SUPREME COURT OF THE UNITED STATES

K MART CORPORATION, Petitioner, v. CARTIER, INC., ET AL.;	:	No. 86-495
47TH STREET PHOTO, INC., Petitioner, v. COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.;	:	No. 86-624
UNITED STATES, ET AL., Petitioner, v. COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.	:	No. 86-625

Pages 1 through 39

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Place Washington, D.C.

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BEFORE THE SUPREME COURT OF THE UNITED STATES

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K MART CORPORATION, :
Petitioner, :
v. : No. 86-495
CARTIER, INC., ET AL.; :
47TH STREET PHOTO, INC., :
Petitioner. :
v. : No. 86-624
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.; :
and :
UNITED STATES, ET AL., :
Petitioner, :
v. : No. 86-625
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL. :
- - - - - - - - - - - - - - - -x

Washington, D.C.

Tuesday, April 4, 1988

The above-entitled matters came on for oral argument before the Supreme Court of the United States at 11:32 o'clock a.m.

APPEARANCES:

LOUIS R. COHEN, ESQ., Deputy Solicitor General, Department of Justice, Washington, D.C.; on behalf of the federal petitioners.

NATHAN LEWIN, ESQ., Washington, D.C.; on behalf of the private petitioners.

WILLIAM H. ALLEN, ESQ., Washington, D.C.; on behalf of the respondents.

I N D E X

P R O C E E D I N G S

(1:33 p.m.)

CHIEF JUSTICE REHNQUIST: We will hear argument next in No. 86-495, K Mart Corporation versus Cartier, Inc., and related cases.

Very well, Mr. Cohen, you may proceed whenever you are ready.

ORAL ARGUMENT OF LOUIS R. COHEN, ESQUIRE

ON BEHALF OF THE FEDERAL PETITIONERS

MR. COHEN: Thank you, Mr. Chief Justice, and may it please the Court, the parties to this case agree that Section 526 protects a U.S. trademark owner against importation of goods bearing its mark that were manufactured abroad by some other firm, even if that other firm has the legal right to use the mark in the foreign country.

Respondents brought this lawsuit to establish that Section 526 also does something quite different, namely, entitle the U.S. trademark owner to bar importation of goods that it itself or a company under common control manufactured, stamped with the trademark, and sold into commerce abroad. We disagree.

Our central point is this: Substantive U.S. trademark law does not give a trademark owner any right to restrain the distribution of its own goods after sale. Section 526 was designed to correct a judicial mistake that allowed the importation of infringing goods that had been manufactured by somebody else. It need not be read as having also given the trademark owner an anomalous, even revolutionary new right to bar importation of its own genuine good which could be sold in this country by anyone without infringement if only they can get across the border.

To take a particular example, General Motors can stop anybody else from making a car and selling it as a Chevrolet, but as this Court made clear in the Prestonettes case and in the Champion Sparkplug case, and as Judge Snead explained in the Ninth Circuit in the recent NEC Electronics case, and as most of us know from experience, anyone apart from contract rights can sell a used genuine Chevrolet with the Chevrolet logo on it without General Motors' permission.

We think Treasury properly concluded that Congress did not inadvertently give General Motors, which has no right at all to restrain the further distribution of a Chevrolet it sells in Maryland, a right to dictate that a car it has sold in France may never enter this country.

Section 526, as its legislative history makes clear, and as Learned Hand said in 1923 in the LeBlume case, was intended to do something quite modest. Since the 19th century, U.S. law has barred importation of goods bearing simulated U.S. trademarks applied by someone other than the U.S. trademark owner.

In 1921, in the Katzel case, the Second Circuit held quite erroneously that French goods bearing a mark affixed by the person who was entitled to affix that mark in France were noninfringing and could be imported into this country even though someone else unrelated to the French company owned that mark in this country. This Court promptly corrected the Second Circuit but not before Congress had dealt with the casus omissus, as Judge Hand called it, by adopting Section 526 to make clear that even if a mark has been lawfully applied abroad, the goods that bear it may be denied importation if somebody else owned the mark in this country.

There is just no evidence that anyone wanted to give a multinational enterprise, be it General Motors or Honda or Pears Soap, the power to block importation of genuine goods it itself sold abroad. And so Treasury, reading the statute in its legal and historical context, interprets it as not referring to a mark applied abroad by the very U.S. trademark owner who now seeks to exclude the goods or his affiliate or his licensee.

Respondents' arguments come down, I suggest, to a contention that the text does not allow that reading. But in fact it is the kind of reading that this Court has often given to statutes even without the benefit of the long regulatory history that we have here. Where a statute has a narrow reading that is perfectly consonant with its text and its legislative history, and there is also a broader reading that the words might literally bear, but which would work an implausible change in the settled legal context, this Court has not hesitated to decline on contextual grounds to give the statute a broad literal reading.

