No. 05-1236

In the Supreme Court of the United States

SKF USA INC., PETITIONER

v.

INTERNATIONAL TRADE COMMISSION, ET AL.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE FEDERAL RESPONDENT IN OPPOSITION

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QUESTION PRESENTED

Whether a trademark owner alleging gray market infringement must establish that all or substantially all of the marked goods it has authorized for sale domestically possess the characteristic it relies on to show a material difference between its goods and the gray market goods.

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-23a) is reported at 423 F.3d 1307. The opinion of the International Trade Commission (Pet. App. 24a-120a) is *available at* 2004 WL 1598763. The initial determination of the administrative law judge (ALJ) (Pet. App. 121a-522a) is *available at* 2003 WL 21056379. The ALJ's additional findings of fact are *available at* 2003 WL 23314765.

JURISDICTION

The judgment of the court of appeals was entered on September 14, 2005. A petition for rehearing was denied on December 23, 2005 (Pet. App. 523a-524a). The petition for a writ of certiorari was filed on March 23, 2006. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

1. The International Trade Commission (Commission) is charged with enforcing certain import trade laws, including Section 337 of the Tariff Act of 1930, 19 U.S.C. 1337. Section 337 prohibits unfair trade practices, including trademark infringement. 19 U.S.C. 1337(a)(1)(C). One form of trademark infringement is "gray market" trademark infringement. Gray market goods bear a trademark that was lawfully affixed abroad, but are imported into the United States without the consent of the trademark owner. *Gamut Trading Co.* v. *United States Int'l Trade Comm'n*, 200 F.3d 775, 778 (Fed. Cir. 1999).

Section 337 proceedings are conducted on the record under the Administrative Procedure Act. 19 U.S.C. 1337(b)-(c). There are usually three parties to a proceeding: the complainant, one or more respondents, and a Commission investigative attorney. 19 U.S.C. 1337(b); 19 C.F.R. 210.3.

After instituting a Section 337 investigation, the Commission assigns one of its ALJs to preside over discovery, conduct an evidentiary hearing, and issue an initial determination on whether Section 337 has been violated. The ALJ's initial determination is subject to review by the Commission. 19 C.F.R. 210.42-210.46. The Commission issues a final determination on whether Section 337 has been violated. 19 C.F.R. 210.45(c).

If the Commission finds that Section 337 has been violated, it may issue a remedial order. 19 U.S.C. 1337(d) and (f). That order is subject to Presidential review and possible disapproval for policy reasons. 19 U.S.C. 1337(j). At the conclusion of the Presidential review period (and assuming no Presidential disapproval), the Commission's determination becomes final for purposes of appeal. 19 U.S.C. 1337(j)(4). If the Commission finds that Section 337 has not been violated, there is no Presidential review, and the Commission's determination is immediately appealable. Appeal is to the United States Court of Appeals for the Federal Circuit. 19 U.S.C. 1337(c); 28 U.S.C. 1295(a)(4)(A)(6).

2. Petitioner SKF USA, Inc. produces SKF-marked bearings in the United States and also imports such bearings from a foreign affiliate, SKF Manufacturing Units. Pet. App. 2a. Petitioner sells bearings in the United States through a network of distributors. *Id.* at 2a-3a.

In April 2002, petitioner filed a complaint with the Commission against 14 respondents, alleging, *inter alia*, that respondents had engaged in trademark infringement. Pet. App. 3a. In April 2003, an ALJ issued an initial determination finding that four of the respondents—Bohls Bearing and Transmission Service, CST Bearing Company, Bearings Limited, and McGuire Bearings Company—had violated Section 337 through, *inter alia*, gray market infringement of petitioner's trademark. *Id.* at 3a-5a.

In finding gray market infringement, the ALJ applied the standard set forth by the Federal Circuit in *Gamut*. Pet. App. 4a. In *Gamut*, the court held that the fundamental inquiry in gray market cases is "whether there are differences between the foreign and domestic product and if so whether the differences are material." 200 F.3d at 779. The ALJ also found that there were no physical differences between the bearings sold or authorized for sale by petitioner and those imported and sold by respondents. Pet. App. 4a. The ALJ also found, however, that there were material differences in post-sale technical services, particularly on-site services and hot-line support. *Id.* at 4a-5a.

3. Petitioner, the four respondents, and the Commission's investigative attorney filed petitions for review. Pet. App. 5a. Upon review, the Commission determined that additional information was necessary to resolve the issues before it, and it therefore remanded the case to the ALJ for further fact finding. *Ibid.* On December 30, 2003, the ALJ completed his fact finding and the case was returned to the Commission. *Id.* at 6a, 29a.

