW: This case involves Custom Service regulations permitting the importation of "grey-market" goods--generally cameras, electronic equipment, perfumes and the like--that bear legitimate foreign trademarks identical to American trademarks. Typically, a foreign producer of these goods establishes an American subsidiary that registers the American trademark. Frequently, the producer and subsidiary enter into an exclusive distribution agreement. The parallel importation situation, or grey-market, arises when the price the subsidiary charges U.S. buyers exceeds the price the manufacturer charges foreign customers for the goods. In such instances, it becomes profitable for U.S. retailers, such as petrs K-Mart and 47th St. Photo here, to import the goods from a third party who purchases the goods abroad, and then sell them domestically at prices below those charged by the subsidiaries who own the trademarks. Petrs assert that grey-market sales in the U.S. amount to $6 billion annually.

Resps are the Coalition to Preserve the Integrity of American Trademarks (COPIAT), and two of its members, Cartier, Inc.,

and Charles of the Ritz Group Ltd. Resps filed suit in USDC (DDC; Johnson, J.) against petrs United States, the Commissioner of Customs, and the Secretary of the Treasury, alleging that the importation of grey-market goods violated Section 526 of the Tariff Act of 1930, 19 U.S.C. §1526,[1] and Section 42 of the Lanham Trade-Mark Act of 1946, 15 U.S.C. §1124,[2] and that the Customs regulations, 19 C.F.R. §133.21,[3] which permit the importation of

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[1]Section 1526(a) provides:

> "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, ... unless written consent of the owner of such trademark is produced at the time of making entry." [Subsection (d) specifies that the prohibition of this statute does not apply to articles intended for the personal use of the person bringing them into the country.]

[2]The CADC did not address the Lanham Act claim.

[3]19 C.F.R. §133.21 (1986), provides in pertinent part:

> "(b) Identical Trademark. Foreign-made articles bearing a trademark identical with the one owned and recorded by a citizen of the United States or a corporaton or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.
>
> (c) Restrictions not applicable. The restrictions set forth in ... this section 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; [or]
>
> (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control ... [or]

(Footnote continued)

trademarked goods when the holder of the American trademark is affiliated with the holder of the foreign trademark, were invalid. Petrs 47th St. Photo and K-Mart intervened as defendants. The dc rejected 47th St. Photo's claim that exclusive jurisdiction over the action lay with the Court of International Trade, and upheld the Customs regulations as "sufficiently reasonable." The CADC affirmed on the jurisdictional issue, but reversed on the merits, holding that the regulations contravened the plain meaning of §1526 and were not a reasonable interpretation of the statute.

The CADC expressly rejected the holding of the Federal Circuit in Vivitar Corp. v. United States, 761 F.2d 1552 (CAFed 1985), cert. denied, 106 S.Ct. 791 (1986), that, pursuant to 28 U.S.C. §1581,[4] the Court of International Trade has exclusive

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(Footnote 3 continued from previous page)

> (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner ...."

[4]Section 1581 provides, in pertinent part:

> "(a) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to contest the denial of a protest, in whole or in part, under section 515 of the Tariff Act of 1930.
>
> ....
>
> (i) In addition to the jurisdiction conferred upon the Court of International Trade by subsections (a)-(h) of this section ... the Court ... shall have exclusive jurisdiction of any civil action commenced against the United States, it agencies, or its officers, that arises out of any law of the United States providing for--
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> (1) revenue from imports or tonnage;
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> (2) tariffs, duties, fees, or other taxes on the importation of merchandise for reasons other

(Footnote continued)

jurisdiction over claims such as this brought under §1526. In reaching this conclusion, the Vivitar court relied on §§1581(a) and 1581(i)(4). Although the "protests" referred to in §1581(a) are administrative complaints available to an importer challenging the exclusion of merchandise from entry, the court in Vivitar held that cases (such as this one) that concern a challenge to the admission of certain goods involve a subject matter within the ambit of §§1581(a) and 1581(i)(4). CADC faulted this reasoning, asserting that "no right to protest arises from Customs' admission of goods--in contrast to its exclusion of goods ...." Petn App 7a. In such cases there is not administration and enforcement, under §1581(i)(4), of a "matter," which are protests. CADC also rejected the Vivitar court's alternate basis for finding jurisidiction--that §1581(i)(3) applies because §1526 is an "embargo." The CADC acknowledged that §1526 undoubtedly prevents the importation of certain goods, but concluded, after reviewing other related statutory provisions, that the section is not an "embargo." Because this action does not fall within any of the specific provisions of §1581, CADC concluded, exclusive jurisdiction does not lie with the Court of International Trade and ju-

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(Footnote 4 continued from previous page)

> than the raising of revenue;
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> (3) embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health and safety; or
>
> (4) administration and enforcement with respect to the matters referred to in paragraphs (1)-(3) of this subsection and subsections (a)-(h) of this section.

risdiction was proper in the dc under 28 U.S.C. §§1331 and 1338(a) and 15 U.S.C. §1121.

