Section 42 of the Lanham Act and Non-Genuine Gray Market Goods: Re-evaluating the Affiliate Exception

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Abstract

The Note argues that the U.S. Customs Service should revise the affiliate exception to resolve the exception’s present inconsistency with section 42 of the Lanham Act. The Note argues that the affiliate exception is incongruous with the plain language and underlying intent of section 42 of the Lanham Act. The Note finally argues that the Customs Service should revise the affiliate exception to maintain consistency with the very statute it was promulgated to enforce.
SECTION 42 OF THE LANHAM ACT AND NON-GENUINE GRAY MARKET GOODS:
RE-EVALUATING THE AFFILIATE EXCEPTION

INTRODUCTION

Section 42 of the Lanham Trademark Act of 1946 (the “Lanham Act” or the “Act”),1 prohibits the importation of goods bearing trademarks that “copy or simulate” trademarks registered in the United States.2 The U.S. Customs Service’s regulations issued to implement section 42, however, contain an “affiliate exception”3 that permits the importation of for-

1. 15 U.S.C. §§ 1051-1127 (1988). Section 42 of this Act states that no article of imported merchandise which shall copy or simulate the name of the [sic] any domestic manufacture, or manufacturer, or trader, or of any manufacturer or trader located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trade-mark registered in accordance with the provisions of this chapter or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted entry at any customhouse of the United States; and, in order to aid the officers of the customs in enforcing this prohibition, any domestic manufacturer or trader, and any foreign manufacturer or trader, who is entitled under the provisions of a treaty, convention, declaration, or agreement between the United States and any foreign country to the advantages afforded by law to citizens of the United States in respect to trade-marks and commercial names, may require his name and residence, and the name of the locality in which his goods are manufactured, and a copy of the certificate of registration of his trademark, issued in accordance with the provisions of this chapter, to be recorded in books which shall be kept for this purpose in the Department of the Treasury, under such regulations as the Secretary of the Treasury shall prescribe, and may furnish to the Department facsimiles of his name, the name of the locality in which his goods are manufactured, or of his registered trademark, and thereupon the Secretary of the Treasury shall cause one or more copies of the same to be transmitted to each collector or other proper officer of customs.


2. Id.

3. 19 C.F.R. § 133.21(c)(1)-(2) (1989). The affiliate exception is part of the Customs Service's regulations concerning trademarks, trade names, and copyrights, which provide, in pertinent part:

(a) Copying or simulating marks or names. Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual
eign-made goods bearing trademarks registered in the United States if the U.S. trademark owner and the foreign manufacturer are subject to common ownership or control. As a result, third parties may capitalize on the affiliation between a foreign manufacturer and a U.S. trademark owner and import foreign-made goods bearing U.S. trademarks into the United States. These goods, commonly called "gray market goods," may differ physically from the products distributed by the U.S. trademark owner. The importation of these "non-genuine" gray market goods pursuant to the affiliate exception conflicts with the plain meaning and underlying intent of section 42 of counterfeiting of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.

(b) Identical trademark. Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) Restrictions not applicable. The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or otherwise subject to common ownership or control.

19 C.F.R. § 133.21 (a), (b), (c)(1)-(2) (1989).

4. Id. § 133.21(c)(1)-(2); see id. § 133.2(d). Section 133.2(d) defines common ownership as "individual or aggregate ownership of more than 50 percent of the business entity." Id. § 133.2(d)(1). Section 133.2(d) defines common control as "effective control in policy and operations... not necessarily synonymous with common ownership." Id. § 133.2(d)(2).


7. See infra notes 93-100 and accompanying text (defining non-genuine goods).
This Note argues that the U.S. Customs Service should re-vise the affiliate exception to resolve the exception's present inconsistency with section 42 of the Lanham Act. Part I ana-lyzes the Lanham Act, section 42 of the Act, and the common law principles of trademarks applicable to the gray market. Part II traces the development of the gray market and the affiliate exception. Part III argues that the affiliate exception is incon-gruous with the plain language and underlying intent of section 42 of the Lanham Act. This Note concludes that the Customs Service should revise the affiliate exception to main-tain consistency with the very statute it was promulgated to enforce.

I. TRADEMARK LAW, THE LANHAM ACT, AND SECTION 42

A trademark is a name or symbol that signifies the source of the good to which it is attached. Historically, manufacturers have employed trademarks to enhance the marketability of their products. A trademark creates a merchandising vehicle for its owner by distinguishing the trademark owner's

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8. See infra notes 123-34 and accompanying text (delineating incongruity between § 42 and affiliate exception).
9. 15 U.S.C. § 1127 (1988). Section 45 of the Lanham Act defines a trademark to include "any word, name, symbol, or device or any combination thereof . . . used by a person . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown." Id.

[t]he protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value.

Id.
goods from those of its competitors.12 Trademarks foster competition and maintain product quality by securing to the producer the benefit of a good reputation;13 thus, they are valuable tools of commerce.14

Trademarks alone have no inherent value.15 The value of a trademark lies in the goodwill that the trademark owner engenders in the mark.16 The trademark owner builds goodwill by offering a high-quality product, a fair price, and peripheral services.17 These factors induce the consumer to associate the trademark with the services provided by the manufacturer.18 As a result, the consumer buys products bearing a particular trademark in order to receive the services provided by the manufacturer.19 The trademark becomes a guarantee that

