Grey market restrictions and the Internet

Bits and Bytes

By Alan Gahtan

Canadian retailers and distributors who use the Internet to market their products should take note of a new decision from New York, which held that it is a likely a violation of U.S. trademark and tariff law for a foreign company to make Internet sales to U.S. customers of imported goods bearing a registered U.S. trademark without the consent of the trademark owner.

In *Ahava (USA), Inc. v. J.W.G., Ltd.*, [*No. 03 Civ. 653* (S.D.N.Y. Mar. 17, 2003)] the defendant, JWG, operated a Web site that sold Israeli health and beauty products to American consumers purchased from the Israeli manufacturer, Dead Sea Laboratories, Ltd. The goods were sold by JWG at much lower prices than the exclusive U.S. distributor of the products, Ahava, which held the trademark under which both plaintiff and defendant sold the products.

Ahava contended that JWG's sale of the products circumvented Ahava's quality-control inspections of all Dead Sea Lab products that enter the United States to ensure that such products have not spoiled since their manufacture. Ahava also contended that this inspection process, along with its direct marketing, promotional, and consumer service efforts, created a stylish, upscale image for the products among American consumers and that JWG's continued sales through its Web site threatened to tarnish this reputation and dilute its trademark.

Although Ahava based its claims under three different, but related, sections of the Lanham Act, the court focused on the act's s. 32, which prohibits the unauthorized sale of goods bearing a registered trademark where there is a likelihood of confusion, mistake, or deception of purchasers. Under this section, a showing of likelihood of confusion establishes both a likelihood of success on the merits and irreparable harm, assuming that the plaintiff has a protectible mark.

An important issue is whether the grey market goods being sold are "genuine" because genuine goods do not lead to customer confusion and therefore are not protected under trademark law.

To make such a determination the District Court relied on two approaches used in previous cases. First, a grey market good is not considered genuine if the goods do not meet the trademark owner's quality control standards.

Secondly, a grey market good is not considered genuine if the goods (1) were not intended to be sold in the United States and (2) were materially different from the authentic goods that are authorized for sale in the U.S. market.

The purpose of this second approach is to protect a domestic trademark holder's goodwill with consumers from damage caused by importation of similar but distinguishable goods that were never intended to be imported into the United States.

Along with considering whether a grey market good is genuine, some courts in the Second Circuit have considered the likelihood of confusion as to "sponsorship," meaning, confusion as to the identity of the company that stands behind or insures the quality of the trademarked goods.

Accordingly, even if there was no possibility of confusion as to source or origin when a product is "genuine," there might still be confusion as to sponsorship when a "genuine" product is manufactured by a foreign manufacturer but distributed in the U.S. without the authorization of, and in competition with, the U.S. trademark owner.

Finding that defendant's sales likely caused confusion as to "sponsorship" of the goods, the District Court preliminarily enjoined the defendant from, among other things, importing, selling, or marketing products bearing the trademark, and from using the trademark as a metatag.

The court also ruled that the injunction was justified under the Tariff Act. Section 526(a) of the Tariff Act prohibits the importation of merchandise bearing a

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