That's what happened in O'Connor, the Puerto Rican, excuse me, the Panamanian treaty case when the Court said that the words "any tax" do not refer to U.S. taxes because an exemption from U.S. taxation would be too implausible to have been what the draftsmen meant.

The Court did the same thing in Watt against Alaska when it said that the term "minerals in wildlife refuges" do not include minerals in reserved lands, but only in acquired lands, even though wildlife refuges were defined to include both reserved and acquired lands, because the context suggested that that's not what Congress meant.

That's what the Court did in the 1940 American Trucking Association's case, when it said that the term "employees of motor carriers" are referred in context -- not in the context of anything else in the statute, but in the context of the general background of the law to employees in safety-related jobs.

It's what the Court did in the Guerra case when it said that the statute saying that pregnant women shall be treated the same as other employees set a floor, not a ceiling, meant they should be treated no worse but not -- no better, because Congress wasn't worried about the problem of excessively favorable treatment of pregnant employees.

It's what we all do when we assume that the words "No Sleeping in This Railroad Station" do not mean that it is illegal to fall asleep while waiting for a train.

Since I think at the very least there is no unambiguously expressed intention of Congress to give a trademark owner the help of the Customs Service in excluding its own goods --

QUESTION: Why is that not unambiguously expressed?

MR. COHEN: Well, because --

QUESTION: I mean, I'd like to think that, but why is that not unambiguously expressed?

MR. COHEN: Because the statute does not, I think, focus on the precise question at issue. It says that goods that bear a trademark, registered and so forth, may not be imported without the consent of the U.S. trademark owner, but it does not, I think, answer the question whether the term "bears a trademark" there means to refer to a trademark that is -- that has been applied by the very person who now seeks to exclude the goods.

QUESTION: So when we have a general statute, it is ambiguous as to each of the specific instances that its language covers?

MR. COHEN: No, when you have a general statute there is -- yes, there is room for interpretation. I think when the Court has said a statute speaks to the precise question at issue, it's really meant, does the statute focus on that question the way the statute did in the Dimension Financial case, when there is a definition that is aimed at precisely the question the Court is trying to answer.

Here, the words leave open the question whether that is what Congress meant --

QUESTION: They cover the situation. You acknowledge that. The words cover the situation. Your point is simply that the words do not say -- well, in essence you're saying, we have a statute that says, all colors --

MR. COHEN: They cover the situation --

QUESTION: We have a statute that says all colors, but you're saying yes, but the statute does not say, including red.

MR. COHEN: They cover the situation --

QUESTION: That's essentially your argument.

MR. COHEN: No, I think in that case you would say that somebody deliberately focused on how many colors.

Here, we have a statute that, like a statute that says any tax, and is held not to include U.S. taxes, as in the more recent cases --

QUESTION: We relied on other contexts, on other language and contexts of the statute in that case. We just didn't say, as far as we know Congress didn't focus on this particular tax. We relied upon the rest of the statute.

MR. COHEN: But the basic reason for the reading the Court reached in that case after saying there was, I believe the phrase was, some textual evidence, albeit subtle, the basic reading that the Court reached was based on the legal context in which the statute was written and the implausibility of the conclusion that Congress meant to cover a case that there was no sign that it had deliberately adverted to, or in that case the draftsmen of the agreement.

There has to be room to say that words that can apply generally, words like "employees" in the Motor Carrier Act which have a commonly understood meaning, nevertheless don't have -- don't necessarily have their full reach, and it has to be possible, it seems to me, to say that where there is no evidence that anyone adverted and adverted in the drafting to the particular -- to the particular question at issue, that one can look at context, and there is also room, it seems to me, then for a regulatory interpretation as well. It seems to me that this --

QUESTION: Well, is the ambiguity here in the term "bears" or is it "ownership and domicile?"

MR. COHEN: I think --

QUESTION: Or is it in the whole thrust of the statute?

MR. COHEN: Well, I think it is in the whole thrust of the statute, but I think that the way I would prefer to say it is, the question is whether "bears a trademark" means to include the case where the trademark was applied by the very person who now seeks to exclude the goods, or whether that is a case that is outside of Congress's concern just as treating pregnant women more favorably than other employees is not within what Congress meant when it said, treat them the same.

QUESTION: I thought if there is one given constant in this case it's the word "trademark," and it's the ownership and the domiciliary of the trademark holder that's in question.

MR. COHEN: I think --

QUESTION: Or are you saying that "trademark" itself is ambiguous?

MR. COHEN: I think that the question is whether the statute applies to exclude goods bearing a trademark that has been applied by the same person who now seeks to exclude them. It is --

QUESTION: But the statute doesn't say that anyone can exclude a trademark. It says that the owner and the domiciliary can exclude the goods bearing the mark.