13. Park 'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189, 198 (1985). The Supreme Court noted that "[n]ational protection of trademarks is desirable . . . because trademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation." Id.
14. Id. at 193.
15. United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918) ("There is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed."); Berni v. International Gourmet Restaurants of Am. Inc., 838 F.2d 642, 646 (2d Cir. 1988) ("A trademark is a mere symbol of the goodwill of the business with which it is associated."); 1 J. McCarthy, TRADEMARKS AND UNFAIR COMPETITION § 2:1, at 44 (2d ed. 1984 & 1989 Supp.); 1 H. Nims, supra note 10, § 188, at 520 ("There is no such thing as a trademark in gross.").
16. White Tower Sys. Inc. v. White Castle Sys. of Eating Houses Corp., 90 F.2d 67, 69 (6th Cir.), cert. denied, 302 U.S. 720 (1937) ("Good will may be defined as the favorable consideration shown by the purchasing public to goods known to emanate from a particular source.").
17. Levitt Corp. v. Levitt, 593 F.2d 463, 468 (2d Cir. 1979) (goodwill is derived from reputation for quality and service); see S. Kane, TRADEMARK LAW: A PRACTITIONER'S GUIDE 10 (1987) (value of goodwill increases with advertising and sales); 1 H. Nims, supra note 10, § 14, at 80 ("Skill, reliability, quality of product, reasonableness of prices . . . may create good-will.").
18. Shoppers Fair of Ark., Inc. v. Sanders Co., 328 F.2d 496, 499 (8th Cir. 1964). When a consumer comes to associate a trademark with its source, the mark is said to acquire secondary meaning, which entitles the mark to full protection. American Footwear Corp. v. General Footwear Co., 609 F.2d 655, 663 (2d Cir. 1979) ("[W]hen a company causes the public to associate a certain word with that company's business, that word has a secondary meaning and receives the full protection of the law of trademark and unfair competition."); see 1 J. McCarthy, supra note 15, § 15:2, at 659 ("The prime element of secondary meaning is a mental association in buyers' minds between the alleged mark and a single source of the product.").
goods sold under it meet particular standards of quality. \(^{20}\)

Consumer goodwill is a valuable intangible asset. \(^{21}\) Manufacturers that mark their goods with a trademark confusingly similar to an existing trademark can easily damage or misappropriate the trademark owner's goodwill. \(^{22}\) Consequently, courts and legislators have long afforded protection to trademark owners by prohibiting this type of unfair competition. \(^{23}\)

The primary instrument of modern day trademark protection is the Lanham Act. \(^{24}\) Enacted to clarify and unify piecemeal state and federal trademark legislation, \(^{25}\) the Lanham Act provides a trademark owner a means of protection against unfair competition. \(^{26}\) The Lanham Act serves two broad goals. \(^{27}\)

\begin{itemize}
\item \(^{20}\) Bell & Howell, 548 F. Supp. at 1069.
\item \(^{21}\) 1 H. Nims, supra note 10, § 13, at 79 (“Good-will cannot be seen or felt, measured or weighed. Yet, ... it has value ...”).
\item \(^{22}\) See 1 J. McCarthy, supra note 15, § 2:1, at 44.
\item \(^{23}\) See Act of Aug. 14, 1876, ch. 274, 19 Stat. 191; Act of July 8, 1870, ch. 250, § 77, 16 Stat. 198; McLean v. Fleming, 96 U.S. 245, 251 (1877); Canal Co. v. Clark, 80 U.S. (13 Wall.) 311, 322 (1871). The early trademark statutes were found to be unconstitutional exercises of Congress's patent and copyright power. U.S. CONST. art. I, § 8, cl. 8; see United States v. Steffens, 100 U.S. 82 (1879) (Trade-Mark Cases).
\item \(^{25}\) Hearings on H.R. 13486 Before the House Committee on Patents, 69th Cong., 2d Sess. 86 (1927) (“There has been piece meal legislation on [trademarks] ... as far back as 1881. ... There has never been comprehensive legislation dealing with it.”) [hereinafter Hearings on H.R. 13486]; S. REP. No. 1333, 79th Cong., 2d Sess. (1946), reprinted in 1946 U.S. CONG. SERV. 1274, 1274 (1946) (“The purpose of this bill is to place all matters relating to trade-marks in one statute ...”) [hereinafter SENATE REPORT].
\item \(^{26}\) 15 U.S.C. § 1114 (1988); see SENATE REPORT, supra note 25 at 1274 (stating that Lanham Act protects trademark owners from “misappropriation by pirates and cheats”).
\item \(^{27}\) SENATE REPORT, supra note 25. The Senate Committee on Patents that reported on the Lanham Act stated that
\item \(^{28}\) Id. at 1274; see 15 U.S.C. § 1127 (1988). Section 45 of the Lanham Act states that
\item \(^{29}\) Id.; Warner Bros. Inc. v. Dae Rim Trading, Inc., 677 F. Supp. 740, 760 (S.D.N.Y. 1988) (“The objective of trademark protection is to protect the maker of goods and the public from confusion as to the origin of goods ...”). The U.S. Court of Ap-
First, the Act strives to protect a trademark owner’s goodwill by granting the owner a means of registering a mark.\textsuperscript{28} A trademark owner may prevent others from using confusingly similar marks in commerce.\textsuperscript{29} Second, the Lanham Act attempts to prevent consumer deception by prohibiting unauthorized imitation marks from entering commerce.\textsuperscript{30} Congress intended this prohibition to allow consumers to rely confidently on a trademark when choosing products.\textsuperscript{31} Section 42 of the Lanham Act embodies both of these broad goals in the context of international trade.\textsuperscript{32}

Section 42 of the Lanham Act serves both goals of the Lanham Act\textsuperscript{33} by prohibiting the importation of goods bearing trademarks that “copy or simulate” marks owned by U.S. corporations. First, section 42 protects the U.S. trademark owner’s goodwill by barring imports with imitation marks.\textsuperscript{34} This assures the trademark owner that a foreign competitor will not missappropriate or damage the U.S. trademark owner’s goodwill by importing products with imitation or confusingly similar trademarks.\textsuperscript{35} Second, section 42 protects the

\textsuperscript{29} Id. § 1114. This section reads, in pertinent part,
[a]ny person who shall, without consent of the registrant . . . use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale . . . of any goods or services . . . which such use is likely to cause confusion . . . shall be liable in a civil action by the registrant . . . .
\textsuperscript{30} Id. § 1127.
\textsuperscript{32} See 15 U.S.C. § 1124 (1988). The legislative history of section 42 illustrates an intent by Congress to enact comprehensive and consistent legislation dealing with trademarks in international trade. \textit{See}, \textit{e.g.}, \textit{Hearings on H.R. 13486, supra note 25}, at 86 (“The United States has agreed, under international conventions to which it is a party, to provide means for preventing entry and stopping at the customs of goods bearing counterfeit trade-marks, marks infringing registered trade-marks, and goods bearing false trade names or false indications of geographical origin.”).
\textsuperscript{35} See id.
consumer from deception by barring imports bearing confusingly similar marks. Consequently, U.S. consumers will not be enticed to purchase bogus foreign-made goods when they desire the product from the U.S. source.