As relevant here, the Commission reversed the ALJ's finding of a material difference and found that there was no violation of Section 337. Pet. App. 6a-9a. The Commission determined that a trademark owner alleging gray market infringement must show that all or substantially all of its marked goods are accompanied by the characteristic that is alleged to be a material difference. *Id.* at 7a-8a. The Commission found that petitioner failed to make that showing. *Id.* at 71a-96a.

4. The court of appeals affirmed. Pet. App. 1a-23a. The court first held that physical differences are not required in order to establish gray market trademark infringement. *Id.* at 10a. The court explained that because trademarked goods may have certain services associated with them, similar goods lacking those services may mislead the consumer and damage the owner's goodwill. *Ibid.*

The court of appeals next held that "a plaintiff in a gray market trademark infringement case must establish that all or substantially all of its sales are accompanied by the asserted material difference in order to show that its goods are materially different." Pet. App. 16a. The court reasoned that "[i]f less than all or substantially all of a trademark owner's products possess the material difference, then the trademark owner has placed into the stream of commerce a substantial quantity of goods that are or may be the same or similar to those of the importer, and then there is no material difference." *Ibid.* The court added that "[t]o permit recovery by a trademark owner when less than 'substantially all' of its goods bear the material difference from the gray goods * * * would allow the owner itself to contribute to the confusion by consumers that it accuses gray market importers of creating." *Id.* at 17a.

The court of appeals affirmed the Commission's findings relating to the amount of petitioner's sales that lacked post-sale services. Pet. App. 20a-22a. The court concluded that substantial evidence supported the Commission's findings that Chicago Rawhide's on-site technical services were available only on a discretionary basis, *id.* at 20a-21a, that Roller Bearing Company/Tyson Bearing Company provided its own technical services that were not equivalent to petitioner's, *id.* at 21a, and that petitioner had authorized the sale of marked bearings by nonauthorized distributors, gray market distributors, surplus distributors, and RBC/Tyson that were not consistently accompanied by post-sale technical services, *id.* at 21a-22a.

ARGUMENT

The court of appeals correctly held that a plaintiff in a gray market infringement case must show that all or substantially all of its authorized sales are accompanied by the difference that is asserted to be material. The only other circuit that has addressed the question has adopted a standard that is less favorable to petitioner. Further review is therefore not warranted.

1. A plaintiff in a gray goods infringement case must show that there is a material difference between the gray products that are imported without the trademark owner's consent and the products that the owner has authorized for sale in the United States. Numerous courts of appeals have reached that conclusion. See *Societe Des Produits Nestle*,

S.A. v. *Casa Helvetia, Inc.*, 982 F.2d 633, 640 (1st Cir. 1992); *Original Appalachian Artworks, Inc.* v. *Granada Elecs., Inc.*, 816 F.2d 68, 72-73 (2d Cir.), cert. denied, 484 U.S. 847 (1987); *Martin's Herend Imports, Inc.* v. *Diamond & Gem Trading USA, Co.*, 112 F.3d 1296 (5th Cir. 1997); *American Circuit Breaker Corp.* v. *Oregon Breakers Inc.*, 406 F.3d 577, 585 (9th Cir. 2005); *Davidoff & CIE, S.A.* v. *PLD Int'l Corp.*, 263 F.3d 1297, 1302 (11th Cir. 2001); *Gamut Trading Co.* v. *United States Int'l Trade Comm'n*, 200 F.3d 775 (Fed. Cir. 1999). Indeed, petitioner does not take issue with that requirement.

The requirement that a gray market plaintiff must show that all or substantially of its sales are accompanied by the asserted material difference implements the material difference requirement. As the court of appeals explained, "[i]f less than all or substantially all of a trademark owner's products possess the material difference, then the trademark owner has placed into the stream of commerce a substantial quantity of goods that are or may be the same or similar to those of the importer, and then there is no material difference." Pet. App. 16a.

The "all or substantially all" standard is also consistent with the purposes that underlie protection against gray market infringement. The prohibition against gray market infringement reflects a recognition that consumers will likely be confused by products that bear the same mark, but that possess materially different characteristics. *Gamut*, 200 F.3d at 779. When goods sold by the trademark owner themselves lack the asserted material difference, the owner has no basis for complaining about the resulting confusion. As the court of appeals in this case explained, "[t]o permit recovery by a trademark owner when less than 'substantially all' of its goods bear the material difference from the gray goods * * * would allow the owner itself to contribute to the confusion by consumers that it accuses the gray market importers of creating." Pet. App. 17a.