MR. COHEN: Well, yes, and the very fact that the statute --

QUESTION: So it seems to me that that's the focus of the statute.

MR. COHEN: Well, the very fact that the statute limits the power of exclusion to a U.S. owner and indeed to goods of foreign manufacture is, I think, some textual evidence that Congress's intent here was simply to give a U.S. owner who was separate from the foreign manufacturer of the goods the power to exclude those goods because they infringe his trademark over here. I don't think those limitations make any sense if what we're talking about is a general right of a trademark owner to control the distribution of its own goods. Most U.S. trademark law does not draw any distinction between a U.S. citizen's and other persons --

QUESTION: So one of your major propositions is that "bears a trademark" is an ambiguous phrase?

MR. COHEN: I think that the question whether the whole statute reaches this case, as Treasury has said, I think, since 1936, certainly since the mid-forties, is the question on which the statute is ambiguous.

QUESTION: Well, then, it seems to me the question
may become whether the regulation so transcends whatever
ambiguity is there that there's no statutory anchor for it.
Is that the issue in the case?

MR. COHEN: I think that the -- no. I think that what the regulation does is to say, this is a statute that was written to fill a hole, to enable a U.S. trademark owner to keep out goods that are infringing here but are -- but are genuine abroad, and the question is whether that statute also does something that the petitioner in the Prestonettes case described from this podium 63 years ago as revolutionary, and the Court agreed with him, namely, to give -- that it did not -- namely, to give the U.S. trademark owner a chance, a means of restraining the distribution of its own goods.

I would like to reserve the remainder of my time, if I may.

CHIEF JUSTICE REHNQUIST: Thank you, Mr. Cohen.

We will hear now from you, Mr. Lewin.

ORAL ARGUMENT OF NATHAN LEWIN, ESQUIRE

ON BEHALF OF THE PRIVATE PETITIONERS

MR. LEWIN: Thank you, Mr. Chief Justice, and may it please the Court, our position that Section 526 is broad enough to entitle the Customs Service to give it the construction which it has done for at least the past 50 years is based on, we think, three factors. One is the use of and the particular addition of specific statutory language, and that is the language dealing with ownership by an American corporation. The legislative history makes it clear that that specific language was put in in conference after the Senate debate which ended with some uncertainty about the Pears Soap hypothetical, which is close precisely to the situation presented by the present litigation.

And it is subsequent to that time that the conference determined to make it clear that what Congress was protecting in 1922 were American owners, and American owners of trademarks, we submit, does not include and was never intended to include a multinational foreign corporation whic could set up a wholly owned American subsidiary, and that brings us to the second, as it were, ambiguity in this statute which entitled Customs to arrive at the result, which is that the statute was enacted in 1922, and in our supplemental memorandum we quoted for the Court various references that were made at that time, and it was a time when the corporate layering that is now customary was, we submit, in its infancy, that at that time Congress was not contemplating foreign, wholly owned subsidiaries. It was -- that kind of a corporate structure was something to which the courts were ready to look through and say you weren't an American owner, you weren't the owner. The real owner was whoever the corporate parent was. So we think the history is important. The plain language principal, we think, looks to what Congress would have had in mind at the time, and in 1922 we submit Congress would have had in mind not protecting what would have been a layer in which the American trademark owner was simply the subsidiary of a foreign corporation.

QUESTION: How do we know that?

MR. LEWIN: Well, because all the language in the legislative history speaks about protecting American manufacturers and producers from fraud.

QUESTION: Does anyone speak about not protecting others? I mean, there is nothing in the legislative history that would exclude this situation. You are just saying there's nothing there --

MR. LEWIN: There's nothing in the legislative history that says -- except that the case that gave rise, of course, to this problem was one which involved a foreign manufacturer that had sold its rights to an American corporation and, if anything, the respondents are claiming this is xenophobic, but if anything the indication is that the Congress was concerned about the American purchasers. Never was there the slightest suggestion that there was a wish to affect trademark law in some way. The respondents have talked about this as raising the principle of territoriality. That was not discussed in the legislative history. It was clear that what Congress was saying over and over again, we're protecting American purchasers from fraud.

QUESTION: You think we should only interpret statutes to do -- to resolve that one problem that prompted them? We have a lot of statutes that are prompted by a particular problem, but they are drawn more broadly, and later on other things come along, and we don't go back and look at it and say, well, gee, it's just this one narrow problem that they had in mind. If they wrote a broader statute that covers more things, we say it covers them.