Section 42 appears to bar the importation of two different types of goods: those that bear an illegal, counterfeit trademark (black market goods) and those that bear a genuine trademark that is not authorized for use in the United States (gray market goods). Both the legislative history of section 42 and judicial interpretations of the section, however, espouse divergent views regarding the extent of the protection provided by section 42.

The legislative history of section 42 indicates a congressional concern with both black market and gray market goods. In fact, original versions of the bill that subsequently became the Lanham Act were drafted to exclude gray market goods under section 42. Congress amended the bill, however, to exclude only goods that contained counterfeit or spurious marks. It appears Congress made this amendment

36. See id.
37. 15 U.S.C. § 1124 (1988). The black market is defined as the illegal “buying and selling [of] goods which are subject to government . . . control.” BLACK'S LAW DICTIONARY 155 (5th ed. 1979). Because the Lanham Act prohibits the sale of goods bearing counterfeit marks, these goods can be characterized as black market goods. See 15 U.S.C. § 1124 (1988). However, the definition of black market goods can also include stolen goods bearing authentic trademarks. See Hansen, Gray Market Goods: A Lighter Shade of Black, 13 BROOKLYN J. INT'L L. 249, 249 (1987).
39. Hearings on H.R. 2828 Before the House Committee on Patents, 71st Cong., 2d Sess. 19 (1930) (“[T]his committee . . . felt it incumbent upon it to lift that provision [which excludes gray market goods] out of the tariff bill in 1922 and put it in this [trademark] bill where it belongs.”); Hearings on H.R. 4744 Before the Subcommittee on Trademarks of the House Committee on Patents, 76th Cong., 1st Sess. 160 (1939) (“Any merchandise, whatever may be its source or origin, which shall bear any registered trade-mark or any infringement thereof . . . shall not be imported into the United States . . . .”).
40. Hearings on H.R. 9041 Before the Subcommittee on Trademarks of the House Committee on Patents, 75th Cong., 3d Sess. 192 (1938) (statement of Representative Lanham). The bill stated that “[a]ny merchandise, whatever may be its source or origin, which shall bear any registered trade-mark or any infringement thereof, . . . shall not be imported into the United States or admitted to entry at any customhouse of the United States.” Id.
41. Compare H.R. 9041, 75th Cong., 3d Sess. (1938) (containing language bar-
because section 526(a) of the Tariff Act of 1930\textsuperscript{42} ostensibly remedied the gray market problem.\textsuperscript{43} Although section 42 clearly evinces an intent to exclude black market goods, the legislative history makes it unclear whether section 42 excludes gray market goods.

Similarly, two judicial interpretations concerning section 27 of the Trade-Mark Act of 1905,\textsuperscript{44} the predecessor of section 42, raise the question of whether section 42 prohibits gray market imports. First, in \textit{Fred Gretsch Manufacturing Company v. Schoening},\textsuperscript{45} the defendant was the exclusive U.S. agent for German-made "Eternelle" violin strings.\textsuperscript{46} The defendant registered the trademark "Eternelle" in the United States, but the manufacturer had the rights to the mark abroad.\textsuperscript{47} The plaintiff purchased the "Eternelle" strings abroad and attempted to bring them into the United States; however, the strings were detained at customs.\textsuperscript{48} The plaintiff sued to allow the importation of the strings.\textsuperscript{49} The court applied a literal reading of section 27 and held that the statute applied only to black market goods and did not apply to gray market goods.\textsuperscript{50} Several
courts have adopted this narrow view of section 42 and, thus, have held that section 42 does not exclude the importation of gray market goods.\textsuperscript{51}

Conversely, in \textit{A. Bourjois \& Company v. Katzel},\textsuperscript{52} the U.S. Supreme Court adopted an expansive interpretation of trademark law.\textsuperscript{53} In \textit{Katzel}, the plaintiff purchased the exclusive U.S. trademark rights to French-made "Java" face powder.\textsuperscript{54} The defendant purchased the trademarked powder from the French manufacturer and imported it into the United States over the objection of the plaintiff.\textsuperscript{55} In reversing the U.S. Court of Appeals for the Second Circuit, the U.S. Supreme

\textsuperscript{27} is to protect the public and prevent any one from importing goods identified by their registered trade-mark which are not genuine." \textit{Id.} at 782 (emphasis added).

Thus, the Second Circuit Court of Appeals adopted the principle of universality of trademarks. \textit{See Osawa \& Co. v. B \& H Photo}, 589 F. Supp. 1163 (S.D.N.Y. 1984). This theory states that once a trademarked product enters commerce, the trademark owner's rights are exhausted, and the owner cannot bring a suit stemming from the use or misuse of that trademarked product. \textit{See id.} The \textit{Osawa} court stated that if a trademark was lawfully affixed to merchandise in one country, the merchandise would carry that mark lawfully wherever it went and could not be deemed an infringer although transported to another country where the exclusive right to the mark was held by someone other than the owner of the merchandise. \textit{Id.} at 1171.

This theory of universality is inextricably connected to the theory of trademark "exhaustion." \textit{Id.} at 1173-74. Under this theory the trademark owner can only control the first sale of goods bearing his trademark. \textit{Id.} Once the goods enter the stream of commerce, the trademark owner's rights are "exhausted," and can no longer be asserted. \textit{Id.}

\textsuperscript{51} \textit{See Weil Ceramics \& Glass, Inc. v. Dash}, 878 F.2d 659 (3d Cir.), \textit{cert. denied}, 110 S. Ct. 156 (1989) (rejecting notion that trademark law reaches genuine goods); \textit{NEC Electronics v. CAL Circuit Abco}, 810 F.2d 1506 (9th Cir.), \textit{cert. denied}, 484 U.S. 851 (1987) ("Trademark law generally does not reach the sale of genuine goods bearing a true mark even though such sale is without the mark owner's consent."); \textit{see also Monte Carlo Shirt, Inc. v. Daewoo Int'l (Am.) Corp.}, 707 F.2d 1054, 1057-58 (9th Cir. 1983) (dismissing plaintiff's trademark cause of action for unauthorized sale of a genuine good).

\textsuperscript{52} 260 U.S. 689 (1923).

\textsuperscript{53} \textit{Id.} at 691. The Court barred the importation of genuine goods bearing an authentic trademark because the trademark "deals with a delicate matter that may be of great value but that easily is destroyed." \textit{Id.} at 692.