On the merits, the Court held that the regulations could not be squared with §1526, and because of this holding, found it unnecessary to address the Lanham Trade-Mark Act issue. Section 1526 does not, on its face, admit of any of the exceptions contained in the Customs regulations. The "deference to the agency" doctrine comes into play only when it is apparent that "Congress has not directly addressed the precise question at issue." Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc. 467 U.S. 837, 843 (1984). Here, Congress' intent in §1526 is clear: both the plain meaning of the statute as well as its legislative history show it was intended to cover the type of situation present in this case. The court then surveyed the historical background of the passage of the Tariff Act of 1922, which contained the original version of §1526, and the section's legislative history. While review of the Senate debate "does not unequivocally resolve all questions about the scope" of §1526, CADC determined that the debate "reinforces our conclusion that [§1526] confers an absolute, unqualified property right upon American companies that own registered trademarks." Petn App 19a, 16a.

Alternatively, CADC held that even if the Customs Service enjoys some role in interpreting §1526, the regulations at issue are not "sufficiently reasonable." The CADC arrived at this conclusion after it reviewed the 50-year history of the regulations and emphasized the following points: the regulatory provisions

under review here were not adopted contemporaneously with the statute; the first set of regulations adopting the current position apparently was designed to implement another statute, then-section 27 of the Trade-Mark Act of 1905; and the Custom Service has offered poorly articulated and vacillating reasoning in support of the current regulatory provisions. The court rejected the view that the regulations have been tacitly approved by Congress through its seeming acquiescence to their 50-year existence. "Congress simply cannot be obliged affirmatively to correct subsequent administrative interpretations inconsistent with the original legislative intent; that is the responsibility of the courts." Petn App 30a. The court reversed the judgment of the dc and remanded the case with instructions to issue a declaratory judgment that the regulations are invalid. The CADC issued a stay of the mandate until September 30, 1986.

3. CONTENTIONS: Petr U.S. agrees with the CADC's disposition of the jurisdictional issue, and limits its argument to the validity of the regulations. The SG argues that this decision conflicts with decisions of the CAFed and CA2, as both of those courts have upheld the validity of the regulations. The practical result is that a Customs Service decision either to exclude or admit grey-market imports can be successfully challenged. This Court's review, therefore, is plainly warranted. In Olympus Corp. v. United States, 792 F.2d 315 (CA2 1986), CA2 expressly rejected the CADC's reasoning here, concluding that "congressional acquiescence in the longstanding administrative interpretation of the statute legitimates that interpretation as an exer-

cise of Customs' enforcement discretion." Id., at 320.[5] The SG notes the particularly serious nature of the conflict with Vivitar, the CAFed decision, because the conflict involves the jurisdictional issue as well as the issue involving the validity of the regulations. The SG argues that §1526 was apparently enacted for the limited purpose of protecting American companies that purchase trademarks from independent foreign manufacturers. Congressional acquiescence to the regulations over the past 50 years demonstrates that they are reasonable interpretations of §1526.

Petr 47th St. Photo argues that this Court should resolve the conflict with Vivitar on the jurisdictional issue. Holding that exclusive jurisdiction of this type of action lies with the Court of International Trade will conserve judicial resources, as cases can be channeled to only one federal trial court and one specialized Court of Appeals. The language of §1581 is broad enough to encompass claims of the kind alleged here. On the merits, this Court should resolve the conflict over the validity of the regulations.

Petr K-Mart argues that the CADC distorted legislative history and ignored agency practice in invalidating the regulations. Where a statutory provision is ambiguous and the agency interpre-

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[5]A petn for cert has been filed in Olympus Corp., No. 86-757. I informed the Clerk's office of its relationship with these petns. The petn will be circulated independently, and in all probablilty is an obvious hold if the Court grants these petns.

tation is reasonable, the agency must be sustained. Young v. Community Nutrition Institute, 106 S.Ct. 2360 (1986).