MR. LEWIN: That is certainly true, Justice Scalia, but it is not true if what was -- what happens later on was wholly unanticipated. It is true, Congress can draw broad strokes and say that things that are out on the periphery we are not going to deal with with a specific exception, but if what Congress -- if what happens is the growth of multinational corporations and the situation that is now presented by the gray market was not anticipated by the 1922 Congress, then it's appropriate that Congress look at what happened then. Congress did that exactly in the Wells Fargo case, decided about a month ago, when there was as clear a law as could possibly have been enacted which said that certain obligations were free from all taxation now or hereafter imposed by the United States, and this Court said, no, no, let's look back at 1937. What was Congress looking at in 1937? Not estate taxes, even though the statute said all taxation now or hereafter, which would have included estate taxes. But the Court said, we are looking at the history, we are looking at the context of what Congress could possibly have contemplated at the time.

QUESTION: We had one word in that case that we could interpret more narrowly that would produce the result that you wanted, the word "taxation." Did taxes mean all of this, or did it mean somewhat less? What one word or even two words in this statute can you point to which, if given a narrower interpretation, would produce the result here that you want?

MR. LEWIN: I think it is the words "owned by a citizen of or a corporation created or organized within the United States," and we think that that means not someone who is a subsidiary of a foreign corporation.

Let me take slight issue with you, Justice Scalia. There were two words that were relevant, and I think it points up the question you asked Mr. Cohen. The words were "all taxation," not "taxation," "all taxation," and I believe that that is comparable to your analogy of all colors. The Congress said all taxes, not simply taxes, and yet this Court said estate taxes are somewhat different. Let me --

QUESTION: Well, as I understand the statute, it does restrict an American corporation if the American corporation licenses a foreign manufaturer and the goods somehow find their way back here.

MR. LEWIN: Yes, and again --

QUESTION: So I point that out to you and ask you to comment on it in light of what you have just told Justice Scalia, and secondly, I would say that you began by saying Congress put in these words in the conference section "American corporation," and you somehow transpose that into an intent to protect the American consumer. I am not so sure how that follows.

MR. LEWIN: With regard to your second question, I am speaking about an American corporation. It was not a corporation that is a subsidiary or an arm or a corporate agent of a wholly owned subisidiary of the foreign corporation. Our statute protects American consumers. Indeed, it protects many distributors like my client and K-Mart who over the course of the years have relied on Customs' interpretation, which did not spring out of the blue. It has been in effect -- these regulations were issued in 1970. They reflect what happened --

QUESTION: I am talking just about the statute now.

MR. LEWIN: Yes. Now, with regard to the American company, the American parent of the foreign corporation that produces abroad, we submit that that was also not within Congress's contemplation, both in terms of that language and in terms of its limitation to articles of foreign manufacture, and when an American corporation is deliberately manufacturing abroad, Justice Kennedy, that American corporation is in control of its product. It makes a choice. Take Duracell or any of the companies that are cited. If it determines to produce a product abroad that looks identical to the product that it sells in the United States under the trademark in the United States, we are saying that that product which it is in control of, the respondents argue that there is some form of unfair competition here because these companies should be able to rely on their own advertising in the United States. That company which manufactures the product abroad could manufacture a product that looked different in the foreign market. Duracell would have been able to do that, and yet it chose not to do so. It chose to create a worldwide market in which the product would look the same all over the world, and what we are saying is, Customs in 1936 made clear that it did not view the statute as applying to the very same company that had both the production abroad and the trademark in the United States.

Customs in 1936, when this whole multinational enterprise began to bloom somewhat, there was more movement within international commerce, the Customs Service at that point made its first statement in a regulation which appears here in the joint appendix in which it said that that statute does not apply to the same owner, and we submit that that language and that policy of Customs has been well-known to Congress. It was known to Congress before the Lanham Act was passed in 1946. It was known to Congress throughout this entire period of time.

QUESTION: Why didn't they just do it in the thirties? You mean there was really no -- no international trade before that? I had thought that the Depression cut it down rather than expanded it. I would have thought when this statute was passed there was probably a much brisker international trade, including multinational corporations, than there was later.

MR. LEWIN: I think in terms of being able to get goods, the desirability of just even being able to move goods from across the Atlantic to the United States, I think, was more difficult and less desirable, and in terms of having multinational corproations who would -- foreign -- even if one takes the Bourjois case, the foreign manufacturer saw fit in that case to sell all its rights in the United States rather than try in some way to transport its goods to the United States and then attempt to make its own profits there. The record, I think, indicates that.

Thank you.

CHIEF JUSTICE REHNQUIST: Thank you, Mr. Lewin. We will resume there at 1:00 o'clock.

(Whereupon, at 12:00 o'clock p.m., the Court was recessed, to reconvene at 1:00 o'clock p.m. of the same day.)

AFTERNOON SESSION

(1:00 p.m.)