\textsuperscript{54} \textit{Id.} at 690. The plaintiff did not manufacture the powder, but imported the French-made powder upon which the French manufacturer affixed the "Java" trademark. \textit{Id.} The plaintiff invested money in advertising to increase the U.S. sales of the powder. \textit{Id.} at 691.

\textsuperscript{55} \textit{Id.} at 691. The defendant found that the exchange rate enabled her to profit by purchasing the powder in France and selling it in the United States under the French trademark. \textit{Id.}
Court interpreted section 27 broadly. The Court held that the authentically trademarked gray goods could be excluded because in the United States the "Java" mark represented the "delicate" and "easily destroyed" goodwill of the trademark owner, which should be protected from misappropriation. Furthermore, the Court stated that mere possession of trademarked goods does not entitle the possessor to sell the goods under that mark. At least one court and several commentators have adopted this broad reading of section 42.

56. Id. at 691-92. Although the Court did not explicitly mention section 27, the lower court decision in Katzel relied on that section. See A. Bourjois & Co. v. Katzel, 275 F. 539, 545 (2d Cir. 1921), rev'd, 260 U.S. 689 (1923). The Supreme Court later linked the Katzel holding to section 27 in a case involving the same plaintiff. See A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923).

57. Katzel, 260 U.S. at 692. Justice Holmes stated that [it] is said that the [Java] trade-mark ... is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trademark of the plaintiff only in the United States and indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it. ... It stakes the reputation of the plaintiff upon the character of the goods.

58. Id. ("Ownership of the goods does not carry the right to sell them with a specific mark."). Thus, the U.S. Supreme Court adopted the principle of territoriality of trademarks. This theory states that a trademark represents the independently developed goodwill of the domestic trademark and that goods that are genuinely trademarked abroad can infringe a U.S. trademark. E.g., Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1171-72 (S.D.N.Y. 1984).

One trademark authority states that "[t]oday it is no longer seriously questioned that the trademark and the good will symbolized by it may have a separate legal existence in different parts of the world, and therefore, be subject to territorial assignment and—it must follow—have a 'situs' in more than one country." Derenberg, Territorial Scope and Situs of Trademarks and Good Will, 68 TRADEMARK REP. 387, 388 (1978).

The principle of territoriality is also recognized in the international arena by article 6(3) of the Paris Convention for the Protection of Industrial Property, to which the United States is a signatory. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, art. 6, ¶ 3, revised at Stockholm, July 14, 1967, 21 U.S.T. 1583, T.I.A.S. No. 6293, 828 U.N.T.S. 305. Article 6(3) of the Paris Convention provides that "[a] mark duly registered in a [signatory] country ... shall be regarded as independent of marks registered in the other [signatory] countries . . ., including the country of origin." Id.

The concept of territoriality of trademark rights also applies to trademark owners who use their marks only in the United States. When two trademark owners simultaneously use the same mark in different geographical areas, they are limited to the respective localities where their marks are used, plus a "zone of natural expansion." 2 J. McCarthy, supra note 15, § 26:8, at 301; see 15 U.S.C. § 1052(d) (1988).

59. See Osawa, 589 F. Supp. at 1171-75. But see NEC Electronics v. CAL Circuit Abco, 810 F.2d 1506, 1509-10 (9th Cir.) (rejecting notion that section 42 covers gen-
Section 42 certainly applies to black market goods, but the courts have struggled with the issue of whether section 42 can apply to goods bearing an authentic trademark. Because gray market goods by definition bear authentic marks, the section's applicability to the gray market remains uncertain.

II. THE GRAY MARKET CONTROVERSY

A. Creation of the Gray Market

The gray market arises when foreign-made goods that bear genuine trademarks enter the United States outside of authorized distribution channels. Gray market imports typically enter the United States through third party importers who purchase the goods abroad after the goods have left the control of the manufacturer. Gray market goods by definition bear authentic trademarks. These trademarks, however, are not authorized for use in the United States.

The genesis of the current gray market lies in section 42 of the Lanham Act and in section 526(a) of the Tariff Act. In 1921, the U.S. Court of Appeals for the Second Circuit held


60. K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 285-87 (1988). A good working definition of the gray market is found in Weil Ceramics & Glass, Inc. v. Dash, 618 F. Supp. 700, 702 (D.N.J. 1985), rev'd, 878 F.2d 659 (3d Cir.), cert. denied, 110 S. Ct. 156 (1989) ("Grey market goods are goods produced by a foreign manufacturer bearing the manufacturer's trademark which are legally purchased abroad under a particular trademark and are sold in competition with goods of the United States trademark owner of the same mark."); see Hansen, supra note 37, at 249 ("Gray goods are brand-name products manufactured abroad which bear an authentic trademark authorized by the owner of the trademark in the market for which the goods are intended."). When the U.S. trademark owner imports the product, the goods are also known as "parallel importations." Vivitar Corp. v. United States, 761 F.2d 1552, 1555 (Fed. Cir. 1985), cert. denied, 474 U.S. 1055 (1986).

The principal motivation behind the gray market is arbitrage. See, e.g., W. Goebel Porzellanfabrik v. Action Indus., Inc., 589 F. Supp. 763, 764 n.1 (S.D.N.Y. 1984) ("A gray market is created when an arbitrageur takes advantage of a price difference between two markets by buying in the market where prices are lower and selling in the market where prices are higher.").


63. See, e.g., Lever Bros., 877 F.2d at 102 (U.K.-made trademarked goods imported over objection of U.S. trademark owner).

that section 27 of the Trade-Mark Act of 1905, the predecessor of section 42 of the Lanham Act, did not bar the importation of gray market goods. In response to this holding, Congress enacted section 526(a) of the Tariff Act. This section made it illegal to import goods bearing a trademark registered in the United States and appeared to eliminate the gray market. The Customs Service regulations designed to implement section 526(a) and section 42, however, contain the affiliate exception, which has led to the creation of the gray market.

The supporters of the gray market argue that the existence of the gray market is in the best interest of the consumer because it prevents international antitrust problems while providing U.S. consumers with lower prices. These proponents

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67. 19 U.S.C. § 1526(a). The section reads, in pertinent part:
(a) Importation prohibited
   [I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States
   Id.

The Tariff Act amendment was enacted quickly to bar the importation of trademarked goods allowed by the Second Circuit’s Katz decision:
A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trade-mark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. The Senate Amendment makes such importation unlawful without the consent of the owner of the American trade-mark.