Resp COPIAT argues that the Court should grant cert and summarily affirm the CADC's decision, "which reached the obviously correct result on both issues." "Briefing and argument on the issues would not illuminate them beyond the illumination already provided by the opinion below and the other opinions." Resp. Br. 16. This Court has granted cert and summarily affirmed on prior occasions when confronted with statutory construction issues that were readily resolved. See Lines v. Frederick, 400 U.S. 18 (1970); United States v. Lane Motor Co., 344 U.S. 630 (1953).

By way of argument, resp "commend[s] to the Court Judge Silberman's opinion" and then summarizes the opinion. Additionally, resp argues that while the inter-circuit conflict on the jurisdictional issue is clear, the conflict on the merits is less clear because no court has unequivocally accepted the petrs' view that the regulations correctly interpret §1526. Rather, both Vivitar and Olympus hold that while the regulations may not properly interpret the statute, they are sustainable as Customs Service enforcement guidelines. This position is untenable, as an agency's action "cannot be upheld unless the grounds upon which the agency acted in exercising its powers were those upon which its action can be sustained." SEC v. Chenery Corp., 318 U.S. 80, 95 (1943). In any event, because the Customs Service is subject to differing directions from three courts of appeals, this Court should reconcile the differences.

4. DISCUSSION: This is a clear grant. The statutory construction issue is an important one that should be resolved by this Court. The current conflict among the CAFed, CADC, and CA2 creates an intolerable situation: an importer, in reliance on Vivitar, can challenge successfully in the Court of International Trade a Customs decision to exclude parallel imports, while the owner of an American trademark, in reliance on the decision here, can sue in USDC in the Dist. of Columbia and challenge successfully a Customs decision to admit parallel imports. The potential for this untoward result diminishes greatly the force of resp's argument that the inter-circuit conflict, at least insofar as the Customs Service is concerned, is not a square one.

I find resps' argument that Court should summarily affirm "because the correct answer is not in doubt" to be unpersuasive. While CADC's opinion is thorough and well-reasoned, the issues raised here are significant and worthy of full plenary review.

5. RECOMMENDATION: GRANT

There is a response and an amicus brief from the American Free Trade Association arguing the Court should grant the petns and reverse the CADC.

November 23, 1986 Burcham Opin in petn.

December 5, 1986

Court..... *Voted on*....., *19*.....

Argued....., *19*..... *Assigned*....., *19*..... No. 86-624

Submitted....., *19*..... *Announced*....., *19*.....

47th ST. PHOTO

vs.

COALITION TO PRESERVE

Grant & consolidate with 86-448 86-625

	HOLD FOR	CERT.		JURISDICTIONAL STATEMENT				MERITS		MOTION		ABSENT	NOT VOTING
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Powell, J.		✓											
Stevens, J.		✓											
O'Connor, J.		✓											
Scalia, J.		✓											

Grant

PRELIMINARY MEMORANDUM

December 5, 1986 Conference
List 1, Sheet 3

No. 86-624

47th St. Photo (sells grey-market goods)	Cert to CADC (Mikva, Bork, Silberman)	
v.		
Coalition to Preserve Integrity of Amer. Trademarks)	Federal/Civil	Timely

1. SUMMARY: This petn is curve-lined with Nos. 86-495 and 86-625. See the pool memo in those cases.

Grant - Rauh
&
Consolidate

Court..... Voted on..... December 5, 1986

Argued....., 19..... Assigned....., 19..... No. 86-625

Submitted....., 19..... Announced....., 19.....

UNITED STATES

vs.

COALITION TO PRESERVE

Grant & consolidate with 86-495 86-624

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White, J.		✓											
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Blackmun, J.		✓											
Powell, J.		✓											
Stevens, J.		✓											
O'Connor, J.		✓											
Scalia, J.		✓											

Grant

PRELIMINARY MEMORANDUM

December 5, 1986 Conference
List 1, Sheet 3

No. 86-625

United States	Cert to CADC (Mikva, Bork, Silberman)	
v.		
Coalition to Preserve Integrity of Amer. Trademarks)	Federal/Civil	Timely

1. SUMMARY: This petn is curve-lined with Nos. 86-495 and 86-624. See the pool memo in those cases.

Grant -- Ronald
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