

TRANSCRIPT OF PROCEEDINGS

IN THE SUPREME COURT OF THE UNITED STATES

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

Pages: 1 through 40

Place: Washington, D.C.

Date: October 6, 1987

LIBRARY
SUPREME COURT, U.S.
WASHINGTON, D.C. 20543

Heritage Reporting Corporation

Official Reporters
1220 L Street, N.W.
Washington, D.C. 20005
(202) 628-4888

1 IN THE SUPREME COURT OF THE UNITED STATES

2 -----x
3 No. 86-495

4 K MART CORPORATION, :

5 Petitioner, :

6 v. :

No. 86-495

7 CARTIER, INC., ET AL.; :

8 No. 86-624. :

9 47TH STREET PHOTO, INC., :

10 Petitioner, :

11 v. :

No. 86-624

12 COALITION TO PRESERVE THE INTEGRITY :

13 OF AMERICAN TRADEMARKS, ET AL.; :

14 and :

15 No. 86-625. :

16 UNITED STATES, ET AL., :

17 Petitioners, :

18 v. :

No. 86-625

19 COALITION TO PRESERVE THE INTEGRITY :

20 OF AMERICAN TRADEMARKS, ET AL. . :

21 -----x

22 Washington, D.C.

23 Thursday, October 6, 1987

24 The above-entitled matter came on for oral argument
25 before the Supreme Court of the United States at 1:42 p.m.

1 APPEARANCES:

2 LOUIS R. COHEN, ESQ., Deputy Solicitor General, Department
3 of Justice, Washington, D.C.; on behalf of Federal
4 Petitioners.

5 ROBERT W. STEELE, ESQ., Washington, D.C.; as amicus curiae,
6 supporting Petitioners.

7 WILLIAM H. ALLEN, ESQ., Washington, D.C.; on behalf of
8 the Respondents.

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

C O N T E N T S

1		
2	<u>ORAL ARGUMENT OF</u>	<u>PAGE</u>
3	LOUIS R. COHEN, Esq.	
4	on behalf of Petitioners	4
5	ROBERT W. STEELE, Esq.	
6	as amicus curiae, supporting Petitioners	13
7	WILLIAM H. ALLEN, Esq.	
8	on behalf of Respondents	19
9	LOUIS R. COHEN, Esq.	
10	on behalf of the Petitioners	
11	Rebuttal	37
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

P R O C E E D I N G S

(1:42 p.m.)

CHIEF JUSTICE REHNQUIST: Mr. Cohen, you may proceed whenever you are ready.

ORAL ARGUMENT OF LOUIS R. COHEN

ON BEHALF OF PETITIONERS

MR. COHEN: Thank you, Mr. Chief Justice. May it please the Court:

As this Court explained quite clearly in Prestonettes and again in Champion Spark Plug, a trademark owner has the right to prevent other people from applying his mark to their goods. But he does not have any right, by virtue of the trademark, to restrict resales of his own goods after he has put them into commerce.

The Treasury Department has, we think, validly interpreted Section 526 of the Tariff Act in accordance with that basic distinction. It is common ground between the parties that Section 526 protects a U.S. trademark owner against importation of goods bearing his trademark that were manufactured abroad by someone else. Section 526 responded to the Second Circuit ruling in the Katzel case which had allowed the importation of such goods as non-infringing on the ground that they were genuine in the country they came from.

QUESTION: Mr. Cohen, I am just curious. Has a stay been entered in this case?

1 MR. COHEN: No, Justice Blackmun, but there has been
2 only a declaratory judgment. There is no injunction in this
3 case. The Court of Appeals thought it would not be
4 appropriate.

5 The question in this case is whether the statute also
6 does something quite different: whether it gives an enterprise
7 operating in more than one country a right, a continuing right
8 by virtue of the trademark to stop its own goods at the U.S.
9 border after it has sold them abroad.

10 Nothing in Katzel or the legislative history
11 suggests, and I will argue that it is wholly implausible, that
12 Congress intended any such fundamental change in the nature of
13 a trademark. And, so, Treasury has long interpreted the
14 section as not barring importation where the U.S. owner itself
15 placed the goods in foreign commerce or in certain functionally
16 similar cases.

17 COPIAT, Respondents, argue that the plain words of
18 the statute compel exclusion of the goods in those cases, too.
19 But it is altogether proper, we suggest to construe a statute
20 as not encompassing every situation its words might literally
21 reach when that would produce results Congress did not intend.

22 As the Court said a century ago, a statute making it
23 a crime to hinder a mail carrier in the swift completion of his
24 rounds is quite properly read as if it contained the words
25 except when the mailman has just committed a felony or is about

1 to deliver a bomb.

2 QUESTION: Mr. Cohen, neither the brief of the
3 Government nor your argument thus far addresses the issue of
4 proper jurisdiction in the case. Do you intend to say anything
5 about it?

6 MR. COHEN: The Government's view is that the Court
7 of Appeals was correct. Section 1581, if read literally, might
8 confer exclusive jurisdiction on the Court of International
9 Trade, but we think the Court of Appeals was correct in
10 understanding that what Congress was getting at there was
11 actions arising under trade statutes of which this is not one.

12 The Court has often construed statutes more narrowly
13 than the words alone might literally suggest in order to avoid
14 results that Congress did not intend.

15 I think it is quite implausible that the 1922
16 Congress intended to change a trademark from an identifying
17 mark only into a partial permanent lease on the goods
18 themselves.

19 It is implausible, first --

20 QUESTION: Mr. Cohen, even under your theory, I think
21 it gives more substance to the mark than just an identifier--
22 even the Second Circuit litigation, the way this Court decided
23 it, said it was more than an identifier.