69. H.R. REP. NO. 1223, 67th Cong., 2d Sess. 158 (1922). The report stated that “[t]he senate amendment makes . . . [the importation of genuine trademarked goods] . . . unlawful without the consent of the owner of the American trademark, in order to protect the American manufacturer or producer . . . .” Id.
70. See 19 C.F.R. § 133.21(a), (b), (c)(1)-(3) (1989). For the complete text of the pertinent U.S. Customs Service regulations, see supra note 3.
71. Parfums Stern, Inc. v. United States Customs Serv., 575 F. Supp. 416, 421 (S.D. Fla. 1983) (public benefits from lower prices on less expensive gray goods); see Hansen, supra note 37, at 251 (discussing benefits of gray market). For an analysis of the relevant international antitrust issues, see infra 135-44 and accompanying text.
contend that barring gray market goods would permit foreign corporations to engage in illegal international price discrimination. They argue that gray market proponents assert that the gray market fosters intrabrand competition, which results in lower prices because the U.S. trademark owner must reduce prices to compete with the lower-priced gray market goods. These two concerns were the impetus behind the promulgation of the affiliate exception.

B. The Affiliate Exception

The history of the affiliate exception illustrates the Customs Service's struggle to interpret properly section 526(a) and section 27. In 1923, the U.S. Department of the Treasury promulgated regulations that enforced the plain language of section 526(a) and section 27 by barring all gray goods. In 1936, the Treasury Department modified these regulations by enacting a "same company" exception to the general ban on gray market goods. Under the same company exception, a holder of a U.S. trademark could not enjoin the importation of gray market goods if that trademark holder also owned the trademark overseas. This exception prevented a foreign manufacturer from creating a world-wide discriminatory pricing scheme.

...
wide discriminatory pricing scheme simply by setting up a U.S. subsidiary with nominal title to the trademark.\footnote{79} The same company exception furthered the Treasury Department's antitrust policies while remaining a reasonable interpretation of sections 27 and 526(a).\footnote{80}

In 1953, the Customs Service broadened the same company exception to include situations where the foreign trademark owner was a "related company" of the U.S. owner.\footnote{81} In 1959, however, the Customs Service returned to the 1936 same company exception.\footnote{82} This regulation remained in place until 1972.\footnote{83} In 1972, the Customs Service kept the same company exception intact while explicitly adding exceptions for corporations that share a parent-subsidiary relationship or otherwise share common control.\footnote{84} The 1972 regulations continue to govern trademarked imports.\footnote{85}

Current Customs regulation 133.21 is part of the 1972 promulgation. Regulations 133.21(a) and (b) contain proscriptions against the importation of goods that bear trademarks that "copy or simulate" registered marks or that bear genuine trademarks registered in the United States by another corporation.\footnote{86} Sections 133.21(c)(1) and (2) contain exceptions to sections 133.21(a) and (b) for cases in which the manufacturer and the U.S. trademark holder are subject to common ownership or control.\footnote{87} Sections 133.21(c)(1) and (2) permit the creation of the gray market by allowing the importation of goods bearing trademarks owned by an affiliated manufacturer abroad, but not authorized for sale in the United States.\footnote{88} Despite many court challenges, this 1972 amendment remains in-

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\item \footnote{79} See Vivitar v. United States, 761 F.2d 1552, 1566 (Fed. Cir. 1985) cert. denied, 474 U.S. 1055 (1986); Yamaha Corp. of Am. v. ABC Int'l Traders Corp., 703 F. Supp. 1398, 1404 (C.D. Cal. 1988).
\item \footnote{80} See Vivitar, 761 F.2d at 1566-67.
\item \footnote{81} T.D. 53,399, 88 Treas. Dec. 376, 384 (1953); see Vivitar, 761 F.2d at 1566.
\item \footnote{82} T.D. 54,952, 94 Treas. Dec. 433 (1959).
\item \footnote{83} See Atwood, supra note 75, at 307.
\item \footnote{84} T.D. 72-266, 6 Cust. B. & Dec. 539 (1972) (codified at 19 C.F.R. § 133.21(c)(1)-(2)(1989)). For the text of the affiliate exception, see supra note 3.
\item \footnote{85} See 19 C.F.R. § 133.21(a)-(c) (1989).
\item Id. § 133.21 (a)-(b).
\item Id. § 133.21 (c)(1)-(2).
\item \footnote{88} See Vivitar Corp. v. United States, 761 F.2d 1552, 1555 (Fed. Cir. 1985), cert. denied, 474 U.S. 1055 (1986).
\end{itemize}
tact as today's affiliate exception.\textsuperscript{89}

The affiliate exception has spawned two types of gray market goods: genuine and non-genuine gray market goods.\textsuperscript{90} Although both genuine and non-genuine gray market goods are produced overseas and bear authentic trademarks, genuine gray market goods are physically identical to and carry the same peripheral services as the U.S. goods with which they compete.\textsuperscript{91} Genuine gray market goods pass unhindered through U.S. customs pursuant to the affiliate exception be-