CHIEF JUSTICE REHNQUIST: We will hear now from you, Mr. Allen.

ORAL ARGUMENT OF WILLIAM H. ALLEN, ESQUIRE

ON BEHALF OF THE RESPONDENTS

MR. ALLEN: Thank you, Mr. Chief Justice, and may it please the Court, I want to turn, address myself first to what Mr. Cohen described as the central point of the case on the other side, the point that as I understand is thought to make it implausible that Congress meant what it said when it wrote Section 526. That is the idea that an owner of a trademark cannot prohibit the sale of goods bearing that trademark once unchanged, once he has first sold them or put them into commerce, but there really isn't any such first sale doctrine insofar as international transactions are concerned.

The doctrine just doesn't fit with the concept of territoriality of trademarks. Justice Holmes explained it in this Court's opinion in the Katzel case to which you have heard reference this morning. He said it wasn't accurate to speak of the trademark on the face powder as distributed in the United States as being that of the French manufacturer of the trademark, even though it came from there, because in law, he said, it is the trademark only of the United States

Bourjois company in this country, and there are very solid factual reasons for this territorial view of trademarks.

For one thing, for one thing, products differ from country to country. Nothing sinister about those differences, nothing about which my clients need feel embarrassed. And the differences don't have anything to do, either, with whether the United states distributor or manufacturer of the products does or does not have corporate ties to the firm that makes the products for overseas distribution.

Differences result simply from differing tastes, differing environmental conditions, differing laws as well as the fact that goods intended for markets other than the United States may not be appropriately packed for shipment to the United States, or they may lack United States distributors' valuable warranty on the goods, or differences simple as the fact that fresh batteries made in the United States will make your flashlight light up, whereas batteries that are a long time in the shipping here and aren't meant to be won't make your flashlight light up.

The fact of these differences between products intended for the United States market and products not intended for the United States market, intended for some other product, is one of the reasons why Section 526, if enforced as written, conforms fully with the policy of the trademark law.

One of those policies is to protect consumers against deception and confusion, and Section 526 would do that by ensuring that consumers were not imposed upon by products that were not quite the products they associate with familiar United States trademarks.

Furthermore, Section 526, if enforced as written, protects the trademark owner against erosion of his investment in the good will that is represented by the trademark, and that is the other principal goal in the trademark law. In the kinds of goods we are concerned with here, the trademark owner makes heavy investments, advertising, promoting his brand, quality assurance and service, both pre-sale and post-sale service. The gray market goods, the goods that come here, though not intended for the United States market do not bear the costs of those promotional and service investments and don't yield the trademark owner any return on them.

I believe that I'm a biased listener, but I thought I heard it conceded this morning that Section 526 is written in terms broad enough to cover the cases that the Customs Service regulations deprive of its coverage. That seems to me to mean that the contested issues are whether Section 526 is fairly susceptible to a narrow reading, and not just any narrow reading, but a narrow reading that fits the Customs Service regulations and at the same time keeps faith with the words that Congress chose, and second, whether there is any good reason in the legislative history or elsewhere for reading the statute in that narrow way.

I believe that the answer to both questions is a pretty resounding no. I am going to take them up, plan to take them up in their logical order, text first, secondary sources second, even though the order of emphasis, petitioners' argument is just the opposite. If I hear them correctly, they say repeatedly and loudly that secondary sources indicate a Congressional intent less sweeping than the words of the statute indicate, and then they add, and this almost -- again, I'm a biased listener, but it seemed to me it almost had to be dragged out of them this morning, oh, yes, sotto vocce, you can construe those words to accord with our view of Congressional intent, even if you have to insert into the statutory text what Mr. Cohen in one of his papers calls an implicit contextual qualification.

It seems to me that that argument is close to if it is not -- is the same argument that was rejected by the Court just last week in the Puerto Rico petroleum price regulation preemption case. That's an argument for what the Court there described as giving effect to Congressional intent in a vacuum unrelated to the giving of meaning to an enacted statutory text.

And as I hope to demonstrate, there is actually less to the appeal even to secondary sources than appears from all that petitioners say about it. First, first the text. At the very least, one has to say it's uphill for the other side on the text. Thirty years ago the Solicitor General made a motion in this Court to vacate a favorable judgment in the Guerlain antitrust perfume -- perfume antitrust case in which the meaning of Section 526 of the Tariff Act was in issue.

In his motion, he said that he was bound to recognize that "This interpretation" -- that was the District Court's interpretation in the Guerlain case, which is very close if not exactly the same as the Customs Service's current interpretation, is not supported by the literal terms of the statute, and there has been no relevant change in the statute in those 30 years. Nonetheless --

QUESTION: Do you say, counsel, that the statute is not ambiguous in any respect, particularly the terms "ownership" and "domicile?" Those are non-ambiguous, self-defining, clear terms that admit of no gloss by the regulatory authorities?