24 MR. COHEN: I think what this Court said was that:
25 If I am the U.S. owner of a trademark, the fact that someone

1 else owns the same mark in France and, therefore, is legally
2 entitled to make and sell goods in France doesn't mean that
3 those goods, which would otherwise be infringing goods in the
4 United States, because he is not me, can come into the United
5 States.

6 QUESTION: Yes, but they are made by the same party.
7 Weren't they the same source of goods in that case?

8 MR. COHEN: No. The goods that were made in France
9 were not made by the U.S. trademark owner.

10 QUESTION: No, but they were made by the goods the
11 U.S. trademark owner sold, were also made by the same
12 manufacturer; weren't they?

13 MR. COHEN: Yes, he got them and he reprocessed them.

14 QUESTION: So, they had a common source.

15 MR. COHEN: And he reprocessed them. But the case
16 would have been, I suggest, exactly the same if what had
17 happened was that the U.S. rights to manufacture had been
18 bought by the plaintiff in that case and what you had were some
19 goods manufactured in the United States by the plaintiff and
20 some goods manufactured in France by the defendant. And the
21 plaintiff saying, "Those French goods are infringing when they
22 come over here because they are not, they are not mine."

23 The case would have been quite different, I suggest,
24 and this Court would have decided it differently and Congress
25 would have reacted differently if the U.S. manufacturer had

1 established a French factory and then said, "Because I am
2 manufacturing these goods in France and I want to keep them
3 there, my trademark will keep them out of the United States."

4 I don't think either this Court or the Congress would
5 have had the reaction that they did.

6 I was starting to say that I think I get some help
7 from the very text of the statute which explicitly protects
8 only U.S. owners of trademarks and protects them only against
9 goods of foreign manufacture.

10 Those requirements, which are not found elsewhere in
11 trademark law, make sense on our view that Congress was
12 assuming that the U.S. trademark owner and the foreign
13 manufacturer would be two different people and was seeking to
14 protect the trademark owner from the foreign manufacturer's
15 goods.

16 They make, I suggest, no sense those limitations on
17 COPIAT's view that Congress was seeking to change the
18 characteristics of a trademark, to make it broader to bar the
19 flow of all goods bearing its mark, including its own, into the
20 United States.

21 QUESTION: Congress never writes a statute that does
22 more than it was intended to do. Is that the thesis? Whenever
23 a statute necessarily written in general language goes beyond
24 the specific evils sought to be remedied, we should interpret
25 it, despite its language so that it covers only the specific

1 evils sought to be remedied?

2 MR. COHEN: I think that you should interpret it in
3 accordance with its intent as discerned from its language and
4 its context and its history. There are, here, two different
5 possible general principles and I think --

6 QUESTION: Well, I am talking about its language, not
7 its intent. The postman situation you give me is a situation
8 in which you have a different statute that expresses a
9 different policy which has to somehow be reconciled with the
10 statute protecting the postman in the execution of his daily
11 rounds. And if there were another statute here that similarly
12 indicated an intention that these goods should be admitted,
13 then we would have a different problem. But, as far as the
14 explicit language of the statute is concerned, it covers this
15 situation as well as the narrow situation that was immediately
16 before the Congress.

17 MR. COHEN: I have in this case at least the general
18 legal background of the trademark law as asserted by this Court
19 I think in Katzel and the following year in Prestonettes which
20 did not extend -- which did not make one of the characteristics
21 of a trademark a right to bar the sale of somebody else's
22 goods.

23 The trademark law says that I can't make a car in my
24 garage and sell it as a Chevrolet. It doesn't say that I can't
25 resell one of General Motors' Chevrolets anywhere I want to.

1 And it would have been quite startling for this statute to have
2 changed the law that much, I think. And I think some of the
3 language that Congress used indicates that that is not what
4 they were trying to do. And, therefore, I think it is
5 appropriate here as it was in Guerrera where the Court read the
6 language of the Pregnancy Discrimination Act requiring pregnant
7 women to be treated the same as other employees, as a floor and
8 not as a ceiling, as the Court did in the Colorado Public
9 Industry Research Group case where it read pollutants and
10 radioactive materials not to include nuclear wastes as not
11 reaching a case that there is evidence Congress didn't intend
12 to reach.

13 QUESTION: Mr. Cohen, would you just be -- just so I
14 am sure I have your point. You said there are two principles
15 that this 546 might have indicated. Would you state the two
16 principles?

17 MR. COHEN: Yes. We think what 526 and this Court's
18 decision in Katzel did was to say that the mere fact that goods
19 are genuine abroad does not mean that they do not infringe here
20 if there is somebody else in the United States who owns the
21 trademark.

22 I take it that COPIAT thinks that 526 means that the
23 trademark owner in the United States has the right to say that
24 goods to which it applied its own trademark in some foreign
25 country are not trademarked in the United States.

1 I think that -- let me say it a different way. I
2 think that 526 means that if I own the U.S. trademark and
3 somebody else owns the French trademark for some goods, his
4 goods are infringing here even though they are genuine in
5 France.

6 I think it does not mean that if I owned both the
7 U.S. trademark and the French trademark I am entitled to be
8 treated as two different people.

9 I think that the limitations in the statute to U.S.
10 owners and to goods of foreign manufacture make no sense on
11 COPIAT's view. If they intended to give all trademark owners
12 such a right to stop their own goods at the border, there would
13 be no reason to require Nikon to form a shell U.S. subsidiary
14 to hold the trademark and, conversely, there would be no reason
15 to require Kodak to build an offshore factory in order to get
16 the protection of Section 526.

17 Now, the other thing I will point to is one important
18 episode in the brief legislative history. It is the Senate
19 discussion of the Pear's Soap hypothetical which suggests that
20 everybody, whether for or against Section 526 was against
21 giving foreign companies the right to restrict the flow of
22 their own goods into the United States.