\begin{itemize}
\item \textsuperscript{89} 19 C.F.R. § 133.21(c)(1)-(2) (1989). In 1988, the Supreme Court held that the affiliate exception was a valid interpretation of section 526(a) of the Tariff Act. \textit{K Mart Corp. v. Cartier, Inc.}, 486 U.S. 281 (1988). The Court did not reach, however, the question of whether the exception was a valid interpretation of section 42 of the Lanham Act. \textit{Id.} at 290 n.3. In 1989, the Court of Appeals for the District of Columbia provisionally held that the affiliate exception was an invalid interpretation of section 42. \textit{Lever Bros. Co. v. United States}, 877 F.2d 101, 111 (D.C. Cir. 1989), \textit{cert. before judgment denied}, 481 U.S. 1069 (1987).
\item In \textit{K Mart}, the Supreme Court defined three separate gray market scenarios. \textit{K Mart}, 486 U.S. at 285-87. The first context ("case 1") involves a U.S. corporation that purchases the U.S. trademark rights from an independent foreign manufacturer. \textit{Id.} at 286. The gray market occurs when a third party purchases the foreign-made goods and imports them to the United States. \textit{Id.}
\item The second context ("case 2") occurs when a foreign manufacturer seeks to control U.S. distribution of its goods and authorizes a U.S. affiliate to register the trademark for the foreign-made goods. \textit{Id.} Variations within this context are possible. Two occur when the U.S. firm establishes a foreign manufacturing subsidiary ("case 2a") or unincorporated manufacturing division ("case 2b") to produce goods abroad for eventual importation into the United States. \textit{Id.} at 286-87.
\item The third context ("case 3") occurs when a U.S. corporation authorizes a foreign manufacturer to utilize the U.S. trademark for goods sold exclusively in a foreign market. \textit{Id.} at 287. The gray market arises when the foreign-made goods are purchased overseas and imported into the United States. \textit{Id.}
\item A third variation on the case 2 scenario ("case 2c") would involve two manufacturing subsidiaries of a larger foreign corporation. The foreign-based subsidiary would have the foreign trademark rights to a particular trademark granted from the parent corporation. The U.S.-based manufacturing subsidiary would have the U.S. rights to the identical mark. Thus, a gray market could be created when a third party purchases the foreign-made goods and sells them in competition with the U.S.-made goods. The goods would be materially different since each manufacturing subsidiary would manufacture the goods to coincide with local specifications. \textit{Lever Bros.}, 877 F.2d at 103. This case 2c scenario was the subject of \textit{Lever Bros.}, \textit{Id.} at 101.
\end{itemize}
cause the U.S. trademark owner and the foreign manufacturer share a common corporate bond.92

The second type of gray market goods are non-genuine goods.93 Non-genuine gray market goods differ physically from their U.S. counterparts and often carry fewer peripheral services than those counterparts.94 The goods may differ materially because the foreign and domestic trademark owners manufacture the goods under different standards of production.95 In addition, non-genuine gray market goods may lack instructions in the English language or a warranty supported by the U.S. trademark holder.96 Non-genuine goods enter the U.S. gray market when a third party imports foreign-made goods that compete with the U.S. trademark owner’s domestically manufactured goods.97 The foreign manufacturer may legally place a trademark on the goods but does not have the right to export products with that mark to the United States.98 The affiliate exception, however, allows the importation of goods produced by an affiliated foreign manufacturer.99 Thus, a third party may purchase the foreign-made goods and import them into the United States.100

92. See 19 C.F.R. § 133.21(c)(2) (1989).
94. See Lever Bros., 877 F.2d at 103-04.
95. See id. at 102. The plaintiff, Lever Brothers Company, was a domestic manufacturer. Id. The defendant, Lever Brothers Ltd., was a foreign manufacturer. Id. Both were wholly-owned subsidiaries of a common corporate “grandparent.” Id. at 102 n.1. Thus, a third party could purchase the foreign-made goods and sell them in the United States over the objection of the U.S. trademark owner. Id. at 102.
97. See Lever Bros., 877 F.2d at 103.
99. 19 C.F.R. § 133.21 (c)(2) (1989). For the full text of the affiliate exception, see supra note 3.
Non-genuine gray market goods may enter the United States under the affiliate exception when the foreign manufacturer and the U.S. trademark owner are subject to common control.\textsuperscript{101} Because the controlling entity may have multiple manufacturing facilities for its products, more than one manufacturer may possess the rights to use a single trademark within its territory.\textsuperscript{102} Furthermore, each manufacturer is likely to adjust its product to suit local preferences or laws.\textsuperscript{103} As a result, more than one manufacturer worldwide may affix indistinguishable trademarks upon materially different goods.\textsuperscript{104}

Trademark holders within the United States injured by the gray market may sue the importers of gray market goods\textsuperscript{105} or the Customs Service\textsuperscript{106} to enjoin the importation of gray market goods into the United States. Historically, such trademark holders have challenged the regulations that admit gray market imports under section 526(a) of the Tariff Act.\textsuperscript{107} A recent U.S. Supreme Court decision,\textsuperscript{108} however, effectively closed the Tariff Act avenue by holding that the Customs Service’s regulations were not inconsistent with the Tariff Act.\textsuperscript{109} How-

\textsuperscript{101} See, e.g., id. at 102 (U.S. trademark owner and foreign manufacturer subsidiaries of larger corporation).


\textsuperscript{104} See Lever Bros., 877 F.2d at 102-03.


\textsuperscript{109} Id. at 291. The Court in \textit{K Mart} upheld the customs regulations allowing the importation of goods produced by a foreign affiliate as valid interpretations of the Tariff Act. \textit{Id.} at 294. In contrast, the Court held that the customs regulations al-
ever, the U.S. trademark holder can still employ the Lanham Act\textsuperscript{110} to challenge the regulations that create the gray market.\textsuperscript{111}

Recently, a U.S. trademark owner employed section 42 of the Lanham Act to enjoin the importation of gray market goods.\textsuperscript{112} In Lever Brothers Company v. United States,\textsuperscript{113} the U.S. Court of Appeals for the District of Columbia held that an affiliated foreign manufacturer’s non-genuine goods could not be imported under the affiliate exception because that regulation violated section 42 of the Lanham Act.\textsuperscript{114} The plaintiff in Lever Brothers manufactured soap bearing the trademarks “Shield” and “Sunlight.”\textsuperscript{115} The defendant, a foreign affiliate of the plaintiff, used identical marks for soap it produced for consumption in the United Kingdom.\textsuperscript{116} The foreign affiliate’s

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\item[113.] \textit{Id.}
\item[114.] \textit{Id.} at 111. The holding in Lever Bros. was “provisional,” and was remanded to the district court for briefing on the legislative history of section 42. \textit{Id.} However, the court stated that “[t]he virtually inevitable reading of § 42... bars foreign goods bearing a trademark identical to a valid US trademark but physically different, regardless of the trademark’s genuine character abroad.” \textit{Id.}
\item[115.] \textit{Id.} at 102.
\item[116.] \textit{Id.} The U.S. trademark owner and the foreign manufacturer had a corporate “grandparent” in common, and, thus, the foreign-made goods came under the purview of the affiliate exception. \textit{Id.}
\end{enumerate}
\end{footnotesize}
products differed in composition from the plaintiff's products to account for local preferences. The plaintiff brought suit under section 42 to enjoin the Customs Service from allowing the importation into the United States of "Shield" and "Sunlight" soaps produced in the United Kingdom.