Petitioner does not appear to suggest that it is entitled to protection against gray market imports, no matter how many of the same products it introduces into the domestic market. Rather, it contends (Pet. 13) that the court of appeals adopted a standard that provides insufficient protection against gray market infringement because the court's standard requires a plaintiff to show that all but one of its authorized goods contain the alleged material difference. That contention rests on a mischaracterization of the court of appeals' decision. The court stated that a single sale of a nonconforming item would not typically defeat a trademark owner's gray market claim. Pet. App. 19a. But it did not state that more than one sale of a nonconforming good would defeat such a claim. To the contrary, the court stated that its standard would "certainly permit[] a small amount of nonconforming goods." *Ibid.* And elsewhere in its opinion, the court made clear that its standard would not be violated unless the trademark owner had "placed into the stream of a commerce a substantial quantity of [nonconforming] goods." *Id.* at 16a.

In this case, for example, petitioner failed to prevail on its gray market claim not because it authorized the sale of more than a single nonconforming good, but because at least 2.6% of its authorized sales were of nonconforming goods. See Pet. App. 14a. Given the vast quantity of bearings that petitioner sells, it was reasonable for the Commission and the court of appeals to conclude that petitioner had placed into the stream of commerce a substantial quantity of nonconforming goods. In any event, that fact-bound question does not warrant review.

2. Petitioner contends (Pet. 10-13) that the court of appeals' "all or substantially all" standard conflicts with the

standard adopted by numerous other circuits. In fact, however, only one other circuit has addressed the question at issue here. In *Martin's Herend*, 112 F.3d at 1304, the Fifth Circuit held that "[a]s long as plaintiffs have ever approved a piece for importation and sale in this country [a competitor] is free to sell any individual piece of the same quality from the same product line."

The court below read *Martin's Herend* to hold that the sale of even one authorized item lacking a material difference defeats a gray market infringement claim. Pet. App. 18a. And the court below expressly declined to adopt that strict approach. *Ibid.* If the court of appeals' interpretation of the *Martin's Herend* decision is correct, there may be a conflict between the court below and the Fifth Circuit on the question whether a single authorized sale of a nonconforming good would defeat a gray market infringement claim. This case, however, is not an appropriate vehicle for resolving that potential conflict, because petitioner could not benefit from the adoption of the Fifth Circuit's single-sale standard. Indeed, that standard is substantially *less favorable* to petitioner than the "all or substantially all" standard adopted by the court below. Any conflict between the decision below and *Martin's Herend* should be resolved in a case in which a trademark owner has authorized the sale of a single nonconforming good, but has not authorized the sale of a substantial quantity of nonconforming goods—not in a case like this one in which the plaintiff has authorized the sale of a substantial quantity of nonconforming goods and therefore cannot prevail under either standard.

Furthermore, because only two circuits have addressed the question of the appropriate standard for determining when nonconforming sales prevent a plaintiff from satisfying the materiality requirement, resolution of that question would benefit from further ventilation in the circuits. Review of that issue at this stage would be premature.

3. Petitioner attempts to identify several other alleged conflicts. But none of the other decisions cited by petitioner conflicts with the decision below.

First, petitioner cites cases (Pet. 10-11 & n.5) that hold that a showing of a material difference is necessary to prove a gray market infringement case. See *Nestle,* 982 F.2d at 640; *Original Appalachian Artworks*, 816 F.2d at 72-73; *Davidoff,* 263 F.3d at 1302; *American Circuit Breaker,* 406 F.3d at 585. Those decisions do not conflict with the decision below. In *Gamut*, the Federal Circuit adopted the same material difference requirement, 200 F.3d at 779, and, in the decision below, the Federal Circuit reaffirmed *Gamut*'s material difference requirement. Pet. App. 11a-12a. The decision below is therefore fully consistent with the decisions cited by petitioner.

Petitioner appears to suggest that the other courts that have adopted a material difference requirement have rejected the Federal Circuit's holding that the plaintiff must show that all or substantially all of the authorized sales contain the alleged material difference. In fact, however, those cases simply did not address that issue.

Nor does the decision below conflict with the Third Circuit's decision in *Iberia Foods Corp.* v. *Romeo*, 150 F.3d 298, 304 (1998). That case simply held that the same materiality requirement that applies in gray market cases also applies when a trademark owner seeks to enjoin the sale of domestic products. *Id*. at 302-303. The court in *Iberia Foods* did not address whether a trademark owner would have to show that all or substantially all of its authorized sales contained the alleged material difference in order to satisfy the materiality requirement.