23 COPIAT is reduced to suggesting that the sponsors of
24 526 were wrong in claiming that 526 didn't do what COPIAT would
25 like. And the opponents were correct in fearing that it would

1 do what neither they nor the sponsors wanted. There isn't any
2 reason why a statute that can be read perfectly straight
3 forwardly to do what everyone agrees Congress intended, must
4 also be wrote so literally as to do something no one in
5 Congress wanted.

6 This is also, it seems to us, an appropriate case for
7 deference to the agency. It is, I think, at the very least not
8 clear from the text and the legislative history that Congress
9 intended to permit a U.S. trademark owner to bar importation of
10 its own goods. COPIAT challenges Treasury's consistency, but
11 the basic principle of the Treasury regulation that 526 doesn't
12 give a trademark owner the right to bar its own goods sold
13 abroad from being imported into the United States has been set
14 forth in the regulations at all times since 1936 and very
15 clearly and consistently since 1943.

16 QUESTION: You are taking the position then that the
17 Treasury has been consistent throughout the years and did not
18 take a different position in the Second Circuit case in 1983?

19 MR. COHEN: Yes, as to Treasury. That brief was
20 signed by the General Counsel of the Customs Service. It was
21 not authorized by Treasury and it should not have been filed.

22 QUESTION: But at least, then, the Government has
23 been inconsistent?

24 MR. COHEN: To that extent -- I was going to say the
25 Government has also varied in its handling of a point that I

1 don't think is at issue in this case and that is the extension
2 of the general principle that I have been talking about to
3 cases involving companies that are more distantly related.
4 There has been some adjustment in the articulation and probably
5 in the policy, but this case is not and has never been about
6 where the Treasury's line ought to be drawn. This case as
7 framed by COPIAT has always been about whether there can be an
8 exception at all.

9 Mr. Chief Justice, I would like, if I may, to reserve
10 the remainder of my time.

11 CHIEF JUSTICE REHNQUIST: Thank you, Mr. Cohen.

12 We will hear now from you, Mr. Steele.

13 ORAL ARGUMENT OF ROBERT W. STEELE

14 AS AMICUS CURIAE, SUPPORTING PETITIONERS

15 MR. STEELE: Mr. Chief Justice, may it please the
16 Court:

17 This Court has long recognized that considerable
18 weight should be accorded to an executive department's
19 interpretation and construction of a statute when that
20 department has been entrusted with the administration of the
21 statute.

22 This is an especially strong case for the application
23 of that doctrine for three reasons. First, the regulation in
24 question has been in existence in one form or another since
25 1936.

1 Second, the regulation has been brought before
2 Congress repeatedly in that time period and has been endorsed
3 not by Congressional silence but by actual Congressional
4 language in regard to specific legislation presented to the
5 Congress.

6 And, third, and perhaps more important from the
7 standpoint of my client, one of the intervenors in this case,
8 during the 50 years that this statute has been interpreted by
9 the Customs Service as it has been interpreted, a tremendous
10 and substantial business has grown up in the United States
11 among retailers based upon parallel imports, that everyone
12 believes are lawful. And everyone in the industry, the retail
13 industry, believes to be lawful and believed for many years to
14 be lawful.

15 My client is K Mart Corporation, a discount
16 department store chain with 2,000 locations throughout the
17 United States. We are one of the intervenors. 47th Street
18 Photo is the other intervenor who appears as a petitioner in
19 this matter also selling merchandise and parallel imports
20 included at discount prices.

21 The issue is important to the K Marts and the 47th
22 Street Photos because of the difficulties that discounters have
23 in obtaining trademark merchandise from time to time. They
24 provide price competition.

25 But more importantly than just the discount segment

1 of the retail industry, the retailing industry generally
2 handles some parallel imports. Most retailers handle parallel
3 imports. They provide price competition with those imports.
4 They are a tool, an anti-monopoly tool. And in this case, I
5 must say that nothing in a brief filed in the Second Circuit
6 was on the record to give notice to this industry that there
7 had been a change in the views of any of the agencies in
8 Washington, D.C. Indeed, the language of the regulation in
9 question has remained substantially the same during the time
10 period with one exception. In the 1950's, after the passage of
11 the Lanham Act, the language was arguably broadened to permit
12 more goods to be brought into the United States with a
13 reference to the Lanham Act language for related companies
14 dealing with affiliated companies and control.

15 Now, that language stayed in the regulation until
16 1959. It didn't narrow it, as the Respondents would contend it
17 should. It broadened it. It is not a real inconsistency in
18 the sense that it supports the position which has been taken by
19 the Respondents in this case.

20 During that same time period, this general
21 understanding of the statute has been presented to Congress a
22 number of times. Now, as Mr. Cohen has pointed out, Section
23 526 was passed very clearly to remedy a perceived defect in a
24 ruling under the 1902 trademark law. And that ruling arose in
25 the case of Bourjois & Co. v. Katzel. And that is what caused

1 526 to be passed.

2 In 1936, Treasury interpreted the rule to provide and
3 to allow for parallel imports. But, more importantly, when the
4 trademark act was amended with the Lanham Act in 1946,
5 extensive reports were made to Congress before the passage of
6 the Lanham Act. And in passing the Lanham Act, Congress was
7 told repeatedly that this regulation is on the books. And
8 under the trademark law and under 526, it was not envisioned
9 that when one company, a multi-national company is
10 manufacturing overseas and has a U.S. subsidiary, it is not
11 envisioned that that U.S. subsidiary will be able to keep those
12 imports out. Congress was told that. They put nothing in the
13 Lanham Act --

14 QUESTION: Mr. Steele, I am sorry. Can I interrupt?

15 MR. STEELE: Yes.

16 QUESTION: I have a problem -- I am afraid I'm going
17 to hear no argument to it from your side unless I hear
18 something from you on it. And that is the point on whether
19 this matter should have been brought to the Trade Court or to
20 the Court of Appeals here.