The court found the affiliate exception an invalid interpretation of section 42, reasoning that the mark on the non-genuine gray market goods would cause the type of confusion Congress sought to prevent by enacting section 42. Thus, the importation of authentically-marked foreign-made soap, which could confuse consumers and damage the trademark owner's goodwill, contravened the intent behind section 42.

III. IMPORTATION OF NON-GENUINE GRAY MARKET GOODS CONTRAVENES SECTION 42 OF THE LANHAM ACT

Several courts maintain that section 42 of the Lanham Act does not apply to gray market goods because the express language of the statute seeks to bar only those goods with trademarks that "copy or simulate" registered U.S. trademarks. These arguments are misguided; section 42 should apply to the gray market for two reasons. First, the principle of trademark territoriality, which grants the trademark owner exclusive rights to that mark within the owner's territory, dictates that

117. Id. at 103. To account for the British preference for baths, which permit time for lather to develop, the foreign-made soap produced less lather than its U.S.-made counterpart. Id.

118. Id. at 102.

119. Id. at 111. The court based its holding upon an analysis of three early Supreme Court cases dealing with gray market goods. Id. at 106-08 (citing Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924); A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923); A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923)). The Lever Bros. court reasoned that these cases "view trademarks as having a specific territorial scope, and are . . . consistent with the view that § 27 of the 1905 Act protects a domestic trademark holder from goods genuinely trademarked abroad but imported here by parties hoping to exploit consumer confusion between the domestic and foreign products." Lever Bros., 877 F.2d at 108.

The court found the basic purpose of the affiliate exception valid. Id. at 109. The court stated, however, that mere affiliation through a "corporate grandparent" cannot be an implied consent to allow importation of goods. Id. at 102, 109-10.

120. See, e.g., NEC Elecs. v. Cal Circuit Abco, 810 F.2d 1506, 1509 (9th Cir. 1987), cert. denied, 484 U.S. 851 (1988) ("Trademark law generally does not reach the sale of genuine goods bearing a true mark even though such sale is without the mark owner's consent.").
even genuine gray market imports can infringe the rights of
the U.S. trademark holder.\footnote{121} Second, non-genuine gray
market imports cause the consumer confusion and loss of the
trademark owner's goodwill that section 42 was designed to
prevent.\footnote{122} Consequently, section 42 should be construed to
apply to goods bearing authentic marks, as it does to goods
bearing counterfeit marks.

A. The Affiliate Exception Fails to Enforce the Plain Language and
Underlying Intent of Section 42

Congress enacted section 42 to prevent the importation of
foreign goods bearing marks that "copy or simulate" trademarks
registered in the United States and foreign goods that
denote a false designation of origin.\footnote{123} The affiliate exception
in the Customs Service's regulations violates the plain meaning
of section 42 by permitting the importation of non-genuine
gray market goods.\footnote{124}

Non-genuine goods differ physically, yet bear trademarks
that are indistinguishable from their genuine U.S. counter-
parts.\footnote{125} Consumers who purchase non-genuine goods cannot
rely on the trademark to receive the quality and peripheral
services they have come to associate with the mark. Thus,
although the mark is legally affixed to the non-genuine goods,
from the consumers' perspective the mark is not truly authen-
tic. Only the trademark affixed to goods produced by the U.S.
manufacturer is authentic because only the U.S. mark can de-
deliver to consumers the quality and peripheral services they
associate with the mark. The trademark on the foreign-made
good is analogous to a "copy," albeit a legally affixed "copy,"
of the authentic U.S. trademark. This "copy" violates the plain

\footnotesize{121. See A. Bourjois & Co. v. Katz, 260 U.S. 689 (1923); Osawa & Co. v. B & H
124. \textit{Lever Bros.}, 877 F.2d at 111 ("[T]he natural, virtually inevitable, reading of
§ 42 is that it bars foreign goods bearing a trademark identical to a valid U.S. mark
but physically different, regardless of the trademarks' genuine character abroad or
affiliation between the producing firms.").
125. See \textit{supra} notes 93-98 and accompanying text (defining non-genuine gray
market goods).}
language of section 42.\textsuperscript{126} Similarly, when non-genuine imports enter the United States through the affiliate exception, they bear a mark that will induce the public to believe that the product was made for a particular trademark owner who exercises quality control over the manufacturer.\textsuperscript{127} A trademark indicates a single source of origin to consumers, although the source may be anonymous.\textsuperscript{128} When making purchases, consumers rely on the trademark to ensure that the goods emanate from this source.\textsuperscript{129} Thus, even though the mark on the non-genuine import is legally affixed, the consumer cannot rely on the mark to deliver goods from the source the consumer has come to expect.\textsuperscript{130} The trademarks on non-genuine gray market imports falsely indicate to the consumer that the trademarked products come from the manufacturer the consumer has come to trust. Thus, the consumer is deceived by this false designation of origin.

The affiliate exception also contravenes the congressional intent behind section 42. By allowing the importation of non-genuine gray market goods, the affiliate exception presents an opportunity for consumer deceit and for the misappropriation of the U.S. trademark owner’s goodwill.\textsuperscript{131} Because non-genuine gray market goods may differ from their genuine U.S. counterparts, consumers may be deceived into purchasing a trademarked product that does not carry the goodwill to which the consumer has become accustomed.\textsuperscript{132} As a result of this deception, non-genuine gray market goods could impair the


\textsuperscript{127} Id. The foreign manufacturer does not intend for U.S. consumers to misinterpret the mark, but the third party importer capitalizes on just this confusion. See K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 328 (1988) (“It is not the affiliates who are doing the damage but third parties.”).

\textsuperscript{128} 1 J. McCarthy, supra note 15, § 3.3B, at 110 (“A trademark indicates a single, albeit anonymous, source.”).

\textsuperscript{129} See Falcon Rice Mill, Inc. v. Community Rice Mill, Inc., 725 F.2d 336, 348 (5th Cir. 1984) (“By ensuring correct information in the marketplace, the [trademark] laws reduce losses caused by misunderstanding and deceit and thus permit consumers and merchants to maximize their own welfare confident that the information is truthful.”).


\textsuperscript{131} Id.

\textsuperscript{132} Id.
U.S. trademark holder’s goodwill if the product or the services behind the product do not live up to consumer expectations. The consumer will associate the trademark with an inferior product and discontinue purchasing goods bearing that mark.