MR. ALLEN: I find no ambiguity in them. And I plan to turn first to those two terms, because it is on them that whatever textual argument is made is principally based, and the terms of the statute are that the trademark to be protected by Section 526 has to be owned by a corporation created within the United States and registered by a person domiciled in the United States.

As I say, I don't find any ambiguity, but if there were any ambiguity, it would be resolved by finding the source of those terms in trademark law of the time. The requirement --

QUESTION: And so under trademark law there can be only one owner of a patent? This is some indivisible metaphysical core?

MR. ALLEN: One owner of a trademark. There was one owner of a trademark. And I should say about these two requirements of domicile and citizenship -- they are the -- owned by a citizen and registered by a person domiciled -- they very considerably overlap, because most U.S. citizens are domiciled in the United States, and most people who are domiciled in the United States are citizens of the United States, and --

QUESTION: We are not really used to thinking of ownership or even of the term "property" as being indivisible, are we?

MR. ALLEN: Well, I think --

QUESTION: The whole bundle of sticks approach.

MR. ALLEN: But in the -- it was used in those terms in the trademark statute. In the trademark statute there was -- two people, two categories of people were allowed to register trademarks that they owned. This is the first section of the Trademark Act of 1905, Justice Kennedy. One category was a person domiciled in the United States. That person had to allege that he had used the trademark in commerce. The other kind of eligible registrant was a trademark owner that resided or was located in a foreign country that extended the privilege of trademark registration to United States citizens.

In that case, if he had already registered the mark in a foreign country, he could register it in the United States without alleging use in commerce. Section 526 as originally proposed had only the requirement of domicile, of United States domicile, which I suggest was taken directly from the trademark law, and which had the very purpose of ensuring a trademark that was in use in the United States.

The requirement of Section 526 that the trademark be owned by a United States citizen or a United States corporation was added in conference. In general, we tend to think that a corporation created in the United States is a corporation incorporated under one of the laws, under the laws of one of the states, and such a corporation, regardless of its parentage, I submit, is ordinarily regarded as the owner of what formally belongs to it.

This Court had decided in, I believe, 1909 cases of -- an omnibus case involving a number of cases arising under the commodity clause of the Hepburn Act of 1909. That statute forbade a railroad to carry coal that it owned or in which it had a direct or indirect interest. Volume 213 at Page 366 is the citation.

The Court rejected the argument of the government that the statute reached all coal nominally owned by mining company subsidiaries of railroads. Not even the use by Congress of the phrase "direct or indirect interest" was enough to carry the day for the government on the -- on the commodities clause case.

So there's no general rule such as Mr. Lewin suggested that under federal statutes that make the ownership of something by a corporation an operative fact, nominal ownership by a subsidiary corporation is attributed to the parent. The rule is quite to the contrary. There may be particular facts in particular cases that will justify looking through to the parent, and indeed there were subsequent cases under the commodities clause where this Court did just that, but the general rule, I submit, is as I have stated it.

QUESTION: That is general, Mr. Allen, but not invariable. I can conceive of a statute that refers to the owner, which we might interpret to include the parent corporation of a wholly owned subsidiary. Can't you conceive that?

MR. ALLEN: I can imagine there would, but I don't know why that would be so here. Ownership, owned by was like domicile, a trademark concept. An applicant had to allege -- an applicant had to be the owner of his trademark, an applicant for registration, and he had to allege his citizenship, and he satisfies that -- he satisfies that obligation by stating under what jurisdiction the corporation was created if the owner is a corporation. It doesn't ask a thing about the ultimate parentage of the corporation.

QUESTION: Well, then, you are saying that all of the proliferation of international corporations, subsidiaries, interlocking directorates, licenses to manufacture, sales of patents are just irrelevant, and that we stick with the old concept that only one entity can own a patent?

MR. ALLEN: I don't know why -- can own a trademark.

QUESTION: Can own a trademark. Own a trademark.

MR. ALLEN: Can own a trademark. I don't understand why not, Justice Scalia, because we did know about things like that. The very Senate debate --

QUESTION: But then at the very least --

MR. ALLEN: -- that was referred to shows that we knew about it.

QUESTION: Then at the very least Congress has drawn a statute in the 1920s which simply does not accord with the modern reality.

MR. ALLEN: It may or may not, Your Honor. After all, after all, one of the examples in addition to the Katzel case that was offered on the Senate floor when Section 526 was being debated was the Bayer Aspirin Company, which had been taken over by the alien property custodian during the war and sold to American interests. Why was it taken over by the alien property custodian? Because it was ultimately owned before the war by the German Bayer company, that's why. That's why. And you had the Senators talking about the multinational distribution of Pears Soap. These kinds of things went on then and they were known to the Congress.