Petitioner next cites cases (Pet. 11-12) holding that the plaintiff in an infringement action does not have to prove that the challenged goods are of inferior quality. See *Nestle*, 982 F.2d at 640; *El Greco Leather Prods. Co.* v. *Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986), cert. denied, 484 U.S. 817 (1987); *Shell Oil Co.* v. *Commercial Petroleum, Inc.*, 928 F.2d 104, 107 (4th Cir. 1991); *Martin's Herend*, 112 F.3d at 1302. The decision below, however, did not impose an inferior quality requirement. Rather, it ruled against petitioner based entirely on petitioner's failure to show that all or substantially all of its authorized sales were accompanied by the alleged material difference. Accordingly, there is no inconsistency between the decision below and the decisions holding that a plaintiff need not demonstrate that challenged goods are of inferior quality.

Indeed, petitioner does not even claim that there is such a conflict. Instead, petitioner appears to claim (Pet. 11-12) that the decisions rejecting an inferior quality requirement are in conflict with the Third Circuit's decision in *Iberia Foods*. But *Iberia Foods* did not impose an inferior quality requirement either. To the contrary, *Iberia Foods* held that such a showing is not required. 150 F.3d at 304 ("courts do not require trademark owners to show that the actual quality of the inspected goods is measurably higher than that of the uninspected goods"). In any event, any conflict between *Iberia Foods* and the cases holding that a plaintiff need not establish that the challenged goods are of inferior quality would not provide a basis for granting review in this case.

Petitioner next contends that the decision below conflicts with cases holding that a plaintiff in an infringement case does not have to show that there has been a diminishment in the value of the mark. Pet. 12 & n.8 (citing *Nestle*, 982 F.2d at 640). But the court below did not hold that a plaintiff must show that there has been a diminishment in the value of the mark. To the contrary, the court rejected petitioner's contention that the Commission had imposed such a requirement, explaining that the Commission had ruled against petitioner because petitioner had failed to satisfy the material difference standard, not because petitioner had failed to prove a diminishment in the value of its mark. Pet. App. 19a.

Petitioner also contends (Pet. 12) that two other decisions—*Shell Oil* and *Iberia Foods*—require the trademark owner to prove actual harm to the mark and therefore conflict with *Nestle*. But *Shell Oil* did not require proof of actual harm as a predicate for liability. Instead, it held only that district courts have discretion to refuse to award damages in the absence of actual loss. 928 F.2d at 108.[1] And *Iberia Foods* did not require the plaintiff to prove actual harm to the value of the mark either. See 150 F.3d at 304 (holding only that there must be proof that "quality control procedures * * * are likely to result in differences between the products such that consumer confusion regarding the sponsorship of the products *could* injure the trademark owner's goodwill") (emphasis added). In any event, any conflict between *Nestle, Shell Oil*, and *Iberia Foods* would not provide a basis for granting review in this case.

Petitioner next suggests (Pet. 13) that the holding of the court below that a plaintiff in a gray market case must show that all or substantially all of the authorized goods are accompanied by the alleged material difference conflicts with the Second Circuit's decision in *Warner-Lambert Co.* v.

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[1] Petitioner mischaracterizes *Shell Oil* in claiming (Pet. 12 n.9) that it held that "a finding of actual loss is a prerequisite to an award of damages." The passage quoted by petitioner does not state the holding of the court, but was instead taken from the court's description of a litigant's arguments. 928 F.2d at 108.

Northside Development Co., 86 F.3d 3 (1996). There is, however, no conflict.

As petitioner itself concedes (Pet. 10 n.4), *Warner-Lambert* was a product degradation case, not a gray market case. The Second Circuit therefore did not address the question whether a plaintiff in a gray market case must prove that all or substantially all of the authorized sales were accompanied by the alleged material difference. Moreover, while the court in *Warner-Lambert* concluded that it would be inappropriate to require a plaintiff in a product degradation case to ensure that its quality control procedures prevent virtually all departures from established norms, it also held that a plaintiff who fails to take such steps must show that further sales of nonconforming goods "measurably diminish the value of an already partially devalued mark." 86 F.3d at 7. In this case, petitioner failed to make that showing. Pet. App. 7a. Accordingly, even if the standard adopted in *Warner-Lambert* were extended to gray market cases, petitioner could not benefit from that extension.

4. Finally, petitioner contends (Pet. 14-19) that the Federal Circuit's decision undermines the protection against gray market infringement and promotes consumer confusion. That contention is incorrect. Here, petitioner itself is responsible for the situation in which it finds itself. In order to maximize sales, petitioner chose to sell a substantial quantity of its trademarked bearings without the accompanying services that it claimed distinguished its products from gray goods. If petitioner wished to preserve its protection against gray goods, it need only have refrained from making those sales. Having intentionally made those sales, petitioner is in no position to assert that its goods are materially different from the gray goods at issue or to complain about consumer confusion regarding its products. Petitioner's claims ring particularly hollow because the court of

appeals expressly adopted a more trademark-protective standard than the standard it attributed to the only other circuit that has addressed the question.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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