B. The Affiliate Exception is Erroneously Based on Antitrust Principles

Proponents of the gray market contend that the affiliate exception aids the U.S. consumer by avoiding international antitrust problems while stimulating intrabrand competition. These arguments are unfounded. If gray market imports are permitted to enter the United States, intrabrand competition may result in lower prices in the short term. Eventually, however, the trademark owner may invest less in its mark because the investment will not be recovered. Consequently,
fewer new products may enter the marketplace. If gray market imports are restricted, however, the domestic trademark owner will be encouraged to invest in its mark because the owner will eventually recover the investment in advertising and services that create goodwill in its mark. This benefit will increase interbrand competition as more manufacturers produce trademarked goods without fear of losing their advertising investment. Interbrand competition will eventually result in lower prices for the consumer, as competitors attempt to offer the best product at the lowest price. Thus, the intrabrand competition created by the gray market should be eliminated so as to promote beneficial interbrand competition.

Gray market proponents also argue that eliminating the intrabrand competition fostered by the gray market would violate established antitrust principles by allowing international enterprises to engage in price discrimination. In order to

384 U.S. 127 (1965). In General Motors, authorized dealers offered test-drives and showroom models to induce customers to purchase its automobiles. These dealers raised their prices to compensate for these services. Discount dealers (unauthorized dealers) offered the same automobiles at lower prices; however, these discount dealers did not provide the services that the authorized dealers provided. Consequently, consumers utilized the authorized dealers' services to decide which car to purchase and then purchased that car from a discount dealer. Id. at 132-33. Thus, the discount dealers took a "free ride" on the services of the authorized dealers. See Posner, Antitrust Policy and the Supreme Court: An Analysis of the Restricted Distribution, Horizontal Merger and Potential Competition Decisions, 75 COLUM. L. REV. 282, 285 (1975). Similarly, a trademark owner who provides services to enhance its goodwill must engage in some distribution restrictions (i.e., eliminate the gray market) or forsake the investment in these services. See id.

138. See Continental T.V., 433 U.S. at 55 (1977). New manufacturers and existing manufacturers entering new markets may need to employ vertical restrictions in order to "induce competent and aggressive retailers to make the kind of investment of capital and labor that is often required in the distribution of products unknown to the consumer." Id. Thus, if unable to restrict gray market imports, new entrants into the U.S. market may be discouraged from investing labor and capital to engender U.S. goodwill.

139. Id. at 54-55 (recognizing that intrabrand competition diminished by vertical restraints must be balanced against interbrand competition increased by vertical restraints); see Staaf, The Law and Economics of the International Gray Market: Quality Assurance, Free-Riding and Passing Off, 4 INTELL. PROP. J. 191, 196 (1989) (discussing vertical restraints in gray market context).

140. See C.I.T. Conference, supra note 72, at 543-44. Monopolistic price discrimination occurs when a manufacturer maximizes profits by charging different prices for goods in different markets. Id. at 543. For example, a manufacturer has a product that costs five dollars to produce. Three consumers desire the product. One of the consumers is willing to pay ten dollars, the second consumer is willing to pay twenty dollars, and the third consumer is willing to pay thirty dollars. If the manufacturer is
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effectively engage in price discrimination, however, the international enterprise would have to possess strong market power in the product. A trademark does not grant a monopoly in the production of the trademarked product, only a monopoly in a name or symbol. Consequently, although a trademark grants its owner power to control a name or symbol, a trademark does not grant its owner sufficient market power to price discriminate in the overall market for its product.

C. Proposed Solution to the Problem of Non-Genuine Gray Market Imports

The Customs Service should revise the affiliate exception to protect holders of U.S. trademarks from foreign imports bearing those same marks. In its present state, the affiliate exception allows the importation of non-genuine gray market goods that deceive consumers and damage the goodwill of the U.S. trademark owner. The Customs Service should amend the affiliate exception to exclude non-genuine gray market goods imported without the consent of the trademark owner.

A revised affiliate exception barring non-genuine gray market goods would be beneficial for several reasons. Initially, the Customs Service could help maintain low prices for the consumer by fostering interbrand competition. An amended affiliate exception will also protect the U.S. consumer from deceit and the U.S. trademark from damage to its goodwill.

Furthermore, a revised affiliate exception would not create additional administrative burdens on the Customs Service.

allowed to engage in price discrimination, then it will sell one product to each consumer at the price each is willing to pay. In this example, the manufacturer makes forty-five dollars profit. Id.

If a manufacturer is not allowed to price discriminate, it will have to set one price for all consumers. In this example the manufacturer will sell at twenty dollars. Id. at 544. In this way, the manufacturer has the benefit of two sales (one to the twenty dollar consumer and one to the thirty dollar consumer) for a total profit of thirty dollars. Id.

141. See Hansen, supra note 37, at 260 n.46.

142. United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 98 (1918) ("In truth, a trade-mark confers no monopoly whatever in a proper sense . . . ").

143. See Valley Liquors, Inc. v. Renfield Importers Ltd., 678 F.2d 742, 745 (7th Cir. 1982) (defining market power as the "power to raise prices significantly above the competitive level without losing all of one's business").

144. See Hansen, supra note 37, at 259-60 (The "U.S. trademark owner who distributes the product could price-gouge only if it had very substantial market share.").
The Customs Service would only have to make determinations as to the physical composition of the goods or their place of manufacture; it would not be required to make difficult determinations as to the likelihood of confusion between the marks (the standard test for trademark infringement), or equally arduous determinations of whether the U.S. trademark owner has established sufficient protectable goodwill.

A revised affiliate exception that examined the place where the imports were manufactured would effectively prevent non-genuine gray market imports. Even if foreign manufacturers use the same process or materials when producing goods, differing production standards or lack of English language instructions transform the foreign-made goods into non-genuine goods. Thus, the U.S. trademark owner could prevent the importation of non-genuine gray market goods by submitting a list of legitimate places of manufacture to the Customs Service. If the goods were not manufactured in one of these certified places, the goods would not be admitted.

CONCLUSION

The Customs Service's affiliate exception to the general bar on gray market goods should be revised. The importation of non-genuine gray market goods through the affiliate exception contravenes both the plain language and the intent of the statute that the regulations were promulgated to enforce. Modifying the affiliate exception would enable the Customs Service to prevent international price discrimination and maintain low consumer prices, while protecting the U.S. trademark owner from loss of goodwill and the U.S. consumer from deception.

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