It is certainly very far, very far from the failure to anticipate a certain application that might, I can conceive of, justify reading a statute in a -- in a narrow way, but this was -- I submit, perhaps it is proliferating, as Your Honor says, but it was certainly not unknown to the Congress of 1922 that there could be intercorporate relations of this sort. And it drew for its concepts in writing this amendment to the Tariff Act dealing with trademarks, it drew upon the concepts used in the trademark law of the time.

And I submit that when a Congress did indeed, as this Congress did, use the familiar words and concepts of the trademark registration statute, it would not have intended the Customs Service to apply a new, different, and unusual set of criteria in determining ownership, domicile, or corporate citizenship for the purposes of Section 526.

And all of this, all of what I've said to this point is quite aside from the case of American manufacturers and producers that are denied the protection of Section 526 by the Customs Service regulations with respect to goods that they or affiliates manufacture abroad.

Ford Motor Company, Duracell, Proctor and Gamble, legions of example.

QUESTION: And the American parent is the owner in all those instances?

MR. ALLEN: Yes. That is the case I am putting, and there are such -- there are many such cases, including those I have named. Those companies are obviously domiciled in the United States. They are certainly corporate citizens of the United States, and surely, surely they own a United States trademark.

It has been suggested that Congress --

QUESTION: But the statute doesn't say United States trademark. It says trademark.

MR. ALLEN: It says United States trademark. It says any merchandise of foreign manufacture that bears a trademark owned by a citizen of or a corporation created in the United States --

QUESTION: That's not -- but you are saying that trademark is a concept in which ownership cannot be split.

MR. ALLEN: Well, I don't think that --

QUESTION: And then you refer to United States trademark, and the statute doesn't say that. .

MR. ALLEN: It doesn't say United States.. I was using that as shorthand to mean the trademark owned by a citizen of the United States and registered in the -- in the Trademark Office here by a citizen of the United States.

And at least, I suggest -- my latest -- my latest words went only to those companies that are unquestionably American companies, and surely they are to be regarded as owners of the trademark that they use in the United States.

It has been suggested that those companies are disqualified because the goods -- disqualified from the protection of the statute because the goods that they or their affiliates manufacture are not goods of foreign manufacture with another statutory term within the meaning of the statute. That just seems to me far fetched textually. It can't be squared with the reason why that qualification was put into the amendment and it certainly can't be squared with the understanding that Congress had of the statute when it reenacted it in 1930.

You may recall that in 1930 the Senate proposed to delete the provision of Section 526 that enables goods bearing a trademark owned by a citizen of the United States to be imported into the United States if the owner of the United States trademark gives its consent. The reason was to prevent American companies from establishing plants abroad, manufacturing their products there, and bringing them back into the United States.

The understanding had to be, had to be that Section 526 as it was written, as it had been first enacted in 1922, applied to those companies. I simply don't see how there is another explanation of the Senate consideration of the statute when it was reenacted in 1930.

QUESTION: Let me just be sure I understand your point. There are two Duracell batteries. One was manufactured in the United States, the other is manufactured abroad by -- under a trademark that has been sold or licensed to it. There is only one owner of that trademark?

MR. ALLEN: There may be an owner in Belgium. There could be a separate owner in Belgium. That is --

QUESTION: But it's the goods that have the trademark.

MR. ALLEN: It is the goods that --

QUESTION: And there are two batteries, and each --

one is manufactured foreign, and the other is manufactured U.S., and the owner of the trademark depends on where the batteries are?

MR. ALLEN: The owner of the trademark that is registered in the United States and by a person domiciled in the United States has to be the trademark that is used in the commerce of the United States, yes. Yes, Your Honor.

QUESTION: And the same would work the other way around? If it's a Sony product, and the original owner is in Japan, but there's a -- I don't know if Sony manufactures here, but --

MR. ALLEN: A distributor. There is in fact -- in the case of Sony there is a manufacturer in the United States.

QUESTION: Even though the goods have been manufactured -- the two goods have been manufactured in different places, and have a different trademark in the sense that a different manufacturing entity affixed it, there is only one owner to that trademark in all cases?

MR. ALLEN: Only one owner in the United States, Your Honor. That's what the statute deals with, imported goods into the United States that bear a trademark owned by a citizen of the United States. The --

QUESTION: The statute doesn't say United States trademark.

MR. ALLEN: I did not say it that time, I didn't think, Justice Kennedy. It is -- but what it forbids is the importation of goods that bear the trademark that, as I say, is owned by a citizen, created within the United States and registered in the Trademark Office by a person domiciled in the United States. That can be --

QUESTION: I don't quite understand your point. Your point is that that can only be a United States trademark?