21 MR. STEELE: Mr. Justice --

22 QUESTION: I realize that financially this particular
23 case is enormously important, but from the point of view -- the
24 merits of the case are enormously important. But from the
25 point of view of confusion in future cases for the Federal

1 courts, the jurisdictional issue may well be the more
2 significant. And I would like to know what interpretation of
3 the language of the statute you propose that will prevent
4 jurisdictional disputes into the endless future. What is the
5 clear line of jurisdiction the Trade Court and the other
6 Federal courts?

7 MR. STEELE: I do not believe that there is a clear
8 line. We did not raise the point of objection of jurisdiction
9 originally when we intervened in the case. K Mart Corporation
10 took the position at the time that we felt that it should be
11 litigated in the District Court in this particular proceeding.
12 So, we have not briefed the issue of jurisdiction.

13 And our position on the matter is that a number of
14 cases have been brought and without undercutting the positions
15 validly raised by 47th Street Photo, we have not addressed
16 those intervening for the primary purpose of dealing with the
17 substantive issue pertaining to the imports.

18 If I may turn very briefly to --

19 QUESTION: It is true, is it not, though, that one of
20 the respondents does still maintain there is no jurisdiction.

21 MR. STEELE: 47th Street does address the question of
22 jurisdiction.

23 QUESTION: And the United States does.

24 MR. STEELE: The United States has not address the
25 question of jurisdiction, as I understand it.

1 QUESTION: No. It is sort of a one-sided argument
2 we have here. No one else even seems to want a day to discuss
3 the point.

4 MR. STEELE: Turning back to the contentions I wish
5 to make, in whatever court the issue arises, it has been our
6 belief that there is ample legislative background to endorse
7 the view that Congress has seen this interpretation for many
8 years and has chosen not to disturb it. The Lanham Act is one
9 example and equally critical example and more up to date arises
10 in 1984 when the Lanham Act was amended by the so-called
11 Counterfeiting Act of 1984.

12 That Counterfeiting Act when it came in originally
13 covered a number of different subjects and was the subject of
14 extensive consideration by the Senate Judiciary Committee. And
15 the Senate Judiciary Committee when it referred out the
16 legislation ultimately passed, it said the Act did not include
17 within its coverage so-called gray market goods, i.e.,
18 authentic trademark goods that have been obtained from overseas
19 markets.

20 The importation of such goods is legal under certain
21 circumstances. For example, the Treasury Department has long
22 interpreted Section 526 to permit the importation of such
23 goods. Now, at this point, before the Court, we have an
24 interpretation which is clearly not Congressional silence
25 sanctioning the Treasury Department, but express language from

1 Congress.

2 Equally important is a recent situation in which
3 Congress was called upon to look at the situation arising from
4 a liquor importation question wherein specific legislation was
5 proposed which would change the trademark -- the trademark
6 regulations and the regulations of the Customs Service. It was
7 rejected. Thank you.

8 CHIEF JUSTICE REHNQUIST: Thank you, Mr. Steele.
9 We will hear now from you, Mr. Allen.

10 ORAL ARGUMENT OF WILLIAM H. ALLEN

11 ON BEHALF OF RESPONDENTS

12 MR. ALLEN: Mr. Chief Justice, and may it please the
13 Court:

14 At the risk of making an argument even more
15 one-sided, I will say a word or two about the question of
16 jurisdiction. The District Courts have jurisdiction of actions
17 relating to trademark. And that is conferred by Section 1338
18 of Title 28 and by a provision of the Lanham Act., The District
19 Court here had and exercised that jurisdiction. It had the
20 traditional District Court trademark jurisdiction because
21 nothing, I submit, in Section 1581 of Title 28 which deals with
22 the jurisdiction of the Court of International Trade, makes an
23 exception to the traditional trademark jurisdiction of the
24 District Courts for this kind of case.

25 Certainly, nothing in Section 1581 says in terms that

1 the Court of International Trade has jurisdiction over any
2 trademark matters.

3 I have to acknowledge, however, that jurisdiction has
4 been found to reside in the Court of International Trade by
5 that court and it was affirmed in this respect by the Federal
6 Circuit in the Vivitar case, which is a similar case.

7 That finding was based, that finding was based on
8 provisions of subsection (i) of Section 1581 and, in
9 particular, paragraph 3. That is at page 9A of our brief. The
10 paragraph gives the Court of International Trade jurisdiction
11 of any civil action against the government, an agency, or
12 government official, arising out of a Federal statute providing
13 for and, now, I quote:

14 Embargoes or other quantitative restrictions on the
15 importation of merchandise for reasons other than the
16 protection of public health or safety.

17 The argument is that Section 526 makes the
18 importation of some goods bearing a United States trademark
19 unlawful and, therefore, imposes an embargo on such goods.

20 Now, there are reasons set forth on the Court of
21 Appeals opinions in our brief what that is not a tenable view.
22 I want to focus on just one of them.

23 What Section 526 really does is to enable the owner
24 of a United States trademark to invoke governmental processes
25 to bar those goods bearing his trademark that he wants to bar

1 and conversely, if he gives consent, to allow those same goods
2 that may be quite identical to enter the country.

3 The Customs Service is simply directed to enforce a
4 private right to exclude some goods and admit others that may
5 be quite indistinguishable. And I submit that that sort of
6 enforcement of private rights is not within the common
7 understanding or, indeed, any reasonable understanding of an
8 embargo.

9 That very point was made during the debate that
10 preceded the re-enactment of Section 526 in 1930. The Senate
11 debated a proposal to delete from Section 526 the consent
12 clause, the provision that allows the trademark owner to
13 consent to the importation of goods bearing his trademark.

