Gray Market Lanham Act Claims Dismissed

Gray Market imports are often the subject of Lanham Act trademark infringement litigation. They are born of the uncontrollable prices and currency fluctuations that create niches in distribution systems that allow products to be imported and sold more cheaply outside established distribution systems.

Gray Market Imports

For a company that has acquired an exclusive right to distribute a branded product, the appearance of gray market imports competitor — typically the competitor has purchased the same or a similarly product overseas – can be disastrous. Web sites soon appear selling the product below wholesale prices and incensed retailers stop placing orders.

Holders of trademarks often try to halt gray market imports by bringing a claim under the federal Lanham Act, 15 U.S.C. 1051, as well as common law theories such as tortious interference with contractual relations and unfair competition. The Lanham Act as an enforcement mechanism to prevent gray market imports has significant limitations, however.

As demonstrated in a recent case from the Southern District of New York, Zip International Group, LLC v. Trillini Imports, Inc., the Lanham Act generally does not prevent the import of identical branded goods. A company seeking to prevent gray market goods has to establish that the goods are materially different in a way that harms the interest of the trademark holder.

Lanham Act Litigation

Products with the same brand are frequently manufactured differently for different markets. For example, we have handled cases involving textbooks published overseas without the same illustrations or paper quality as those made for the United States market. There are disputes involving a variety of products that are materially different – ranging from cosmetics to tools – that are different. Disputes over grey market imports often involve a claim that the grey market goods that were purchased overseas and imported are different and inferior than those distributed in the United States under the trademark at issue.

In the Zip International litigation, the plaintiff distributed Babkiny Semchki sunflower seeds under an exclusive right to distribute and sued under the Lanham Act, claiming that the defendant was misrepresenting the source of its product and causing consumer confusion.

The defendant was a competitor that bought the sunflower seeds in Russia and imported them outside the normal distribution chain – the classic gray market import – for sale in the U.S. Zip International avoided a motion to dismiss on the Lanham Act claims by arguing that the seeds bought by the defendant were manufactured for a different taste and thus that the grey market import of identically branded and packaged goods would damage the reputation of the product in the U.S. That assertion, however, was withdrawn and the defendants easily won summary judgment dismissing the Lanham Act claims.
Trademark Infringement Claims

The court noted that the Lanham Act generally will not prohibit the sale of genuine goods bearing a true trademark, even though the sale is not authorized by the trademark owner. The trademark owner bringing a Lanham Act claim may show that the goods are not “genuine” in order to prevail in one of two ways, the court said, through the “quality control test” or the “material differences test.”

The Lanham Act permits the owner of a trademark to control the quality of goods, and gray market imports by their nature often are beyond the control of trademark owners. However, the plaintiff could not show any difference in quality control because both competitors purchased the product, identically packaged, from the same distributor which imposed its own quality control.

Lack of Material Differences Defeats Lanham Act Claim

In a similar fashion, the plaintiff could not meet the material differences necessary to show that the gray market imports violated the Lanham Act. The plaintiff could not show that there was any material difference between the seeds it imported and those imported by its competitor. Thus even though the gray market imports were unauthorized, they did not violate the Lanham Act.

In the end, the plaintiff could not show that its good will in the product had been harmed by anything other than the competition and its claim failed. The case illustrates a couple of good points. First, distributors need to ensure that their exclusive right to distribute is iron clad. Second, the Lanham Act often will not provide the appropriate remedy for imports in violation of an exclusive distribution agreement. More traditional common law remedies are often better suited to such claims.

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