MR. ALLEN: That is -- I have used the shorthand "United States trademark." That can only be a United States trademark because it has to have been used in the commerce of the United States in those circumstances, yes.

QUESTION: And this is so clear that regulations aren't needed to clarify it?

MR. ALLEN: Regulations are not -- these regulations do not clarify that point, Your Honor. Let me -- perhaps I can get at it in a different way. It is perfectly permissible for a trademark in the United -- for a trademark as it applies to goods that are in the commerce of the United States to be owned by and registered by the distributor of those goods, and not the manufacturer.

So take, for example, the Bourjois Company of the Bourjois and Katzel. It owned in the United States trademark for the French face powder, Java. What -- the least that Congress did and the least that this Court did was to say that the goods bearing that trademark, even though it was the authentic trademark in France, and even though genuine, could not be imported into the United States to compete with the Bourjois companies, the Bourjois companies' goods bearing the trademark that it owned in the United States and had registered in the United States.

In that sense, in that sense only do I argue that there can only be one owner of the trademark. There can be multiple owners of a trademark insofar as it is used in different countries. That -- and indeed, it is exactly -- it is only the case of that sort of multiple ownership that the Customs Service regulations say that Section 526 applies to.

I say it applies even though, even though, and the words of the statute, I submit, bear me out, it applies even though that trademark in France, Japan, wherever it may be, is owned by a company affiliated with the owner of the trademark in the -- who has used it in the commerce of the United States and has registered it with the Patent and Trademark Office.

QUESTION: So goods that have a French trademark suddenly have a U.S. trademark the minute they land in New York. Is that it?

MR. ALLEN: They cannot be brought into the United States because that trademark is the trademark of the American owner of the trademark only in the United States, as Justice Holmes phrased it, and as I say, that is the least we know from the statute and the least we know from the Katzel case itself.

Thank you.

CHIEF JUSTICE REHNQUIST: Thank you, Mr. Allen.

Mr. Cohen, you have three minutes remaining.

ORAL ARGUMENT OF LOUIS R. COHEN, ESQUIRE

ON BEHALF OF THE FEDERAL PETITIONERS - REBUTTAL

MR. COHEN: Thank you, Mr. Chief Justice.

The Treasury Department has for 50 years drawn a line between a stranger's goods and the trademark owner's own goods in the interpretation of Section 526, and I suggest that there is ample room in the statute and in the Court's jurisprudence to sustain a regulation with that history. Justice Holmes' opinion for the Court in the Prestonettes case in 1923 said, "A trademark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his." Skipping a citation, "There is nothing to the contrary in Bourjois v. Katzel," this Court's decision in that case.

I suggest that there is also nothing to the contrary in the federal statute that was passed to do the same thing that this Court did in its decision in Katzel, which was to plug a hole that had permitted the importation of infringing goods. Section 526 was a modest statute, enacted to correct a mistake. Congress thought an American firm had been cheated by somebody over there. It did not achieve any importance-- there were very few cases under it -- until recent years, and really the strong dollar in the late 1970s and eighties prompted this and other lawsuits seeking to turn the statute into something that it had never been, namely, a help to multinational companies in imposing vertical restraints on the distribution of their own goods.

Batteries may be stale because they are made in France. They may also be stale because they are made in California and shipped here. A firm plainly has no right merely because it has applied its trademark to the goods in California to permit their being sold here. There is no reason to believe that this statute was designed to give that firm which cannot keep its California goods out of Maryland a right to keep its own French goods out of Maryland.

QUESTION: Mr. Cohen, let's assume that that description by Justice Holmes applies here. It only protects against the goods of another.

MR. COHEN:

QUESTION: But like many of your distinctions based on the statutory language or even the dicta of Holmes, that covers some of the provisions of the regulation here, but not all. Among the things that the Customs Office has read out of the statute is No. (c)(3), the articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the United States owner. They are not the United States owner's goods, but he has allowed somebody else to put a trademark on them.

MR. COHEN: May I respond briefly? This case is a facial challenge to the regulation. The core case under the regulation has been since 1936 the case where the same company is involved. If Copiat concedes that the Treasury can draw a distinction between -- that takes care of the same company case, I suggest they have lost this case. They can bring another case saying that Treasury has drawn the line in not quite the right place.

Thank you, Mr. Chief Justice.

CHIEF JUSTICE REHNQUIST: Thank you, Mr. Cohen.

The case is submitted.

(Whereupon, at 1:32 o'clock p.m., the case in the above-entitled matter was submitted.)

REPORTER'S CERTIFICATE

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I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the United States Supreme Court.

Date: May 2, 1988

Margaret Daly
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