14 Senator George was one of the opponents of that
15 proposal and he said that if it were adopted, if it were
16 adopted, that would change -- that would change Section 526
17 into an embargo kind of statute, but it wasn't. It was not an
18 embargo statute as it then stood. There are plenty of embargo
19 statutes on the books for this provision of Section 1581 to
20 apply to. There are some statutes that directly bar imports of
21 certain goods or certain goods from some countries.

22 More commonly, there are statutes like the Trading
23 with the Enemy Act, the Trade Expansion Act, the International
24 Economic Powers Act that empower the President to bar those --

25 QUESTION: The response to that, Mr. Allen, I presume

1 is that the Senate realized that and taking that into account
2 didn't just say embargo. It said embargo or other quantitative
3 restrictions.

4 MR. ALLEN: I do not see how this is a quantitative
5 restriction, even less a quantitative restriction. That is the
6 typical kind of thing where you have a quota on goods. I would
7 have though, Your Honor.

8 QUESTION: I would have thought it was meant to
9 distinguish it from a restriction that consists of a high
10 tariff. There is no quantitative restriction, but the
11 restriction is the dis-incentive caused by the tariff.

12 MR. ALLEN: Well, I just really would have thought
13 that embargo then or other quantitative restrictions, that it
14 has to do with a measure that keeps out so many goods of this
15 sort and not others.

16 QUESTION: Well, it is important -- to my mind, it is
17 important to have some clear line because we are going to be
18 struggling with this problem in many more contexts than we are
19 going to be struggling with the merits problem that you seek to
20 have before us.

21 The line you would draw is if the admission of the
22 goods is dependent upon the voluntary agreement of a private
23 party, it does not constitute an embargo or quantitative
24 restriction.

25 MR. ALLEN: That is the position. That is correct,

1 Your Honor.

2 QUESTION: It doesn't provide for an embargo, it
3 provides that a private party may impose a total restriction.
4 That is not providing for an embargo.

5 MR. ALLEN: I understand that is the issue, Your
6 Honor, and I simply say: No, the Customs Service is not
7 directed to keep goods out except at the instance of a private
8 trademark owner enforcing his trademark right.

9 QUESTION: Enforcing its embargo. It doesn't provide
10 for -- okay.

11 MR. ALLEN: Now, let me turn, let me turn to the
12 merits. And I want to inquire first whether, as has been argued
13 here this afternoon, I think, whether Section 526 as it is in
14 fact worded can be made to sustain a meaning that is consistent
15 with the Customs Services regulations interpreting it. If it
16 cannot, if it can't, then I think my clients win.

17 In every case that I am aware of where, in the eyes
18 of some, this Court has strained a statute, it has thought
19 itself bound to justify what it has done by reference to the
20 text, the statutory words.

21 Church of the Holy Trinity and perhaps one or two
22 other cases may be exceptions, but this is clearly not the case
23 where statutory words taken at face value yields some sort of
24 absurd result that has to be avoided.

25 You take any of the cases: Bob Jones, Guerrera,

1 WMATA v. Johnson, the California Coastal Zone case, all of them
2 -- all of them, the interpretation of the statute however
3 influenced by context, by secondary sources of illumination
4 like legislative history was ultimately related to statutory
5 text.

6 On the other hand, in not one of the District Court
7 cases in which Section 526 has been held to have a limited
8 meaning approximating that of the Customs Service regulations
9 has a court engaged in any textual analysis.

10 I suggest that this inability to swear statute and
11 regulation textually, may be why the Circuit judges of the
12 Federal Circuit in Vivitar, the Second Circuit in Olympus, as
13 well as the judges of the court below, were unwilling to accept
14 the regulations as correctly interpreting the statute.

15 You cannot find, you certainly cannot find the
16 exceptions that are expressed in the Customs regulations in the
17 words of the statute. They are not there explicitly. The
18 question is whether they lurk there or some justification for
19 them lurks in the statutory words.

20 One suggestion offered this morning -- offered this
21 afternoon refers to the term of the statute that requires that
22 trademark be owned by a corporation created within the United
23 States, a citizen or a corporation created within the United
24 States. The requirement was added in conference, apparently
25 because of questions raised in the Senate debate, and the part

1 of the Senate debate to which Mr. Cohen referred -- and I
2 commend that part of the debate to Your Honors.

3 The lesson I draw from it and the lesson that the
4 court below drew from it is quite different from the lesson
5 that Mr. Cohen would draw. But, in any event, that owned
6 provision of the statute was added in the conference committee,
7 presumably in the light of that part of the debate.

8 It has been suggested that a trademark is not owned
9 by the United States subsidiary, that is the distributor for a
10 foreign manufacturing parent, but is instead owned by the
11 parent. At least I assume that is the -- spell it out fully
12 what is suggested.

13 But the fact is, the fact is that the United States
14 subsidiary distributor is recognized in law as the owner of the
15 United States trademark.

16 QUESTION: And the subsidiary register it here?

17 MR. ALLEN: Yes.

18 QUESTION: It is the one who did the registry?

19 MR. ALLEN: A trademark can be registered only by the
20 owner and these people, the subsidiary distributors have the
21 registration certificates. They are the ones whom the Patent
22 and Trademark Office recognize as the owner.

23 There is no occasion in Federal law, as a general
24 matter, for going into the corporate family tree of the
25 apparent owner and registrants.

1 There was a simple way, there was a simple way for
2 the conference committee to limit the class of corporate
3 trademark owners that qualify for the protection of Section 526
4 if it had wanted to do that. That would have been to require
5 both the corporation be created in the United States as is done
6 by Section 526 and that some specified proportion of the voting
7 stock and some proportion of directors be United States
8 citizens. That is done in some other Federal statutes, which
9 we referred to in our brief. But not in Section 526.

