The U.S. Court of Appeals for the Second Circuit recently summarily affirmed a preliminary injunction order in *Abbott Laboratories v. H&H Wholesale Services*1—a grey goods case involving importation of diabetes test strips designed for sale internationally. The Second Circuit’s adoption of the district court’s opinion sheds light on several issues in grey goods—genuine goods that are intended for sale abroad, which the manufacturer has never authorized for domestic sale.

**Background**

Abbott Laboratories manufactures test strips, used by diabetics to monitor their blood glucose, and sells them worldwide. It brought suit against H&H Wholesale Services, Inc., an importer, and numerous pharmaceutical retail companies, for importing Abbott’s strips sold abroad and distributing and selling them in the United States. The packaging for the strips bore Abbott’s registered trademarks, and it claimed that the internationally distributed strips were materially different from those sold in the United States. Abbott accordingly asserted claims for trademark infringement under the federal Trademark Act as well as the common law.

The strips Abbott manufactured for the U.S. market and for international markets are identical, but their packaging and instructional inserts differ:

1. The U.S. (but not the international) packaging contains a National Drug Code, which is scanned by pharmacies and then used to obtain insurance reimbursements.
2. The U.S. test strips direct users to obtain blood from one of three sites on the body; the international strips use seven sites. (To comply with FDA approval guidelines, Abbott had to limit the U.S. packaging to three sites.)
3. U.S. packaging and instructional inserts are in English and Spanish. International inserts are in various languages, sometimes not including English.
4. International packaging bears certain symbols without any explanatory text, which the FDA does not allow for U.S. packaging.
5. U.S. packaging uses different volume and temperature units than the international packaging.
6. The international product omits certain warnings on the U.S. packaging.
7. The U.S. packaging lists a toll-free U.S. number for consumers to ask questions, while the international packaging lists an international number. The U.S. number goes to a call center whose personnel are only trained in the domestic product.

**Grey Goods Law**

The district court noted that generally sale of genuine goods abroad is subject to the first-sale rule, and the trademark owner cannot prevent their importation and U.S. sale.2 But there are two recognized exceptions: (1) where the foreign goods are materially different; (2) where the distribution interferes with legitimate quality control efforts. For the first exception, even subtle differences may be material, and courts recognize that subtle differences are more likely to confuse the public.

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MILTON SPRINGUT is a partner at Springut Law. TAL S. BENSCHAR, a partner at the firm, assisted in the preparation of this article.
printed on the international packaging only increased the risk of confusion.

Our view, however, is that there was a simpler way to reject this argument. Consumers value the convenience of having product information easily accessible on the packaging of their medical products. Consulting a doctor or user manual (available at pharmacies) is inconvenient and is hardly a substitute.

The district court also found that the second exception, “quality control,” applied. Abbott uses its call centers to collect data about use of its products, analyze trends, and occasionally conducting targeted recalls of product suspected to be defective. (“Targeted” recalls are directed to particular lots of product, often identified by serial numbers. They are often more effective and less expensive than market-wide recalls.) The sale of product with international packaging (bearing the international phone number) interfered with these quality control efforts.

Based on both of these exceptions, the test strips and packaging were held infringing of Abbott’s trademarks, which appear on the packaging.

**Other ArgumentsRejected**

**Liability for Downstream Confusion.**

The district court rejected two other arguments by the defendants. First, they argued that since they informed their immediate customers (pharmacies and other retailers) that the items were the international version, they were not confused and hence there was no liability under the Trademark Act. But the district court noted that the Trademark Act also reaches downstream confusion by the end-user/consumer. It relied on case law that holds that “post-sale” confusion is actionable. (Post-sale confusion is where the purchaser, for example, wearing the product causes confusion among those viewing the product. Someone who buys a $25 Rolex on the street corner likely knows that the item is a fake. But when they wear it, onlookers may well believe the item is genuine.) In our view, there was a simpler way to reach this result.

Congress amended the Trademark Act in 1962 to broaden the types of actionable confusion. The act now “outlaw[s] the use of trademarks which are likely to cause confusion, mistake or deception of any kind, not merely of purchasers nor simply as to source of origin.” Syn-
tex Labs. v. Norwich Pharmacal Co., 437 F.2d 566, 568 (2d Cir. 1971). That should easily include the situation where an importer sells pre-packaged consumer goods to retail establishments, with the understanding that the goods will simply be put on shelves with the same packaging. In this kind of an arrangement (common in many retail situations), the wholesale seller is clearly held liable for “downstream” confusion.

**Delay.** The second argument rejected by the district court concerned delay in bringing the preliminary injunction motion. Courts in the Second Circuit have traditionally been very intolerant of such delays—delays of as little as six weeks can lead to denial of the motion. In this case, Abbott, as early as two years prior to bringing its motion, began to have evidence of at least some of the grey market activities. But, the district court noted that the reasonableness of the delay had to be judged in the context of the grey goods market.

Grey goods generally result from a leak in the company’s distribution system, usually by business partners, as opposed to the usual trademark case, where a competitor adopts a confusingly similar mark. Furthermore, it often happens that a grey goods issue may be limited in time and quantity—someone in the distribution chain leaked a small quantity of product on a one-time basis. A manufacturer can often more efficiently deal with the issue by tracing the leaks and dealing with the problem through its business relationships, rather than by bringing suit.

**Takeaways**

The Abbott decision, now affirmed by the Second Circuit, strengthens the hand of companies seeking to enforce their trademark rights against grey goods importers. Among the lessons it teaches:

1. Grey goods can be judged materially different (and hence infringing) based solely on packaging and related documentation, even if the items themselves are identical.

2. Importers and sellers are responsible for downstream confusion, at least where the goods are sold in packaging intended for retail sale.

3. Although courts generally insist on quick action where a party seeks a preliminary injunction, the dynamics of grey goods distribution may make it more reasonable to attempt non-litigation remedies first. The Abbott decision recognizes this reality and indicates some tolerance for this kind of delay, as long as the trademark owner acts reasonably and diligently.

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2. See Polymer Technology Corp. v. Mimran, 975 F.2d 58, 61 (2d Cir. 1992).

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