10 But in any event, if you attribute to Congress the
11 meaning of the word, "owned," as used in Section 526 that is
12 unknown to trademark law, you don't solve the problem of
13 shoe-horning the Customs Service regulations into the text of
14 Section 526. The regulations deny the benefits of the statute
15 to American manufacturing companies that manufacture trademark
16 goods overseas themselves or have affiliates or licensees that
17 do.

18 Examples of Duracell, the automobile manufacturers,
19 Proctor & Gamble, some of them which don't even import any of
20 the goods they make overseas. All of which have described
21 their gray market problems in amicus briefs in these courts.
22 If those companies are to be excluded from the protection of
23 Section 526, it surely can't be on the ground that they don't
24 own their United States trademarks.

25 And what has been belatedly suggested is that the

1 case of these American manufacturing companies is covered by
2 another term of the statute. We have to go -- that one didn't
3 work, so, we turn to another provision. The requirement that
4 goods be of foreign manufacture. Now, that, I submit, is just
5 too far-fetched.

6 Congress is supposed to have intended by this
7 argument quite ordinary words that on their face deal with
8 where goods are manufactured in order to refer to something
9 wholly different, i.e., who manufactures the goods.

10 And if I can depart for a moment from the purely
11 textual argument, the of foreign manufacture amendment was
12 introduced in response to a question that had been marked by
13 Senator Lenroot about a person who went over into Canada and
14 bought there a sack of the fine American product, Wonder Flour,
15 that had been imported into Canada and now was going to bring
16 it back. He said, he was going to have his flour confiscated
17 just because he was patriotic and wanted to buy American flour
18 instead of Canadian flour.

19 He said, he said: buys that merchandise, suppose the
20 American citizen purchased and brought back to this country a
21 product of foreign manufacture with a foreign trademark and
22 paid the duty on it in the regular way. He distinguished the
23 case of foreign manufacture from the case of American
24 manufacture. He was talking about where the Wonder Flour was
25 made.

1 Furthermore, furthermore, the idea that of foreign
2 manufacture means manufacture by a non-U.S. company can't
3 possibly, can't possibly be reconciled with the debate that
4 preceded the re-enactment of the Section 526 as part of the
5 Smoot Hawley Tariff Act in 1930.

6 The whole subject of that debate was goods
7 manufactured abroad by American companies. The Senate Finance
8 Committee proposed deleting the clause at the end of Section
9 526 that permits such companies to consent to the importation
10 of their goods.

11 The idea was then Ford Motor Company and these other
12 companies that the Senators were complaining of weren't going
13 to establish overseas plants and deprive Americans of jobs.
14 Whatever else that debate implies for the meaning of Section
15 526 and Mr. Cohen and I have debated the issue in our briefs, I
16 think it is on the whole, that the debate can't possibly be
17 reconciled with the Customs Service regulations.

18 But even leaving aside that debate in its whole
19 breadth, surely, surely as to this matter, if even one Senator
20 -- if even one Senator had understood that the words, "of
21 foreign manufacture," meant let us say manufactured by a
22 foreign company that has no ownership or licensing ties to an
23 American company, he would have said so.

24 He would have said, "Look here. We have to do
25 something more than just delete this consent provision.

1 Because that statute as we enacted doesn't have anything to do
2 with this case we are talking about. If we just adopt the
3 Finance Committee's amendment, we're going to wake up and find
4 that we have accomplished nothing, nothing in the way of saving
5 American jobs."

6 Now, that brings me -- that brings me to a second
7 point. I think my clients win on the text. It can't -- the
8 text of Section 526 can't be made to fit the regulations. But
9 I don't lose. I don't lose I don't think even if somebody
10 finds some way of, by heroic efforts, of making the fit.
11 Because what we want to know finally is not what meaning the
12 statute might be made to sustain, but what in fact Congress
13 meant when it enacted the statute in 1922 and re-enacted it in
14 1930.

15 Now, a good index to what Congress meant is how what
16 it said was immediately understood. And I have already
17 suggested that a particularly good index is the understanding
18 that Senators in 1929 debating the re-enactment of Section 526
19 had, of what they had done back in 1922, absolutely nothing to
20 suggest that any of them thought that it meant what the present
21 Customs Service regulations say it means. And a lot, a lot to
22 indicate the contrary.

23 But that's not all. Those who wrote the regulations
24 for the old Customs Bureau on the heels of the enactment of the
25 Tariff Act of 1922 had to be keenly attuned to what had just

1 happened in Congress. You would expect that if they had laid
2 the emphasis on the debate in the Senate, the five or six
3 columns of Congressional Record to record that debate that is
4 now laid on it at this late date, they might have said
5 something like this: "Section 526 is written in seemingly
6 broad terms, but in fact Congress meant only to overrule a
7 decision of a Court of Appeals on its narrowest facts.

8 QUESTION: We would also expect, though, Mr. Allen,
9 that if your clients had thought that this regulation was as
10 contrary to the statute as you now tell us it is, they would
11 have challenged it many, many years ago.

12 MR. ALLEN: My clients don't move until they are
13 hurt, I suppose is the answer to that, Your Honor. And my
14 clients did not move into court quickly even after they had
15 been hurt. There is a good deal of efforts at the Treasury
16 Department, at the Customs Service that preceded this lawsuit.
17 And the fact is that the gray market, as a phenomenon, has
18 bloomed in recent years.

19 And, indeed, if you go back to 1972 rulemaking, you
20 will find -- and this is in the record -- that a number, a
21 number of companies, a number of entities did say, "Customs
22 Service, you are, you are interpreting the statute wrong.
23 Section 133.21(c) regulations are not in accord with Section
24 526.

25 QUESTION: Well, I must say that is admirable

1 restraint. I wish more prospective litigants would emulate it.

2 (Laughter.)

3 QUESTION: I am just interested in exploring that a
4 little more. If the answer to the absence of litigation
5 challenging the regulation, and surely the AMOCO brief
6 indicates it is a pretty important problem to a lot of people,
7 is because the problem bloomed lately, the gray market problem
8 bloomed lately, would that not suggest that it was not a problem
9 Congress gave any thought to?

10 MR. ALLEN: It is quite possible that -- I mean you
11 could infer that, but I have to look at what Senators Lenroot
12 and Edge and McCumber were debating at the end of the 1922
13 debate in Congress and it concerned this very kind of thing:
14 what about the Pear's Soap Company that establishes an agent in
15 the United States and he registers this trademark.

16 I mean this -- at least the concept of what became
17 the gray market, what we now call the gray market issue was in
18 Congress' mind. Yes, yes.

19 In any event, those regulation writers didn't say
20 that. They didn't say anything like that. They, in 1923--
21 and it is a fortunate thing. There were regulations that were
22 written in 1923 right after the Tariff Act of 1922. They
23 simply paraphrased the statute.

24 QUESTION: They just parroted the statute.

25 MR. ALLEN: Just the same way in 1931, the regulation

1 writers who were called upon to flesh out the Smoot Hawley
2 Tariff Act gave subsection 526 its full apparent sweep. And
3 then you had the Court of Appeals for the Second Circuit
4 deciding a case about this time. And that court, of course,
5 had to be acutely aware of Section 526, one of two blows
6 suffered by its Katzel decision: reversal by this Court and
7 overruling by Congress. And were not just acutely aware of it,
8 but perhaps not very hospitable to it.

9 But the argument was made to that Court that Section
10 526 should be limited according to its Katzel parentage so as
11 not -- so as not to bring in goods that were not imported for
12 commercial purposes. In that case, a luxury automobile.

13 Judge Hand, Judge Augustus Hand wrote the opinion for
14 the Court. He said that, of course, our Katzel decision
15 brought about the legislation, but that fact does not settle
16 the scope of the act. And he called it this "drastic," "this
17 drastic statute."

18 The narrow reading, the narrow reading of Section 526
19 that is now advocated was put to several contemporaneous tests
20 and it flunked. It flunked every one of them.

21 You have to move all the way ahead to 1936 where the
22 first positive evidence that can be pointed to of someone
23 understanding that Section 526 doesn't mean all it says. And,
24 if you look closely at the supposed evidence from 1936, it
25 evaporates. It evaporates.

1 The evidence is a provision of the Customs Service
2 regulations that were amended in that year. The second
3 sentence of the amended Article 518(b). It is at page 28 of
4 the joint appendix.

5 On its face, on its face, the amended Article 518(b)
6 is a belated recognition of one of this Court's decisions.
7 This Court held in 1923, after the Katzel decision that a
8 section of the Trademark Act that forbids the importation of
9 goods with a trademark that copies or simulates a United
10 States' trademark applied to genuine goods with a trademark
11 identical to a United States trademark.

12 The amended Article 518(b) cites that case from this
13 Court in the margin. Marginal notation: A. Bourjois Co. v.
14 Aldredge. And in keeping with the cited Aldredge decision, the
15 first sentence of the amended Article 518(b) says that a
16 genuine identical trademark shall be deemed to copy or
17 simulate. Those are the words, exact words, a United States
18 trademark.

19 In that respect and others that are stated in our
20 brief, the amended Article 518(b) was written solely in terms
21 of the pertinent section of the Trademark Act and not at all in
22 terms of Section 526.

23 Second sentence, Article 518(b) begins with the same,
24 with the word, "However." It is written in the same Trademark
25 Act terms and says that if the foreign trademark -- the United

1 States trademark are owned by the same person, partnership,
2 association or a corporation, the foreign trademark shall not
3 be deemed to copy or simulate the United States trademark.

4 That, "Aha," say the Petitioners, "That is the
5 harbinger of everything that is stated in the 1972
6 regulations."

7 Not so. Not so at all. The overall reason obviously
8 was to, for this regulation, was to recognize after 13 years
9 the force of this Court's Aldredge decision, the gloss that it
10 had put on Section 27 of the Trademark Act.

11 It appears from what Congress was told when it was
12 considering trademark legislation in 1944, it appears that the
13 second sentence qualifying the general Aldredge rule was
14 nothing more complicated than someone's conceptual difficulty
15 with the idea that a person's own foreign trademark could be
16 said to copy or simulate his identical United States trademark.
17 It had nothing to do with any supposed policy of Section 526 or
18 for that matter any policy of the Trademark Act.

19 We can't know this for sure because the Customs
20 Service has never once explained its regulations. Not once.
21 Not once explained what it was doing when it made an amended
22 regulation. But the explanation was given, as I have said, to
23 a Congressional committee by a witness from what was then the
24 Tariff Commission. And, without contradiction, he told the
25 committee that Article 518, the amended Article 518 in 1936

1 effected only Section 27 and did not -- and did not limit the
2 reach of Section 526.

3 And I would pass from there to the 1950's and invite,
4 invite Your Honors' particular attention to the discussion of
5 the Guerlain case in our brief and of the Solicitor General's
6 motion in this Court to vacate the judgment in favor of the
7 government where he said that the Customs authorities have
8 deemed themselves legally constrained to grant the claim of
9 statutory protection invoked by the American distributors of
10 French perfumes who were, according to Judge Edelstein's
11 decision, part of a single international --

12 QUESTION: But Mr. Allen, wasn't that partly because
13 of the debate over whether they are related companies or the
14 same company within the --

15 MR. ALLEN: It is very hard to make that out, Your
16 Honor.

17 QUESTION: Because there was a factual dispute as to
18 whether they were the same company.

19 MR. ALLEN: There was, indeed. They did contest
20 that. But listen to what further the Solicitor General said.
21 He was asking the judgment be vacated so that they could ask
22 for legislation.

23 He said, "An intragovernmental conflict as to the
24 meaning of the tariff or trademark laws should be resolved
25 through means other than anti-trust litigation."

1 QUESTION: Yes, but that could be that the
2 Department of Justice thought that the exception extended to
3 related companies and Treasury thought it only went to the same
4 company. There is that history.

5 MR. ALLEN: Well, that is barely possible.

6 QUESTION: There was a debate over that at the time.

7 MR. ALLEN: But if -- then if it is only the same
8 company, it surely doesn't reach --

9 QUESTION: Well, same or affiliated. Same in the
10 sense of 100 percent owned, whereas the related company concept
11 talked about partially owned.

12 MR. ALLEN: At least one of the perfume companies in
13 that case was a simple parent and subsidiary situation,
14 according to Edelstein's finding.

15 QUESTION: But one was not. Guerlain was not, I
16 think.

17 MR. ALLEN: Guerlain was not. But at least one of
18 them was. But that -- well, it is a suggestion, Your Honor. I
19 had thought it seems a narrow view to talk about --

20 QUESTION: But it is possible if there was that
21 dispute between Treasury and Justice, not necessarily the
22 dispute as to whether to the statute meant exactly what it
23 said.

24 MR. ALLEN: It is possible, Your Honor. It had not
25 occurred to me that an intragovernmental conflict as to the

1 meaning of the tariff or trademark laws would be that -- would
2 be that narrow a conflict. But I can be wrong.

3 CHIEF JUSTICE REHNQUIST: Thank you, Mr. Allen.

4 Mr. Cohen, you have four minutes remaining.

5 ORAL ARGUMENT BY LOUIS R. COHEN, ESQ.

6 ON BEHALF OF PETITIONERS - REBUTTAL

7 QUESTION: Mr. Cohen, I just want to make clear: the
8 United States has taken a position on the jurisdictional issue.

9 MR. COHEN: Yes, and we have filed --

10 QUESTION: And you agree with the court below?

11 MR. COHEN: Yes. And we filed a memorandum which is
12 probably lost in the stack of briefs in this case.

13 QUESTION: Yes, I have it here.

14 MR. COHEN: Mr. Chief Justice, with respect to the
15 textual argument, our position is that it is entirely
16 appropriate to read this text with the implicit contextual
17 qualification supplying the ellipses, if you will, that after
18 the words, "bears a trademark," it said -- "bears a trademark
19 not applied by the U.S. owner or any affiliate."

20 We think the evidence is consistent with the notion
21 that that was the intention of this statute.

22 QUESTION: But you do have to rewrite it a little
23 bit.

24 MR. COHEN: Well, no more than you have to rewrite an
25 agreement with Panama that says, "any tax," to read it to say,

1 "any tax, but not a U.S. tax." Or to rewrite the statute that
2 was involved in Watt v. Alaska which talks about minerals on
3 Federal wildlife refuges to read: "But not on reserved lands,
4 only on acquired lands."

5 Let me respond to some of the points that Mr. Allen
6 has made. With respect to the first version of the
7 regulations, it is true that the first version of the
8 regulations simply parroted the statute.

9 The 1922 Act was a massive statute. It constituted
10 almost the whole of Title 19. That Treasury did not see fit to
11 do anything other than quote the statute in the regulations
12 that were adopted immediately thereafter, doesn't seem to us to
13 have much bearing one way or the other.

14 The Clark Pease case, the Second Circuit case to
15 which Mr. Allen was referring was not about the issue that is
16 presently before the Court. It was about whether the word,
17 "merchandise," applies to goods brought in for personal use.
18 It does not appear in the opinion of that case that the U.S.
19 trademark owner and the foreign trademark were the same person
20 or were in any way related.

21 I will concede that the 1936 regulations, although
22 they cite Section 526 and contain an explicit exception for the
23 related company situation, don't do so as neatly as we might
24 wish.

25 I think that the 1943 regulations leave no doubt

1 whatever that the Treasury is treating the Lanham Act section,
2 Section 27, which later became the Section 42 of the Lanham Act
3 dealing with copies and Section 526 together and provided quite
4 clearly as to both of them an exception that persists to this
5 day for goods of the U.S. trademark owner.

6 QUESTION: Mr. Cohen, you don't contend that the
7 interpretation being urged by Respondents here produces an
8 absurdity; do you? Will you concede also that that result is
9 not an absurd result? Just a policy result that you say
10 Congress didn't have in mind.

11 MR. COHEN: Yes. And the Court said quite clearly in
12 the 1940 American Trucking Association case where it was
13 holding that a statute given the ICC jurisdiction of the wages
14 and hours of trucking company employees, the Court said, "It is
15 said that a broader reading would not be absurd, but it doesn't
16 have to be absurd. What we are looking for is what Congress
17 intended." And, therefore, it limited the words of that
18 statute to the case of employees with safety-related jobs.

19 CHIEF JUSTICE REHNQUIST: Thank you, Mr. Cohen.

20 The case is submitted.

21 (Whereupon, at 2:30 o'clock p.m., the case in the
22 above-entitled matter was submitted.)
23
24
25

C E R T I F I C A T E

Heritage Reporting Corporation hereby certifies that the attached pages represent an accurate transcription of electronic sound recording of the oral argument before the Supreme Court of the United States in the matter of:

K Mart Corp. v. Cartier, Inc., et al. No. 86-495

47th St. Photo, Inc. v. Coalition to

Preserve the Integrity of American Trademarks, et al. No. 86-624

United States, et al, v. Coalition to

Preserve the Integrity of American Trademarks, et al. No. 86-625

and that these pages constitute the original Transcript of the proceedings for the records of the Court.

Heritage Reporting Corporation

BY

Margaret Daly

RECEIVED
SUPREME COURT, U.S.
MARSHAL'S OFFICE

'88 MAR -8 P2:52